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FINANCES

FINANCIAL ANALYSIS OF COMPANIES ON THE CAPITAL MARKET

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Abstract: In the current context of economic globalization, financing through the capital market has become a modern alternative against financing through the monetary market, therefore investors shall be the main users of financial information.

Financial analysis has to be able to offer also to this category of users of financial information the adequate instruments to fundamental decision making of investing on the capital market through the so-called market ratios1.

Market ratios are the most comprehensive means of measurement of a company as they reflect the corroborated influence of risk and profitability financial ratios.

This paper issue the main market ratios calculated by the investors on the market capital by help of two types of analysis methods (fundamental and technical methods).

Keywords: Market ratio, investors, fundamental analysis, technical analysis, market capital.

I. Introduction. General approaches regarding the financial analysis on the capital market.

Market ratios are the most comprehensive means of measurement of a company as they reflect the corroborated influence of risk and profitability financial ratios.

These ratios are more important because they reflect the general confidence and trust of the **market** in a company's management, but said confidence and trust depends upon many economic, social, and political factors. Therefore, when investors fundament their decisions, they take into consideration a variety of indicators, not only internal performances achieved by a company, and established by analyzing the information reflected in its financial statements.

When choosing a certain type of investment, the factor that determines investors' decisions depends on the *horizon of interest* pursued in a certain company. Therefore:

- If the company's **development prospective** is pursued, respectively the **long-term horizon**, potential investors (or majority shareholders, in case of existing investors) shall be interested in the operating result that would generate an increase in the value of shares in the future.

[1] In related literature they are also called "profitability ratios of capital investments" – Bătrâncea I. Coord. "*Balance Sheet Based Financial Analysis"* Published by Presa Universitara Clujeana, Cluj-Napoca, 2001, pg.158, or "stock market yield ratios" –Buglea Al. "*Analysis of the Company's Financial Statements*", Published by Mirton, Timisoara, 2004, pg.160, or "investors' indicators" – Gaskin T. "*Perfect Financial Indicators*", Published by National, 1998, pg. 62.

- If **immediate gain** is pursued, obtained in a horizon of less than 12 months, i.e. a gain in the form of dividends distributed and gains from the differences in quotations, potential investors (or minority shareholders, in case of existing investors) shall be interested in the level of this type of gain.

II. Types of financial analysis on the capital market methods.

In either case of decision to invest on the capital market, current and potential investors as well as capital market professionals use two categories of analyses, namely: **fundamental analysis and technical analysis**

a)Fundamental analysis

This is made through a comparative study of ratios obtained by analyzing the financial statements. The end goal of this analysis is to select the shares that have an intrinsic potential to grow, thus creating the premises for the market to recognize in the future the real value of said company (the one resulting from the analysis) and consequently the price would rise.

It involves a calculation of market ratios by investors and capital market professionals in order to assess the company's potential to grow. Among the most widely used ratios can be mentioned:

1. Market capitalization (MC) is calculated by multiplying the current market price (CMP) of a share by the total number of shares issued by the company (NS), with the formula:

$$MC = CMP \times NS$$

Market capitalization represents the market value of a listed company and it reflects the public opinion on the net worth of the company, and it is a basic determinant in evaluation of shares. It does not always reflect the real worth of the company, as in case of take over and acquisition offers, when the company is assessed based on several factors that give value to its business.

Market capitalization is one of the best liquidity indicators; it reveals how easily can the company's shares be traded, especially from the prospective of an investor who invested large amounts of money in shares and whishes to know how easily can a counterpart be found if he wishes to sell said shares. This feature becomes extremely important when selecting the securities in a portfolio according to their market capitalization. From this point of view, companies are divided in three large categories: large companies (large-caps), medium companies (mid-caps), and small companies (small-caps).

Market capitalization is also the first indicator taken into consideration when the size of a stock exchange is in discussion, in which case it is referred to as the sum of market value (market capitalization) of all the companies listed on an organized market. Hence, market capitalization is one of the basic indicators characterizing a capital market.

2. Earning per share (EPS) indicates the net result produced by a share during the financial period.

$$EPS = \frac{\text{Net profit}}{\text{Number of shares}}$$

Investors can do the **interpretation** of the **EPS** indicator as follows:

- A ***high level*** of this indicator may reflect:
  - investors' trust in the company's management, or
  - a lack of investors' trust in the company's current management, but it is estimated that there is a possibility to transfer the company's assets to another company with a more reliable management.
- A ***low level*** of this indicator may reflect:
  - may indicate a lack of trust in the current management, or
  - the management is dealing with issues that cannot be easily overcome.

If the net profit is reinvested the indicator must show an increasing trend because the profit retained by companies are used to generate a higher profit.[2]

[2] Gaskin T., *Perfect financial indicators*, National Ed., 1998, page 64

Interpretation of this indicator and its significance in market analysis has certain **limitations**.

- *Measuring the performance in time:*
  - The indicator relies on historical profits. The management might have taken certain decision in the past in order to foster an increase of the current profit on account of future growth, such as reducing research and development investments.
  - This is the reason why reliable forecasts regarding the company's future growth rate cannot be based on EPS growth.
- *Measuring the performance in space:*
  - Profits are influenced by decisions of the management of different companies regarding accounting policies (e.g. depreciation method)
  - Earning per share is influenced by the capital structure of different companies (e.g. changes in the number of shares by issuance of shares with a premium)

3. Price-to-earnings ratio (PER or P/E) indicates how much are investors willing to pay per a monetary unit of earnings. It is calculated as the ratio of the company's current share price (or market value per share MVS) compared to its per-share earnings (EPS).

$$\text{PER (P/E)} = \frac{\text{MVS}}{\text{EPS}}$$

The PER indicator estimates the number of years during which the investment can be recovered assuming that the entire profit is distributed to shareholders as dividends (its is relevant especially when dividends are paid in cash).

The PER indicators show how much has an investor to invest in order to obtain a monetary unit from the company's profit.

Investors can do the **interpretation** of the **PER** indicator as follows:

- A relatively ***low PER*** indicates a cheap share, therefore adequate to be purchased.
- A relatively ***high PER*** indicates an expensive share that can also be overvalued.

Interpretation of this indicator and its significance in market analysis has certain **limitations**.

- In case of a static approach it is obvious that a share with a low PER is preferred against a share with a high PER. But the owner of a share is entitled to future incomes to the same extent as to current ones, and the current profit generated by the security can be very different from its future profits. In such a case, it is possible that a *share with a higher PER to be more profitable than a share with a lower PER* if there are possibilities for the profit and dividends to grow rapidly during the following operating periods. In such a case, a higher indicator level can be explained through the expected higher growth rate or a reduced risk.
- Therefore, in the PER analysis one also has to take into account the increase or decrease of the share prices in the future. Because investors are interested in the future achievements of a company, the historical PER becomes unimportant, and the *PER based on forecasts of future earnings becomes more interesting*.

4. Price-to-Book Ratio (P/B or PBR) is the ratio of the company's current share price (or market value per share -MVS) compared to the book value per share (BVS). It is another important ratio because it indicates the value conferred by financial markets to a company's management. It is calculated with the formula:

$$\text{PBR} = \frac{\text{MVS}}{\text{BVS}} \qquad \text{where,}$$

BVS = Equity capital / Number of shares = (Total assets – Debts) / Number of shares

Investors can do the **interpretation** of the **PBR** indicator as follows:

- If PBR ***is less than one***, it reflects a "safe" investment in that company, because it says that the book value is a "support" level of the market price. The book value is considered the level below which the market price shall not fall, because the company shall always have the possibility to liquidate or sell its assets at their book value. It is considered that ***a low PBR*** can ensure a “safety margin”, that is why many analysts avoid shares with a high PBR in the first stage of building a portfolio. They rely on the idea that if all other conditions remain similar for two different shares, than the share with lower PBR is safer.

- If PBR ***is above one***, i.e. the book value is lower than the market price, it might be an indication that the shares are overvalued, which is a signal to sell, that shall incur an adjustment by falling prices.

5. Price-to-Sales Ratio (P/S or PSR) reflects the ratio between the market value per share (MVS) and the net turnover (NTS) per share or is defined as the ratio between market capitalization (MC) and the company’s turnover (NT).

$$\mathrm{PSR} = \frac{\mathrm{MVS}}{\mathrm{NTS}} = \frac{MC}{NT}$$

For investors the **interpretation** of PSR come to complete the interpretations of the other indicators, as follow:

- In practice it has been proven that this indicator is more useful to identify non-profitable investments rather than discover profitable ones. Moreover, analysts who use this ratio state that it is especially useful in assessing companies with low profit or with no profit, especially because in such cases the PER indicator cannot be calculated.
- This indicator is useful when other indicators cannot be used, either because the company registered losses or because its profitability or margins are extremely low. Turnover based evaluation is relevant in situations when a company’s estimation is intended at a certain moment when it registers very small or negative margins, but it is expected that it will return to its normal activity or it will be taken over by another company.

As **limits** of PSR we can invoke:

- It is not recommended to compare PSR between different industrial sectors; instead it is useful to compare the ratios of companies with very similar activity or with the average of the sector.

Below are the average values of the most important market ratios for different business sectors from Romania:

Business sector	Average PER	Average PBR	Average PSR
Banking	30.54	3.31	1.63
Consumer goods	14.48	2.02	1.59
Chemical industry	30.06	1.27	1.14
Equipment	22.77	2.06	1.33
Pharmaceutical industry	27.25	2.54	4.06
Materials	15.03	2.21	1.20
Oil industry	12.43	1.28	1.10
Energy services and equipment	34.26	2.59	1.46
Tourism	35.83	1.74	8.05
Others	36.15	1.27	1.77
Financial investment and services	15.84	0.76	-
BVB average	20.08	2	-

Table 1: Average PER/PBR/PSR for the main business sectors from Romania

Source: authors’s adaptations after www.bvb.ro

From the table below one can see that PER is very high for tourism, energy services and equipment, banking, and chemical industry. In other words, investors' trust in these sectors is quite high. The opposite side is represented by the oil industry, consumer goods industry and materials sector, which have a low PER indicator.

When considering the PBR ratio, the highest value is approached by the banking sector, where the market value per share is three times the book value per share. The pharmaceutical industry and energy services and equipment have a PBR ratio of about 2.5. Upon analyzing the PSR ratio one can notice that tourism is above 8, followed at a great distance by the pharmaceutical industry with a ratio just above 4, whereas for the other fields this indicator is between 1 and 2.

b) Technical analysis

This type of analysis aims at gain targets obtained by investors on the short-term (within a few weeks or up to one year). It relies on identifying the collective behavior of buyers and sellers based on price charts based on which the immediate evolution of shares is estimated. Therefore, technical analysis does not strictly rely on the real intrinsic performances of a company but on the daily results offered by the ratio between the daily trading price and the volume of shares traded in that day. More exactly, these results consist in a series of measures determining trends, support thresholds, resistance thresholds, price averages for different time periods, issues that shall be referred to in this paper.

III.Conclusions

In practice, these two types of analysis are used simultaneously. Fundamental analysis gives information about a company's financial situation, whereas technical analysis indicates the most appropriate moment to buy. One can consider technical analysis a practical application of the fundamental analysis. In other words, fundamental analysis helps us **to select the securities** that we want to have in our portfolio and which are valuable from fundamental point of view, and technical analysis allows us **to determine the right moment** to buy those specific securities. These two categories of analysis are completely independent one from another, and their indications differ. Therefore it is more desirable to make a decision to buy when the indications of both categories converge.

A very synthetic presentation of the decision scheme to invest on the capital market is as follows:

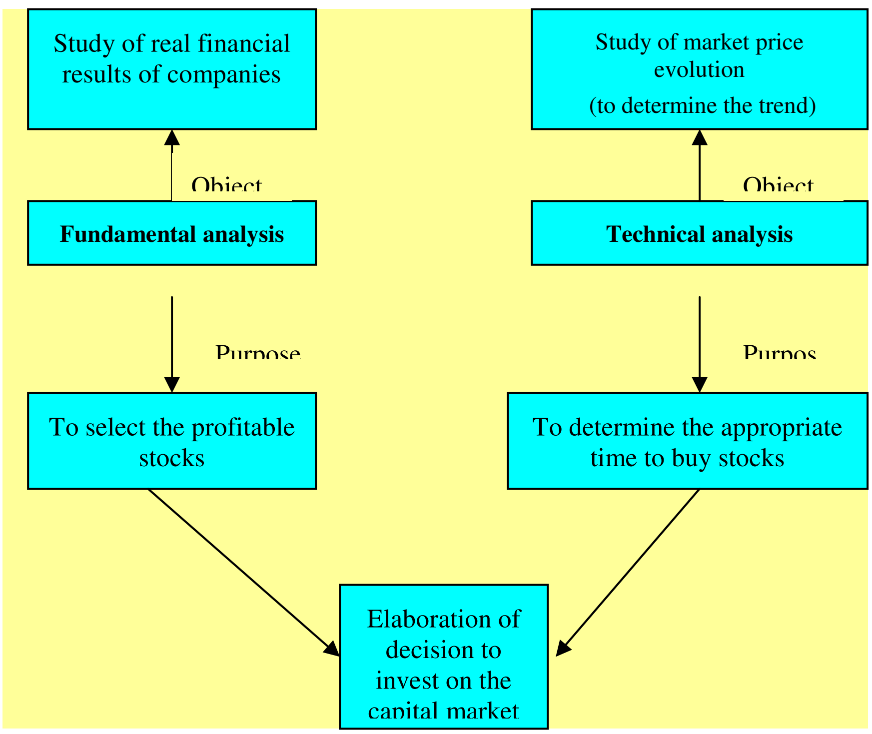

Figure 1: The scheme of the analysis of decision to invest on the capital market

Source: authors' s adaptation

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THE INFLUENCE OF THE TAXATION POLICY ON THE ECONOMIC AGENTS ON THE EUROPEAN VIEW. THE DIRECT TAX – VALUE ADDED TAX

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Abstract: The fiscal system acts upon all the enterprises, so, the influence upon the economic - financial performances appears at all the levels of the econimic agents. At first sight, the tax action upon economic - financial performances manifests in the same modality, regardless of the company which refers to. This standardisation of the way the tax policy acts upon the economic - financial performances of the companies starts from the idea that the law is the same for everybody. Really and truly , but not everybody understands the law in the same manner, not everybody can take advantage of some facilities (not always very easy to remark) offered by the law.

Key words: the taxes, the value added tax ,fiscality, economic – financial levers.

1. The use of the taxes as economic – financial levers

The state aims to collect financial funds for the budget instituing of the taxes. If we refer to economic agents, taxes, representing a drawing of financial funds from their disposal at state's disposal, have as effect the decrease of economic - financial performances. Leving taxes is, in conclusion, one reality of the contemporary economy. If we start from this idea, how is it actually posible that the taxes act as a factor of dynamic increase of the company's performances? One answer to this question can be given by the economic – financial levers point of view. These actions are taken by the state, and their goal is to fulfill some economic functions, contributing to solving some problems on economical bases rather than conditions in which would be appealed to administrative methods. Instauration of some legislative regulations in the fiscal area, which has a positive influence upon certain aspects of the economical activity becomes an economic lever.

Fiscal levers used for acting upon the increase of the economic - financial performances of the company don't have an imperative character for all the economic agents, but they don't enclose their possibility to benefit of them. To do this, economic agents have to fulfill certain conditions or to accomplish certain activities.

In the following lines, we will present a series of fiscal measures which had the role of economic – financial lever in Romania.[3]

Income tax represents one part of the company's profit which is transfered at state' disposal. However, through one series of regulations which were adopted during the last period of time, the income tax has the role of economic – financial lever, too.[4]

Allowing cutting down or exemption from income taxes aimed at a double benefit both for the state and for the economic agents, accordingly:

- allowing exemption from profit taxes for a certain period of time from the setting up of the company (starting with 1991 until 2006) intended, from the state point of view, to develop the private ecomonic field which can develop their activity, the tax being recovered afterwards, indirectly, as a result of increased taxation of some future profits. The benefit at the company was having at their disposal all the profit achieved, in this way providing additional cost-free financing.
- by cutting down with 50% of the amounts spent from the profit for the investment financing, which are meant to develop and modernize the manufacture technologies or to protect the environment (from 1991 until 2006), the state meant to influence in a positive way the

[3] Vacarel, I. si colectiv, Finante publice, 3rd Edition, EDP, Bucharest, 2004, p. 82

[4] Nemec Juraj, Wright Glen - Finanțe publice - teorie şi practică în tranziția central europeană, Ed. Ars Longa, Iaşi, 2000, p. 157

investment behavior of the economic agents and to make the invest towards environment protection. They meant to increase the competitivity between the economic agents, to increase the investments nationally, to protect the environment. The possible tax losses of the state could be made up for indirect taxes due to the increase of the expenditure (through acquisitions), for taxing future profits (increased as a resoult of the growth of the economic agents profitability), diminishing the expenses of environment protection. The economic agents benefit, through the decrease of the tax to be paied, from a additional, cost-free means of finance. In addition, the support of the investments, retechnologisation were meant to encrease the economic-financial performance of the economic agents.[5]

- cutting down the income tax for the economic agents who created jobs for the handicap persons, is for the state an economic-financial lever which can get to the integration of the handicap person in the professional environment (the benefit of the state is the reduction of the costs for their social protection). [6] As a result of these jobs the economic agents profit of an additional finance sourse, and by diminishing of the income tax the profitability rose.
- the practice of a low tax rate for the profit got as a result of customs taxes was a economic-financial lever by which the state wanted to increase the export and to bring foreign money currency into the country. The economic agents who exported goods could benefit after this facility with additional financing (the difference between the normal share and the reduced share) or with the possibility to establish low delivery prices
- allowing exemption from profit taxes for the economic agents which made important investments in economy and the state meant to increase capital invested in Romania, especially foreign resources, so thet the taxes were brought back indirectly from the taxes for salaries from the new jobs, from future taxes from well developed business.
- allowing exemption from taxes for agriculture was meant to develop the agricultural area in Romania, the development of the investments in this area, the economic agents benefting from a tax cut back.

Other economic levers which acted in the profit tax area were the possibility to choose one or the other method of liquidation, especially in profitable investments or the possibility to choose between profit tax, income tax (tax for the income of small enterprises), building free area of poor areas.

By using tax profit as a economic-financial lever, the state wanted to ensure a viable economic climate, the increase of investments, making new jobs, the development of export, the development of certain fields of activity, of certain geographic regions, left behind form the economic point of view.

The econimic agents'advantages were especially the possibility to benefit by additional source of autofinance, encrease of profitability, as a result of both the recuction of the profit tax to be paid and the creation of development premises as a result of new technology and means of production acquisition.

Still, we have to mention the fact that the tax reduction is diminished a lot nowadays because of the EU requirements to renounce to give tax reduction so that Romania can be a part of EU. [7] Also, the tax regime must be similar for all the economic agents.

Other categories of taxes have also been used as economic – financial levers. Thus, establishing some taxes excise on certain products categories has as a goal, beside collecting incomes for the budget, influencing consumers' behavior.

Practicing high customs duties has the goal to protect some branches of the national economy as consequence of prices increase at which the products can be commercialized in the country in which they are taxed (after 1990 there have been made pressures upon the Government, specially by the alimentary producers, for the customs duty increase in case of import products because they were comercialized on the intern market at lower costs than the intern products and, in this way, the effect could be the crush of the intern economic agents).

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[5] Tâtu, L. Serbanescu C. Stefan D. Catarama D. Nica A., Fiscalitate de la lege la practica, 2nd Edition, All Beck Publishing, 2005, p. 96

[6] Tâtu, L., Influenta folosirii pârghiilor fiscale în diminuarea cheltuielilor de personal ale unei firme, Studii Financiare, anul VIII – Serie noua, vol 1(27) / 2004, Academia Româna, CCFM „Victor Slavescu"

[7] Tâtu, L. Catarama, D., Masuri luate de România în vederea alinierii cuantumului accizelor la prevederile Uniunii Europene, Revista Finante, Banci, Asigurari, nr. 6/2005

2. The use of regulation in the fiscal domain as administrative methods of influence on the economic agents performances

The intervention of the state through taxes upon economic – financial performances of the economic agents manifested as a consequence of adopting some administrative measures. Among other administrative methods with incidence upon comany's fiscality which acted or are still acting in Romania, we can remember: financial – fiscal control and the punishment of the tax dodging, applying some estimate methods established by state for fixed means, establishing a fixed means depreciation system**,** without taking into considerantion the specific characteristics of economic agents, granting exemption from taxation, prices reduction, postponings, spreadings of the tax paid for certain economic agents, making grants (negative taxes) etc.

Securing one efficient financial – fiscal checking can have as effect assuring a competitive climate from a fiscal point of view. Thus, economic agents who carry on their activity abiding the law can acquire higher financial – fiscal performances as a result of diminishing disloyal and illegal competition from economic agents who are not abiding by the law.[8]

Establishing some evaluation methods which doesn't take into consideration the profitableness brought by certain fixed means**,** but only their physical characteristics can lead in some economic agents case at overestimation, and in others' case at underestimation. In this way, influences on companies' economic – financial performances appear as a result of using reevaluation as an administrative method.

Making exemption from taxation, price reduction, spreading out again**,** postponing deadlines for paying taxes, making grants only for certain economic agents represents an administrative measure with positive effects on some economic agents, but with negative effects on business environment.

3. Grands regarding indirect taxes in European Union

3.1. Indirect taxes

Indirect taxes harmonization was one of the main objects of the European Union in the fiscal domain. Thus, the 93rd article of the constitution treaty of European Community asks to harmonize the turnover tax**,** excise and other indirect taxes.

3.1.1. Value added tax[9]

Value added tax was introduced in 1970 in European Economic Community by 1st and 2nd directives. It replaced different taxes on production and conpsumtion which burden commercial exchange between states. In 1977, through the 6th directive the foundation of value added tax harmonization in the EU states is established. Through this directive[10] a common assiette for this tax is established in the EU states. Also, this directive is no less than a law for the VAT foundation in the European Union.

As a result of the 6th directive the foundation of a working program towards the elimination of the borders for the VAT is established. The 6th directive was lately modified[11] to eliminate the fiscal borders and to adapt the VAT to the exigence of a gorder-less market. The changes established a VAT transitory system.

The elimination of fiscal borders required the harmonization of the VAT tax rate[12]. According to new stipulations establishd by 92/77/CEE directive, the EU members could apply the following VAT rate: normal tax or two reduced taxes. It was established that the normal VAT share should not be less that 15%, and the reduced shares should not be lower that 5%.

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[8] Tâtu, L. Serbanescu C. Stefan D. Catarama D. Nica A., Fiscalitate de la lege la practica, 2nd Edition, All Beck Publishing, 2005, p. 103

[9] At the basis of realizing this chapter is T Mosteanu, D Catarama, L Tâtu, E Câmpeanu, Politici fiscale si bugetare europene, Universitara Publishing House, 2005, Chapter 5. Value Added Tax. Regulation and harmonization

[10] Directive 77/388/CEE /17 May 1977 regarding the harmonization of member states in turnovers taxes.

[11] Directive 91/680/CEE / 16 December 1991 regarding law adjustments on VAT common system and Directive 92/111/CEE /14 December 1992, regarding simplification measures of legislation in VAT domain.

[12] Directive 92/77/CEE /19 October 1992

The reduced taxes can be applied to the products from Annex H in the 6th directive[13]. The increased taxes for VAT are removed, but in a transitory manner are still maintained: zero tax or super-reduced tax (lower that 5%). Also, it was established that for certain products (except the ones in Annex H[14] and for which the reduced tax is applied from 1st of January 1991) to be applied a reduced tax which should be lower that 12% (parking tax).

The Value Added Tax level in European Union on 1st of September 2004 is shown in Table 1.

Table 1: VAT level in EU member states on 1st of September 2004

Statul	Super reduced tax	Reduced tax	Normal tax	Parking tax
Austria	-	10	20	12
Belgium	-	6	21	12
Czech Republic	-	8	19	-
Cyprus	-	5	15	-
Denmark	-	-	25	-
Estonia	-	5	18	-
Finland	-	8/17	22	-
France	2,1	5,5	19,6	-
Germany	-	7	16	-
Greece	4	8	18	-
Ireland	4,3	13,5	21	13,5
Ireland	-	5/12	19	-
Italy	4	10	20	-
Letonia	-	5	18	-
Lithuania	-	5/9	18	-
Luxemburg	3	6	15	12
Malta	-	5	15	-
Great Britain	-	5	17,5	-
Poland	3	7	22	-
Slovakia	-	-	19	-
Slovenia	-	8,5	20	-
Spain	4	7	16	-
Swedan	-	6/12	25	-
Netherlands	-	6	19	-

[13] It's about schedule Annex H of Directive 77/388/CEE, amended by Directive 92/77/CEE. Among the goods that can make the object of parking tax application there are: living animals, cereals, plants, food products (excepting alcoholic drinks, water distribution, drugs, medical equipament,) person and lagguage transport, book delivery, etc).

[14] It's about schedule Annex H of Directive 77/388/CEE, amended by Directive 92/77/CEE. Among theh goods that can make the object of oarking tax application there are: living animals, cereals, plants, food products (excepting alcoholic drinks, water distribution, drugs, medical equipament,) person and lagguage transportation, book delivery, etc).

Ungaria	-	5/15	25	-

Source: DGTAXUD, DOC/2008/2004 – VAT level in EU member states on 1st of September 2004

Compared to the European Union' forsights, Romania respects the regulations regarding taxing level: normal level 19% and reduced level 9%.

VTA taxing principle at European Union' level is the one of comsuption (goods' destionation), meaning the value added tax is gathered on delivery of goods and carrying out services in the state in which they are consumed. There are also tax obeied the importaions. This principle is regulated by Romanian legistaion[15].

In 1996, July, The Committee presented an acceleration programme[16] of passing from the transitory regim of VAT to final commom regime. There have been established one series of measures regarding VAT, basis tax, exonerating, national law principle etc. After the reticence of the member states regarding the suggested measures and the manner in which they can be approved, it was decided, in 2000, to be established a new long term strategy which would hint to ameliorate the VAT system functionality in the Common Market' cadre. This strategy regarding VAT[13] vises simplifing, modernizing, the unifrom application of the existing rules and a better administrative cooperation. In 2003 balance sheet[14] of the action programme achievements has been done (proposed in 2000).

Among the programme achievements there have been mentioned:

- annulment, after 1st of January 2003, of the possibility for the member states to impose to the intra-community operators the obligation to designate one fiscal official for the operations effectuated in other member states beside the ones in which they are settled;
- after 1 January 2003 all the tax payers (resident and nonresident) have the right to hand in a VAT statement in electronic form; it has been established the legal frame for electronic invoicing and electronic invoice storing;
- to carry out a proposal regarding the standardization of VAT reduced level and its sphere of activity;
- Romania, in the European Union integration context, intended to adopt a legislation according to EU' recommendation. In this way, true to European Union' negotioations, there have been adopted regulations regarding value added tax which come into effect at the date Romania integrated.
- The main reason for the introduction of these new regulatios is the following[17]:
- standardization of the legaslation with the one in the EU regarding intra-community agreements;
- to put in order the right to VAT deduction;
- to introduce the special regime for the agricultural producers, simultaneous with the remove of exemption from VAT for this activity;
- to introduce the special regime for the art objects, collection or antiquity, second hand goods, goods sold by public auction;
- special regime for gold investment;
- introducing new stipulations for VAT pay-back for the acquisitions made in Romania by taxable persons from the EU community and third party countries, elimination of exemption from taxes which are not conformable to the stipulations in the 6th directive of CEE (77/388), meaning: exemption for non-repayable founds given by international organism or foreign gouvernments; VAT exemption for commodity exchange; VAT exemption for veterinary medical care; VAT exemption for river transport for the citizens from the Danube Delta and from the areas of Orşova-Moldova Noua, Brăila - Hârşova, Galați – Grinda; exemption with the right of deduction of religious buildings; VAT exemption for the activity of research, development and innovation;

[15] See Law no. 571/2003 regarding Fiscal Code, later amended and completed
[16] This program has been carried on in five stages between 1996 and 1999. ; COM (2000)348. ^ COM(2003)614-Balance sheet of VAT stategy achievements
[17] www.mfinante.ro - establishment note amended Fiscal Code from 22 December 2004

- introducing tax exemptions allowed by the directive which are not stipulated in the national legislation, such as: VAT exemption for the construction delivery which are seen as new and land delivery; VAT exemption for the services carried out and deliveries of secondary goods made by the public mail service; VAT exemption for the teaching lessons carried out by teachers to help the scholastic or university environment; VAT exemption for postal stamps used inside the country.

For the good functioning of the VAT system in the European Union it was necessary to create a common information exchange system between the EU member states. This system is necessary especially in the case the provider of the goods and the ones who purchase the goods are in different states[18]. According to this system each member state must create a main department whose sole purpose should be the contact with the other member states and information exchange between them.

This department belonging to a member state can require to any other similar department of any other member state information necessary to a correct VAT evaluation. In the case the authorithy who was required information consideres necessary to make investigations in the VAT area, the representatives of the authority who required information can take part in these invastigations.

Also, the representatives of the departments of the states involved can take part in the common check-up when it is considered necessary that the investigation is made by the representatives of the authorities of both countries, rather than by the representatives of only one member state.

To make the information exchange more efficient every state member it must have an electronic data base which contains the information kept for a period of at least five years after the end of the financial year in which the events happened.

Having its roots in the French practice at the end of the 7th decade, 20th century, the value added tax is, nowadays, a fiscal lever which operates in all the European Union states, as well as in many countries outside the EU territory.

From the fiscal point of view, VAT has certain specific rules, which applies downstream upon the operation of the enterprise with its clients and the VAT exemption is admitted due to the upstream transactions with its contractors, while from the accountant point of view, VAT is neutral for the enterprise.

European Union directions are transposed in the Romanian laws through law 343/2006, and to change and complete law 571/2003 – Fiscal Code and intends to introduce the terms: intra-community good acquisition, intra-community delivery, intra-community transfer and intra-community non-transfer.

VAT is nowadays, one year after the adheration, an equation with „n" variables for the majority of the tax payers. This situation is maintained by the unstabile and hazy legislation, on the one hand, and by the persons responsible for giving the right answers, on the other hand.

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PENSIONS INSURANCE SYSTEM IN ROMANIA AND IN EUROPEAN UNION'S STATE MEMBERS

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Abstract: The actual socio-demographical and economical context of Romania - the ageing of the population, the reduction of the active population, macro economical problems and so; transforms social protection and pension system's efficient administration into a fundamental challenge not only for the actual governments but for the future ones. This unfortunate context becomes an alarming situation for the countries in a transition period, like Romania - incapable of finishing a pension reform, lack of vision and coherent strategies in field-, and also for the developed countries which are confronting with a growth lack of balance between available resources and those necessary for pension insurance.

Key words: pensions, reform, European, socio – demographical context.

1. Romanian pensions system

Social protection has lately become a sensitive subject in Romania, and also in European Union's member states. The actual problematic connected with slow economical growth, the spreading of unemployment, ageing, the lowering birth-rate, the reduction of active population and so, generate a powerful pressure upon the pension insurance system and also upon it's financing; social labor conscription can be regarded from different perspectives building itself as a crossroad area of pressures from many directions[1]:

- -derived pressure from social labor constriction's main function, that of population or its specified categories protection in front of some social risks; represent the main reason of the entire system;
- -derived pressure from the demands and standards of ensuring a balance at the macro economical level;
- -pressure from the productive sector, companies and employees, that carry the burden of social cost and labor; considered of affecting companies competitively and real employees incomes but also the labor market functioning.

Romania has a long life tradition in what concerns social- insurances, those being implemented since the beginning of XXth century, being among the first European countries that introduced at that time a compulsory insurance system.

Before 1989, the pension system in Romania situated itself at a comparable level with employee's incomes, except of farmer's pensions which were very low; the great majority of population was covered.

By pension system which was working without major financial problems, in the conditions of pensioner's dependence rate towards the low active population

After 1989, pension quantum was established proportional with the size of every citizen's contribution, using PAYG system that assumes a certain redistribution based on social solidarity principle between generations and between pensioners categories; but this redistribution(through establishing an extreme limit of pensions)disadvantaged the persons with high incomes.

[1] Maria Poenaru, „Prestațiile sociale în țările membre ale U.E. şi în România; Academia Română,2003

As a consequence among public pensions, now called the first pile which also exists in the European countries, social solidarity principle is maintained and compulsory contribution payment, even though their importance has decreased in favor of private pensions, the distortion between contribution proportions and those of the pensions being unjustified. This inequitable method has been preserved until 1st April 2001, when law 19/2000 has been adopted, law which represents the beginning of a late Romanian's pension system reform.

The main causes which determined these unbalances are made of:

- the low rate of economical activity and the alarming increasement of unemployment through out government's inefficient capitalization politics and the selling of many companies that represented the productive segment;
- the reduction of the liable to pay duties through the increase of unemployment and the establishment of social laws which assure different social professional systems without social insurance contribution payment;
- the increase of the number of pensioners due to the early retirement by avoiding the increasement of unemployment and also through laws resembling electoral and political capital;
- artificial increase of the number of pensioners due to the invalidity in suspect conditions, fraudulent or undiscovered;
- the inefficiency of contribution collecting system;
- the growth of tax dodging;
- the increase of inflation that that produced the cracking of pension's benefices;

All these causes, and also the inefficient politics adopted after 1989 inducted important financier unbalances in necessary resources for pension's allocation, and the Romanian pension system has confronted with series problems during the transition period[2]:

- the injustice of calculating retired person's pensions in different period of time;
- the postponement of pension system reform and its legislation instability;
- the reduction of liable to pay from over 8 million to approximately 4,5 million in present;
- the alarming increasement of retired persons (from 3, 5 millions in 1990 to over 6 millions after 2004);
- low collecting rate (the non-payment of some employers);
- undeclaring real incomes;
- low rate of covering the active population with pension insurances;
- postponing the introduction of some complementary solutions of collecting contributions;

Practically, because of the increase of elder population and of diversifying its specific needs.

A new balance between pension resources and other social insurances/other costs is needed through the increase of allocated resources and the reduction of exits, pension demands, and number of pensioners.

2. The necessity of reforming the Romanian pension system

Law 19/2000 marked the beginning of the Romanian's pension system reform. This new law has restriction the access at benefit by modifying the retirement age to 60 years for women and 65 for me (gradually until 2013), and the needed labor period of time: 30 years for women and 35 for men; the

[2] *Marian Preda, et al.-„Sistemul de asigurări de pensii în România în perioada de tranziție: probleme majore şi soluții", Institutul European din România, Bucureşti,2004.*

introduction of a more drastic control concerning infirmity pensions, early retirement restrictions, clear definition and the delimitation of working places in dangerous conditions

Nicholas Barr (World Wide Bank, 1995) adopts in 1995 the following conclusions regarding pension systems in the former communist's countries from Central and Eastern Europe:

1. *State pension reform in these countries is vital* since the actual PAYG system's costs will induce more accentuate financier deficits. We should take into consideration that systems, PAYG and those based on funds do not totally resolve problems. If in the first situation the social pressure is oriented towards pension quantum's increase, the second, as the experience from Latin America has proved us, refers to a problem based on the cracking of funds by the inflation
2. *The reform has to be as simple as possible.* Operating methods of financial markets and private pension funds management must have a high operational expertise and one of adjusting the system. Though former communist's countries are still on one hand, in lack of

these high qualified human resources in domain, on the other hand there are compulsions caused by limited institutional capacities. All these make the simplification of pension system's reform program necessary.

3. *Private pensions need a settlement system well organized.* The management of pension funds stands up complex technical problems which are poorly understood even by the west consumers. In this way, fund adjustment mechanisms and institutions are taken as they are by the countries which are reforming their pension systems, although developed countries as U.S.A or England are changing in present, after the appearance of some financial scandals connected with these funds.
4. *Private pensions require protection against inflation.* The problem of inflation represents a threat for the west doing the fact that it is more profound in Eastern Union where the experience of financial market functioning is low. So, the intervention of the state as guaranty becomes of great importance, the state being the one able to offer both direct guarantee but one based on the emission of indexed obligations. This intervention is based on the principle of horizontal justice: pensioners do not have to endure the risk of inflation more than employees should.
5. Western countries experience show us that the social pressures are more powerful for the state intervention in the direction of guaranteeing these funds and the pressures become even stronger when the funds are confronting difficulties.
6. *Reform requires political options.* The political decisions regarding the adjustment and the functioning of these funds provoke a series of questions and principle options concerning: social solidarity measure, the size of redistribution (minimal/maximal), the actors that endure the risks and risk division (employee fund and state), the adjustment system compulsion degree (how much liberty has the employee to chose?) and so.
7. *The introduction of reform* implies the development of institutional capacity: the involvement of specialists and functionary from the system's design phase, computerizing the records.

The system based on funds cannot be taken into consideration as a short term adjustment of budget crisis, but as a long term reform for the protection of elder persons.

Nicholas Barr previsions have proved themselves real referring to Romania and Eastern pension systems and they are current, the Romanian pension system must be reformed considering the actual characteristics and system's institutional possibilities, Romanian beneficial profile and also Western countries experience or that of neighbor countries.

In the actual demographical context, the ageing of population, the reduction of birth-rate, the financial pressures on pension systems lead to the search of new alternatives for the public pension system on medium and long term for guaranteeing financial sustainability and assuring higher pensions.

According to a study of "Social and Economical Affair Department", in O.N.U (2006) the population of Romania will have with a 17,5% proportion an average of age over 65 years in 2020, and in 2050 30% of the population will have over 65 years , as a consequence the necessity of expanding the actual pension system with two more pension sources(Pillar II and Pillar III) was born, supplementary at public state pension (Pillar I); that are built through participants individual contributions, being administrated by private companies, not like the old system based on generation solidarity of " pay as you go" type.

Alternative pensions have a serial of attracting characteristics as flexible retirement age individual's freedom on choosing, increasing life-hope, high capacity of handling risk and incertitude.

3. The integration of Romanian pension system in the European pension system

The actual reform of Romanian's pension systems must gather European Union's legislative tendencies. It is confronting in present with difficulties in its own pension systems that have as determinisms social and economical factors, which have lead in European Union at establishing a long and medium term of common measurements. As a consequence of Romania's demand of joining European Union, European Commission imposed to Romania several demands concerning the perspective of Romanian's pension systems in joining the European one:

- the increase of contribution collecting degree;
- the reduction of the system's financial crisis;
- the increase of PIB percentage destined for social insurances;
- the reduction of inequalities from the system generated by applying special pension laws for some socio-professional categories;
- the growth of coordinating capacities with E.U.'s social insurance systems;
- the actualization of social insurance laws concerning the transfer of rights and social insurance benefits in Romania and other states;
- the development of institutional capacities;

At the meeting which took place at Lisbon in 2000, The Europe Council has decided to form a Commission able to realize a study about member states pension system's sustainability and to propose solutions for resolving the unbalances (the Lisbon Strategy)[3].

A series of short term (2010) or long (2050) common measurements concerning the following strategic points were adopted:

1. The delivery of adequate pensions:

- assuring a decent life style for the retired persons;
- promoting solidarity among generations;
- supplying individual's access at public or private pension systems;

2. System's financial sustainability:

-public expenses with pensions are assumed to grow with 3-5% of PIB in most of EU's countries "between years 2000-2050" (15-20% of PIB in 2030) the following measures concerning system's sustainability were proposed:

- economical growth;
- the growth of skilled labor occupying rate from an economical growth of 3% from PIB, the medium employment rate should get until 2010 to 70% from the total active population (60% for feminine population) and to 83% until 2045- if the skilled labor occupying rate will grow according to this strategy, until 2010, the growth of public pension's expenses are to be reduced at a third in 2050;
- the growth of elder population's occupying rate (55-64) from 38, 5% to 50% until 2010 (retirement postponement);
- bringing qualified labor from countries in course of developing or under-developed ones;
- attraction women to enter and re-enter the labor market after a break of time period;
- the system's flexibility to allow women to work and to take care of the youngsters (the attempt of stimulating the growth of fertility);
- the recognition of years when the woman ends her work in order to take care of the new-born as bonus to the pension (2, 3 years);

[3] Adequate and sustainable pensions, Lisabona, 2000, www.en.int.org.

- adding one year to the pensioning age will absorbed approximately 20% of the medium forecasted growth of pension expenses from 2050;
- the harden of beforehand retiring conditions;
- the growth of retiring age with 5 years until 2010;
- equalizing the age of retirement for men and women to 65 years until 2020;
- adopting reserve funds in order to support the baby-boom generation's retirement;
- the growth of access for obtaining supplementary pension reducing in this manner the pressure upon public system;

- finding other financial resources for the public pension system, like eco-taxes;
- insuring the citizens that a long term contribution to the system will lead to higher benefits (to encourage the elder ones to remain on the labor market);

3. Re-newing pension systems as a response to the changing needs on the labor market:

Improving Pillar II system in order to enlarge the covering of mobile workers concerning the working place and the territorial one.

4.Conclusions

Analyzing Romanian pension system, as a consequence of diversifying its specific needs a new balance of pension resources and the reduction of system's problems through:

- enlarging resources allocated by PIB and attracting new supplimentary financial resources;
- the reduction of retirement demands, of infirmity and early pensions ,and the number of retired persons;
- creating and adopting long and medium term strategies regarding the assurance of life hope for elder persons;
- organising complete and efficient informational data bases;
- introducing a correct monitorising statistic indicators system, necessary for a highly competent analysis of pension system;
- a demographical politics based especially on the groth of birth rate;
- an adequate politics of immigration from certain areas and emigration towards some regions;
- recalculating the raports concerning fiscal burden; is needed.

No matter the type of the reform and the chosen solutions, we must find all the important measures to equilibrate the system through the participation of the entire Romanian and European society.

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FISCAL AND ACCOUNTING ASPECTS REGARDING THE RELIGIOUS UNITS IN ROMANIA

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Abstract: Taking into account the important role of the religious cults in the social life of a nation, the state, besides subsidizing from the state budget the activities unfolded as public use authorities, sustains the cult units by granting them certain fiscal facilities.

Thus, the religious cults acknowledged by law are exempted from paying the profit tax for revenues obtained from the production and capitalization of objects and products specific to cult units, but also for certain revenues obtained from unfolding economic activities. The capitalization of religious cult objects is also VAT exempted, as well as the payment of the tax on certain buildings and land in their patrimony.

For the unfolded economic activities, with some exceptions, the cult units are treated like the other economic operators.

Key words: religious cults, fiscal facilities, fiscal obligations, accounting activity

According to legal provisions[19], the religious structures with juridical personality are **cults** and **religious associations**, and the structures without juridical personality are **religious groupings**.

The cults recognized by law are juridical persons of public use. They are organized and function according to the law and on the basis of constitutional provisions, autonomously, according to their own statuses and canonic codes.

The component units of the cults are also juridical persons, as they are mentioned in their own statuses and canonic codes, if they comply with the requirements foreseen by them.

The state supports the cult units by granting them fiscal facilities, within the law conditions. The state also promotes the support granted to citizens of different cults by deductions from the income tax and encourages sponsorships towards different cults.

1. Fiscal facilities the cults units benefit by:

Religious cults are exempted from the payment of profit tax for the following incomes: incomes obtained from the production and capitalization of objects and products necessary for cult activity, incomes obtained from rents, other incomes obtained from economic activities, incomes from cash compensation, obtained as a result of reparatory measures stipulated by the laws regarding the reconstitution of the right of property. These incomes are tax-exempt on condition that the respective amounts are used, during the current year and/or in the following years, for the maintenance or functioning of cult units, for construction, reparation or consolidation works of cult places and of ecclesiastic buildings, for education, for supplying social services, for specific actions and other non-profit activities of religious cults.

Cult units are exempted from profit tax and for revenues from economic activities realized up to the level of the equivalent in lei of 15000 euros, in a fiscal year, but not more than 10% of the total revenues obtained from activities without patrimonial aim exempted from profit tax.

From the point of view of VAT, the delivery of religious cult objects (liturgical vases, metallic of lithographic icons, crosses, crucifixes, little crosses and medallions with religious images specific of the cult, religious calendars) are not considered economic activities. Decorative objects and objects for marriages or christenings are an exception from these provisions.

Services and/or deliveries of goods furnished by the members of the cult units in their collective interest are also tax-exempt, according to their own organization statuses and according to canonic codes.

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[19] Law no 489/2006 regarding the religious freedom and the general cult regime, Off. M.11/08.01.2007.

There is also tax-exempt the furnishing of staff by the cult units in view of the following activities:

- hospitalization, medical care and other related operations, unfolded by authorized units for these activities, irrespective of their organization forms, such as: hospitals, sanatoria, centers of rural and urban health care, surgeries, medical laboratories, health care and diagnostic units, treatment and recovery centers, emergency stations and other authorized units to unfold this kind of activities;
- education, professional adult training, as well as services and deliveries of goods linked to these activities, unfolded by public institutions or by other authorized entities;
- deliveries of services and/or deliveries of goods linked to the assistance and /or to social protection, unfolded by public institutions or by other entities acknowledged as having a social character, inclusively those delivered to old age homes;
- deliveries of services and/or deliveries of goods linked to child protection and young people's protection, unfolded by public institutions or y other acknowledged entities having a social character.

Any energetic product purchased directly from the economic operators who are also tits producers, importers or distributors, used as fuel for heating the cult units, inclusively furnishing natural gas, is tax-exempt. The exemption is granted directly on the basis of the authorization of final user issued the territorial fiscal authority at which the cult unit is fiscally registered.

Cult units are also tax-exempt for:

- the buildings, which by destination, constitute cult places, except for the ones that are used for economic activities;
- buildings which constitute the patrimony of confessional education units and institutions, except for the places that are used for economic activities;
- funeral buildings from cemeteries and crematories;
- buildings retroceded to the Romanian cult units, according to the law;
- buildings used for humanitarian social activities, according to the local county's decision;
- any land of a cult unit acknowledged by law and any land of a local cult unit, with juridical personality;
- the land afferent to retroceded buildings, according to the law, during the period for which the owner is obliged to maintain the affectation of public interest.

By the syntagm buildings that, by destination, constitute cult places, we understand churches –places for prayer, houses for prayer – and their annexes. The term "lăcaş"/"religious place" is a variant of the word "locaş" (place).

The annexes of churches refer to any precincts that has constitutive elements of a building, the property of any cult officially acknowledged in Romania, such as: the steeple, the parish office, the holywaterfont, the mortuary chapel, the parish house and its outbuildings, destined as home for the priest/servant priests/serving personnel, the precincts for lighting candles, the table for selling candles, the crucifix, the warehouse for different cult objects, the social-charitable place, the xenodochium, the cell, the refectory, the precincts for unfolding administrative-religious activities, the kiriarhos' residence, as well as other activities linked to them; by social-charitable place we understand child care center, the old age asylum, the social refectory or any other precincts destined for similar activities.

2. The support granted to cult citizens

The tax payers who obtain incomes from wages or incomes assimilated to wages, can dispose on the destination of an amount up to 2% of the tax due in a fiscal year, for sustaining cult units.

The tax payers who obtain incomes from independent activities, incomes from yielding a good's use, incomes from agricultural activities determined on a real system, as well as the transfer of securities, from operations of buying-selling foreign currency at term can dispose on the destination of a sum representing up to 2% of the tax due in a fiscal year, for sustaining cult units.

The obligation of calculation, retention, and transfer of the 2% amount is incumbent to the fiscal agent within the area of activity of whom the tax payers have the fiscal residence, on the basis of the option exerted by the annual income declaration, respectively on the basis of the request of tax-payers who do not have the obligation of the annual income declaration.

3. Fiscal obligations of the cult units:

Cult units must pay a profit tax for the part of income subject to taxation that surpasses the exemption limit of 15000 euros or the part of the profit subject to taxation that corresponds to incomes other than those who are not subject to taxation. The incomes that are not taken into account for establishing the profit subject to taxation are the following:

- dues or members'registration fees;
- cash contributions or nature contributions of the members;
- registration taxes established according to the legislation in force;
- donations or cash or goods received by sponsorship;
- dividends and interests obtained from placing the disponibilities resulted from tax-exempt revenues;
- the resources obtained from public funds or from grants;
- exceptional incomes resulted from yielding corporal assets in the property of the cult units, other than those which are or have been used in an economic activity;
- the sums received as a result of non respecting the conditions in which the donation/sponsorship was done, according to the law, under the reserve that the sums in question are to be used in the current year or in the following years, for the achievement of the aim and of their objectives, depending on their own statuses and canonic codes, according to the case;
- the incomes obtained from compensations from insurance companies for damages produced on their own corporal assets, other than those which are used in the economic activity;
- the sums received from the income tax due by physical persons;

At determining the profit subject to taxation we must take into account the following elements:

1. the establishment of incomes that are not subject to taxation enumerated above;
2. determining the incomes that are not subject to taxation from economic activities, by following the next steps:
   - the calculation of the equivalent in lei of 15000 euros by the use of the average exchange rate EUR/ROL communicated by the National Bank of Romania for the fiscal year in question;
   - the calculation of the revenues which are not subject to taxation as being the least value of the amounts previously established;
3. the establishment of incomes that are not subject to taxation by adding sums from point 1 and 2;
4. determining the incomes that are subject to taxation by deducting from the total incomes those from point 3;
5. the calculation of the profit subject to taxation corresponding to the incomes subject tot taxation from point 4, taking into account the following:
   - the establishment of expenses in order to achieve the incomes subject to taxation from point 4. For this, it is necessary to use adequate keys to distribute common expenses;
   - the establishment of the deductible value of expenses determined according to the provisions of Article 21 from the Fiscal Code;

Cult units must declare and pay the annual profit tax, till the 15^{th} of February inclusively of the year following the one for which the taxation is calculated.

B. As regards to the value added tax, the cult units may be classified as being partially taxable persons, in case they perform simultaneously economic activities submitted to VAT and activities which are outside the VAT scope.

As partially taxable persons, the cult units may be registered for VAT purposes or may be exempted from the registration as being small enterprises on the grounds of art. 152 from the TAX CODE, in so far as their annual turnover is inferior to the limit provisioned at this article.

Cult units that unfold economic activities, whose annual business turnover is inferior to the limit of 35000 euros, are VAT-exempt. The equivalent in lei of the limit is established the exchange rate communicated by BNR at the date of Romania's integration into the EU. Cult units that begin an economic activity during the year and estimate that they will achieve a turnover inferior to the exemption limit can choose the application of the normal taxation regime. After being founded, if the turnover achieved during the year is inferior to the exemption limit they can choose at any moment the normal taxation regime.

If during the year the cult units achieve or exceed the exemption limit, they must request the registration with VAT aims in 10 days from the end of the month during which this limit was surpassed.

Cult units that request the registration in VAT aims will be given a registration code only for the activity for which they have the quality of tax payer, while for activities without patrimonial aim they will be given another fiscal registration code. Once it has been granted the registration code with VAT aims, this will be valid for any other operations subject to taxation, tax-exempt or without right to deduction that it will realize in the future.

Cult units that are registered in VAT aims for the whole activity unfolded till the 27th of March 208 must request the attribution of a registration code with Vat aims different than the fiscal registration code.[20]

The position of partially taxable person also generates particularities regarding the practical application of the VAT tax deduction right. Therefore, for the operations which don't belong to the VAT application scope, the cult units don't have the right to deduce the VAT aferent to the acquisition of goods and services.

In proportion to the nature of operations which constitutes the economic activity of the cult units, concerning the practical application of the right to deduce the VAT for the acquisitions of goods and services, the following situations stand out:

- the cult units have the tax deduction right for the acquisitions of goods and services designated to the taxable operations and exempted with tax deduction right
- the cult units don't have the tax deduction right for the acquisitions of goods and services designated to the operations exempted without the tax deduction right

Practically, it may lead to the situation when, for the economic activity, if it develops both operations exempted without tax deduction right and taxable activities and exempted with tax deduction right, the cult units may be considered mixed taxable persons. The mixed taxable person deduces on a pro-rate basis, the VAT aferent to the acquisitions of goods and services whose destination is unknown (respectively if they shall be used in order to accomplish operations which offer a tax deduction right or for operations which don't offer a tax deduction right) or for which it can not be determined the proportion in which are or shall be used for operations which offer a tax deduction right and operations which don't offer a tax deduction right. The partially taxable person may require the application of a special pro-rate if it can't keep separate records for the activity developed as taxable person and for the activity for which it hasn't the position of taxable person, on terms regulated by standards.

4. Organization and management of the accounting activity:

Cult units must organize and manage the accoutning of activities unfolded according to te accounting settlement s approved by the Ministry of Economy and Finances.[21]

Accounting settlements refer mainly to activities without patrimonial aim, inclusively activities with special destination, unfolded by juridical persons without patrimonial aim, and in subsidiary, to economic activities unfolded, according to the law, by these juridical persons. For unfolded economic activities, these settlements are completed with the accounting Settlements according the the IVth Directive of et European

[20] GD no 1579/19.12.2007 for the change and completion of the Methodological Norms of application of Law no 571/2003 regarding the Fiscal Code, approved by GD no 44/2004, Official Monitor 894/28.12.2007.
[21] OMFP no 1969/09.11.2007 published in the Official Monitor no 846 bis/10.12.2007

Economic Communities, approved by the Order of the Minister of Public Finances no 1752/2005, with changes and ulterior completions.

Cult units which also carry out economic activities must draft annual financial reports that comprise:

- the balance sheet;
- the account of the result of the exercise;
- explanatory notes to financial annual reports.

The accounting of incomes is carried out by types of activities, respectively activities without patrimonial aim, activities with special destination according to the law and economic activities, and within the framework of these activities on types of incomes, according to their nature.

The accounting of expenses regarding the unfolded activitiesis done on types of expenses , according to their nature, such as follows:

- exploitation expenses;
- financial expenses;
- extraordinary expenses.

Expenses with commissions, depreciation and adjustments for depreciation or loss of value, as well as the expenses with the profit tax and other taxes, calculated according to the law, are emphasized distictly, depending on their nature.

Within the framework of categories of expenses according to their nature, the expenses accounts are developed compulsorily in distinct analitics on types of activities, respectively activities without patrimonial aim, activities with special destination according to the law and economic activities.

Cult units that carry out exclusively activities without patrimonial aim manage the accounting in simple party. These units do not have to draw annual financial reports.

Conclusions: Even if cult units benefit by numerous fiscal facilities, we consider that these must be extended, taking into account the important role of the cults in social life. We first think of the exemption from the payment of the tax on the profit used in charitable or humanitarian activities. The VAT-exemption could be extended also for the delivery of other goods or services, as well as the tax-exemption within certain limits applied to products subject to taxation obtained from the processing of fruit and grapes from the orchards detained in the cult unit's patrimony.

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CONSIDERATIONS REGARDING TO THE REGULATION OF BUILDING TAXATION COMPARATIVE STUDY ROMANIA-HUNGARY

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Abstract: The local taxes and fees represent an important financing source of the local public needs. Indeed under the reform conditions of the local public administration, of the economical, social and cultural institutions, for the accomplishment of a real local; autonomy, a major objective is to assure sufficient financial resources, in proportion to the competences of the local and district councils.

Key-words: local taxation, building, taxable value, inventory value

The actual (ordinal) incomes of the local budgets from those countries, that have an economy based on liberal principles, are realized through some local taxes and fees.

The local taxes and fees (in generally, taxation upon belongings) are frequently used in all developed European states (for example in England, France, Germany, even if the specific "local" fiscality of this states is not free from tough critics towards the "poll-tax"/taxation upon citizens in England or towards "Gewerbesteuer" – GewST/the professional taxation, which represents approx. 50% from the local incomes in Germany).

It is asserted, for the controlled fiscality of the local budgets, that those taxes show usability and efficiency, which do not imply complicated fiscal procedures, those which present a high level of stability of the encashment by the respective budget.

The model of the local taxation used in Hungary has its legal basis in the fundamental regulation of the Constitution of the state. Thus it is estimated that the levy and collecting of the local taxes and fees represents the basic instrument to realize the local autonomy and implicitly the financial autonomy (to create and apply an own fiscal politics of that certain administrative-territorial unit).

According to the Romanian legislation[22] the following financial sources integrally represent the incomes of local budgets of the different administrative-territorial units (communes, cities, towns, the sectors of Bucharest, districts):

- Taxation upon buildings;
- Taxation upon lands;
- Taxation upon vehicles;
- Taxes for certificates, notifications and authorizations;
- Taxes for use of advertising and publicity;
- Taxes upon shows;
- Hotel taxes;
- Special taxes;
- Other local taxes;
- Amendments and penalties for the earlier mentioned local taxes and fees
- Interest for the late payment of the local taxes and fees mentioned in part I.

Different taxes and fees controlled by: Law No. 146/24.07.1997 regarding to judicial timbre tax, published in the Official Monitor of Romania No. 173 from 29.07.1997, with the ulterior modifications and

[22] Title IX "Local taxes and fees", art. 248 and Law No. 571/22.12.2003 published in the Official Monitor of Romania No. 927/23.12.2003 with the ulterior modifications and replenishments

replenishments; Law No. 117/30.06.1999 regarding to the extrajudicial timbre taxes, published in the Official Monitor of Romania No. 321 from 06.07.1999.

In our country, those persons who own buildings placed in Romania must pay every year the tax for these buildings.

According to the legal definition building is "any construction placed on the ground and/or under the ground, whatsoever name or utility it has, and which has one or more rooms, which can be used as shelter for humans, animals, objects, products, materials, installations, equipments and other things, and the structural elements of it are walls and roof, irrelevant what materials are these constructed from. The room represents the space from the interior of the building[23]". There are some buildings that that are free of this taxation, as follows:

- the buildings which are propriety of the state, of the administrative-territorial units or of any public institution, except those buildings which are used for economical purposes24;
- the buildings, which by the law are classified as historical, architectural or archeological monuments, museums, memorial houses, regardless of who the owner of the property or administrative right is, except those buildings which are used for economical purposes;
- buildings that through their destination are cult-houses, owned by religious cults approved officially in Romania, except those buildings which are used for economical purposes;
- the buildings that are the inheritance of the educational units and institutions belonging to the state, to religious cults or private units, which have provisional authorization or which are accredited, except those buildings which are used for economical purposes;
- the buildings of the public health units, except those buildings which are used for economical purposes;
- the funeral buildings from the cemeteries and the crematories;
- the buildings which are the inheritance of the Romanian Academy, except those buildings which are used for economical purposes;
- the buildings used for social-humanitarian activities by associations, organizations and cults, according to the decisions of the local council, etc.

In the Hungarian system, the taxable object is the building, so the tax is paid for the buildings. The notion "building" implies art objects too – monuments, etc., which can't be taxable object.

The object of the taxation is only the construction itself, the interior court with roof is considered to be construction too.

At the same time, taxable objects are considered to be the annexes too.

The Hungarian legislator underlines too the importance of classification of buildings from the point of view of the obligation to pay taxes. Also we have the followings: ♦ buildings designated for housing, residence is considered to be that building, which according to law can be classified in comfort groups and exists in the immobile evidences as residence; the notion of residence is important in case of remission of taxes, because the majority of the local public administrations foresee the tax remission for the residence – and ♦ the buildings for other purposes as residence, like offices, commercial centers, factories, garages, etc.

The Romanian law from the point of view of taxation makes a difference between the evaluation method of the buildings which are owned by private persons and those which are owned by juridical persons, so that:

- In case of private persons the tax is calculated with the use of a taxation level of 0,1 % of the *taxable value*[25] of the building.

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[23] Art. 249 paragraph 5 from Law No. 571/2003 regarding to the Fiscal Code

[24] Through the notion "used for economical purposes" we understand all the places used in commercial purposes, how these are defined in the content of article 3 of the Romanian Commercial Code.

[25] The taxable value of the building, established in RON, is calculated through the multiplication of the constructed surface, established in square meter, with the taxable value established in RON/m² in the content of article 251, paragraph 3 of the Fiscal Code.

– In case of juridical persons, the building tax is calculated with the use of the *taxation level*[26] upon the *inventory value*[27] of the building.

The same way like in the Romanian law, in the Hungarian law, the subject of the building taxation is the owner – that private or juridical person which exists in the evidences of the National Land Register and Immobile Publicity Office as owner. In case of attaining the building through succession, the successor must pay the tax beginning with the next year after the decease of the testator. In case of co-owners, the society of owners supports the costs of the building taxation, according to the percent of property (rule introduced by Chapter XII, article 141 from the Hungarian Civil Code).

The categories of tax remissions are established in a different way in the Hungarian legislation, considering some remissions of certain residences or remissions offered according to the person of the tax-payer. In the first category we can give as example: tax remissions for the residence of some social categories which have financial difficulties – which have suffered in a disaster, etc. when these are existing in the registers in such way; residences without comfort in smaller locations, which are not considered locations for repose, treatment, being placed in small human locations, which have no more than 500 inhabitants – for these residences is offered a tax remission for 100 m². In the second category we can mention the tax remission offered to public authorities, religious cults for the churches.

The Hungarian local administration had established two different ways to calculate the building taxation. This way we have: ♦whether the calculation of the used surface established in m², upon which it is applied a level, which maximal limit is 900 ft/m², ♦ or the taxation with 3% of the stated value of the building or construction[28].

In Romania, the annual taxation upon buildings must be paid in two equal rates, until the dates 31 March and 30 September, to the local budget of the administrative-territorial unit, where the building is located. For the advanced payment of the whole amount of the building taxation until 31 March, it is offered a discount of even 10%, established by the decision of the local council. The annual building taxation under the value of 50 RON inclusively, must be integrally paid until the established legal term.

Finally, we must stop upon a particularity of the Hungarian legislation from the studied domain, which consists in the possibility to request the abeyance/postponement, even for an unlimited period of time of the payment of building taxes. This postponement is conditioned by the final payment of some interests, the quantum of which will reflect the interest rates of the central banc. This option can be chosen by the aged persons with low incomes, persons with handicaps – owners of immobile, used as residence. The total value of the tax will be finally paid, in case when the immobile is sold or when the owner deceased – case in which the costs must be supported by the successors, or whenever the owner request it.

As a conclusion, the building taxation is levied in the majority of the European states, in most cases by the local communities.

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[26] The level of the taxation is established by the decision of the local council and it can be between 0,25% and 1,50%.

[27] Through the notion "the inventory value of the building" is expressed the value of the building when it was obtained, registered in the accounting system of the owner, being referred whether to the buying costs for the buildings obtained with onerous title, or the cost of production, for the buildings constructed by juridical persons.

[28] Taxation system rarely used, in this moment approx. by 5 administrative-territorial units is used

DECISIONS REGARDING THE FINANCIAL STRUCTURE OF THE COMPANY

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Abstract: The paper presents the relevant aspect regarding the analysis of entity's decisions in the conditions of equilibrium. The authors show the importance of using the indicators in the context of elaborating financial decisions.

Key words: financial policy, leverage effect, financial profitability

1. Introduction

Creating the financial policy, organizing and leading the activity in this field, implies the elaboration of the leadership strategy and a direct practical activity.[29]

Elaborating the general strategy and on areas of financial policy is concludes by adopting certain decisions with normative character, highly strategic, while the leading of the financial activity itself is made through strategic, tactic and operational decisions.[30]

Framing the financial decision in the broader process of financial policy, Professor Constantin Tulai believes that, in the field of finances, *decision* represents an option with executive character make to ensure the transformation of the strategic solution chosen in direct action. Its object is the formation of financial funds, they repartition according to each destination, their rational use and, in the case of economic agents, also the distribution of profit.[31]

2. Method and Results

In our opinion, in the decisional process regarding the financial structure of the company, an important role is held by the leverage effect through which we understand the positive or negative financial result obtained by the company, as a result of using credits as capital. This effect is obtained by comparing the economic profitability of the company (R_e) with the cost of borrowed capital (d).

If $R_e > d \rightarrow$ positive or favorable leverage effect;

If $R_e < d \rightarrow$ negative or unfavorable leverage effect.

$$Leverage\ effect = \frac{Debts \times (Re - d)}{Shareholders'\ equity}$$

So, the leverage effect finds itself in a direct relation both with the financial structure and the difference between profitability ratio (R_e) and interest ratio (d), on the one hand and with the borrowed capital with on the other hand.

Indicator	2 002	2 003	2 004	2 005

[29] *C. Tulai, Public Finance, House of Science Pub., Cluj-Napoca, 2003, p.92*
[30] *Idem*
[31] *Idem*

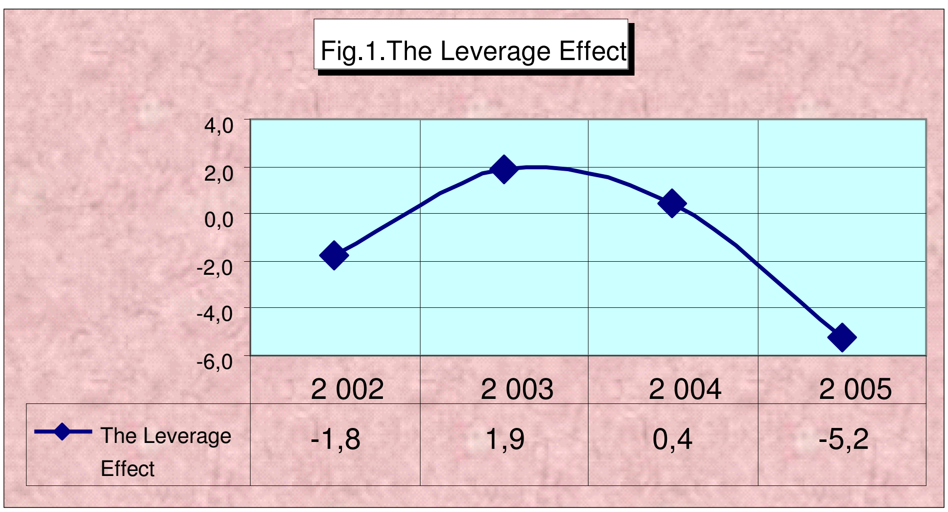
Profit/Loss	7 229 040	19 759 272	11 912 370	- 4 371 140
Total Assets	183 763 008	213 169 364	289 944 108	305 777 818
Economic Pprofitability (Re)	3,9	9,3	4,1	-1,4

Indicator	2 002	2 003	2 004	2 005
Profit/Loss (B)	7 229 040	19 759 272	11 912 370	- 4 371 140
Shareholders' Equity (Cp)	86 545 935	123 204 887	150 607 746	146 207 167
Financial Pprofitability (Rf)	8,4	16,0	7,9	-3,0

Total Assets (A)	183 763 008	213 169 364	289 944 108	305 777 818
Profit/Loss (B)	7 229 040	19 759 272	11 912 370	- 4 371 140
Shareholders' Equity (Cp)	86 545 935	123 204 887	150 607 746	146 207 167
Total Debts (D)	97 217 073	89 964 477	139 336 362	159 570 651
Interest Expenses	5 300 863	5 982 723	5 111 894	5 451 866
Interest Ratio (d)	5,5	6,7	3,7	3,4

Indicator	2 002	2 003	2 004	2 005
Total Debts (D)	97 217 073	89 964 477	139 336 362	159 570 651
Economic Pprofitability (Re)	3,9	9,3	4,1	-1,4
Interest Ratio (d)	5,5	6,7	3,7	3,4
Shareholders' Equity (Cp)	86 545 935	123 204 887	150 607 746	146 207 167
Leverage Efect	-1,8	1,9	0,4	-5,2

Table 1 - The Evolution of the Leverage Effect with SC MARA SA



Both from the above table and from above figure we may notice the effect produced by the leverage on SC MARA SA. In the financial periods 2002 and 2005, the leverage effect transformed in boomerang effect negatively influencing the financial standing of the company. During 2003-2004, leverage was benefic, contributing to the improvement of the financial situation of the company, as well as of its performance.

Adopting a decision regarding the financial structure of the company refers to two coordinates:

- On the one hand, determining the report between permanent capital and short term capital and

– Determining the proportion of each source of permanent capital (shareholders' equity and long term credits) in the total of the balance sheet liabilities (capital structure), so that it would enable the maximization of the company's value.

So, the capital structure signifies the composing elements of permanent funds available to a company. The importance of the capital structure results from the role *leverage* has on the financial profitability (Rf) that is *the profitability of shareholders' equity*, as well as on *the financial risk of the company*, as results from the model below:

$$B = Re *A - d *D = Re(C_p + D) - d*D$$

$$Rf = Re + (Re - d)\, D/ C_p$$

$$\text{But } r_L = D/C_p$$

Then:

$$Rf = Re + (Re - d)\, r_L$$

The leverage effect can be extracted from the above relation as follows:

$$E_L = (Re - d)\, r_L$$

where:

Re = Economic Pprofitability (Benefits/Total assets);

Rf = Financial Pprofitability (Benefits/Shareholders' equity);

A = Total Assets (from the Balance Sheet);

B = Profit generated by the company;

C_p = Shareholders' Equity;

D = Total Debts of the company;

d = Interest Ratio at a monetary unit (d/100);

r_L = Financial Leverage Ratio;

E_L = Financial Leverage Effect

Indicator	**2 002**	**2 003**	**2 004**	**2 005**
Economic Pprofitability (Re)	3,9	9,3	4,1	-1,4
Total Assets (A)	183 763 008	213 169 364	289 944 108	305 777 818
Interest Ratio (d)	5,5	6,7	3,7	3,4
Total Debts (D)	97 217 073	89 964 477	139 336 362	159 570 651
B = Re *A - d *D	181 981 830	1 379 713 089	673 226 303	- 970 629 159

Indicator	**2 002**	**2 003**	**2 004**	**2 005**
Economic Pprofitability (Re)	3,9	9,3	4,1	-1,4
Shareholders' Equity (Cp)	86 545 935	123 204 887	150 607 746	146 207 167
Total Debts (D)	97 217 073	89 964 477	139 336 362	159 570 651
Interest Ratio (d)	5,5	6,7	3,7	3,4
Total Debts (D)	97 217 073	89 964 477	139 336 362	159 570 651
B = Re(Cp + D) - d*D	181 981 830	1 379 713 089	673 226 303	-970 629 159

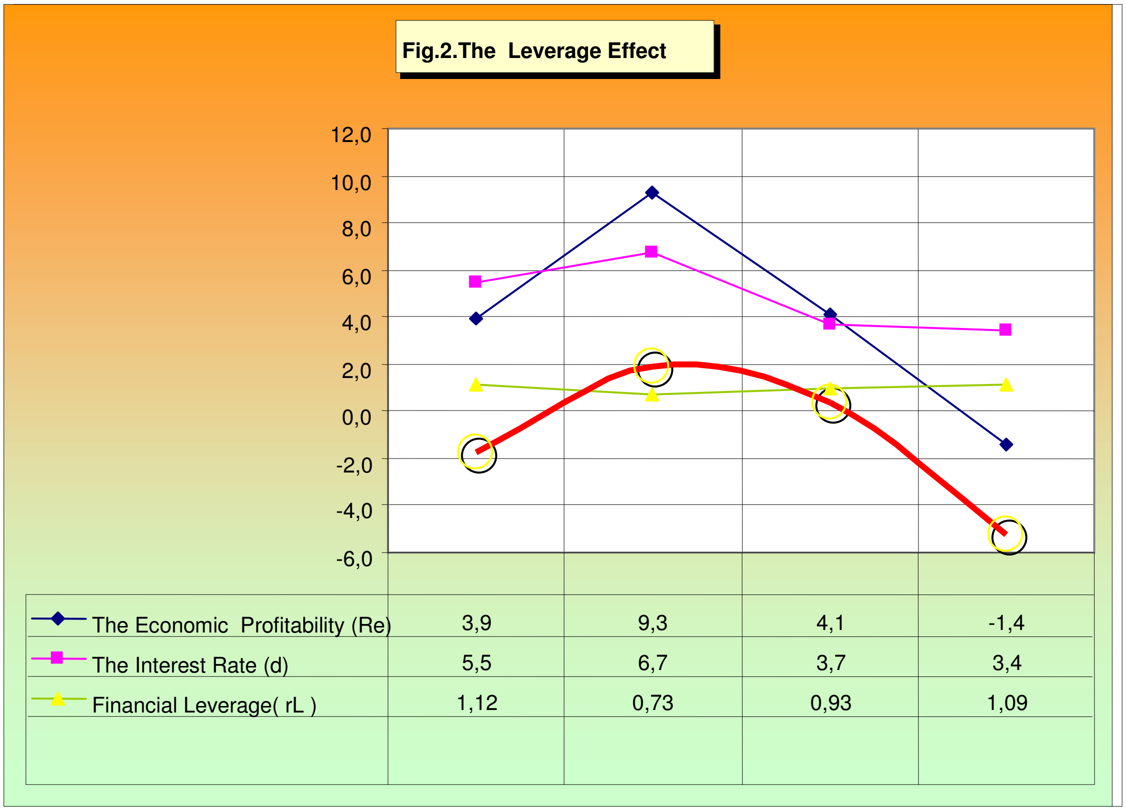
Indicator	2 002	2 003	2 004	2 005
Economic Pprofitability (Re)	3,9	9,3	4,1	-1,4
Interest Ratio (d)	5,5	6,7	3,7	3,4
Total Debts (D)	97 217 073	89 964 477	139 336 362	159 570 651
Shareholders' Equity (Cp)	86 545 935	123 204 887	150 607 746	146 207 167
The Financial Profitability $Rf = Re + (Re – d) D/ C_p$	2,10	11,20	4,47	-6,64

Indicator	2 002	2 003	2 004	2 005
Total debts (D)	97 217 073	89 964 477	139 336 362	159 570 651
Shareholders' equity (Cp)	86 545 935	123 204 887	150 607 746	146 207 167
Financial Leverage Ratio ($r_L = D/C_p$)	1,12	0,73	0,93	1,09

The Financial Profitability $Rf = Re + (Re – d) r_L$	2,10	11,20	4,47	-6,64

Indicator	2 002	2 003	2 004	2 005
Economic Pprofitability (Re)	3,9	9,3	4,1	-1,4
Interest Ratio (d)	5,5	6,7	3,7	3,4
Financial Leverage Ratio (r_L)	1,12	0,73	0,93	1,09
Leverage effect (EL = (Re – d) rL)	-1,79	1,90	0,37	-5,23

Table 2 -The Evolution of Financial Pprofitability with SC MARA SA



From the graphic representation above we may notice that due to a higher interest ratio in 2002 and 2005, the leverage effect with SC MARA SA recorded negative values, an aspect that we believe to have created a financial instability from the point of view of the investors.

3. Conclusions

The decision regarding the financial structure depends on each company, on its objectives of economic growth, on the foreseen profitability level and on the risk that the company agrees to assume, but also on third parties, that is shareholders, banks and other creditors, on the state as well as on the economic circumstances (position of the financial market, oscillations of the interest ratio, monetary devaluing etc).

At same time, we consider that a negative leverage effect will create financial instability, a lack of financial autonomy and a non – financial equilibrium on the short run.

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THE INFLUENCE OF TAXES ON FINANCIAL EQUILIBRIUM

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Abstract. In this paper, the authors present the method of evaluating the effect of taxation on the financial equilibrium of the company.

Key words: working capital, working capital requirement, net treasury, net standing.

1. Financial diagnosis- the evaluation method of the company's equilibrium

The financial diagnosis is a group of instruments and methods which enable the appreciation of the financial standing and the performances of a company.

The purpose of the financial diagnosis is of evaluating the financial standing of the company. Basing on this diagnosis, there takes place the creation of a new strategy of maintaining and developing in the local economic environment. In a general sense, the finality of the financial diagnosis consists of providing financial information both to those inside the company and to the interested ones from outside the company.

When the issue of the diagnosis occurs inside the company (internal financial diagnosis), the users may be the leaders, current shareholders or employees. The objective is, in this case, to detect the possible situations of financial instability and to adopt new decisions concerning the administration of the company. These decisions are based on the identification of the origins and causes of the lack of balance and, on the other hand, on the determination of the curative measures.

When the issue occurs outside the company (external financial diagnosis), the users may be financial analysts, potential shareholders, banking and financial institutions or even the state. The objective pursued is the company's financial capacity of generating profit, the company'c capacity of paying its short term or long term obligations (the liquidity nad solvability of the company), as well as the company's value.

External users usually require a financial diagnosis either for crediting the company (especially banks), or for making the decision of entering the capital of a company (potential shareholders or other companies).

Both the internal and the external analysis have the objective of appreciating the performances of the company and the risks it faces and they refer to: profitability analysis, risk analysis and company's value analysis.

Irrespective of the results obtained by the company or of the unfolding of the events, the making of a financial diagnosis has to take place on a periodical basis. The financial diagnosis identifies the favorable and unfavorable factors that will influence the future activity of the company.

The information resulting from the financial diagnosis often have to be completed with information referring to the external milieu of the company (standing of the economy, of the industry), information referring to the technical and human potential, commerical and juridical potential , the company's management (information depending on companies). All these elements influence the financial performances of the company and determine its competitive nature.

The information required for making the financial diagnosis are taken from the simplified financial statements that include: balance sheet, profit and loss account, annex to the balance sheet.

2. The double meaning of taxes in the case of the economic unit

From the definition there can be extracted the following characteristics of taxes:

1. the compulsory nature of paying taxes and, in relation to this, their legality and legitimacy;
2. tax is a take over without equivalent and, in relation to this, there occurs the issue of the reversibilty of taxes and their redistributive role;

3. taxes’ fundament and measure is the contributive capacity of each tax payer;
4. the double quality of taxes: resources for covering public expenses and fiscal leverages used by the state.

Stating that tax has as main purpose the overing of public expenses and to sustain the primary nature of its financial purpose implies the explict determination of al least four things:

- tax has a financial purpose: obtaining the necessary resources for covering public expenses;
- tax also has other purposes, also referring to the fulfillment of certain economic or social objectives;
- its objectives may be contradictory, therefore they must be harmonized;
- among its different objectives, the most important is the financial one.

Taxes have a double quality as far as the financial equilibrium of the companies or tax payers is concerned. Under this hypothesis, taxes represent, on the one hand, an expense for the companies or tax payers and, on the other hand, they represent their debt or obligation.

The development of the company is related to the ensurng of the economic equilibrium expressed as a value. The financial equilibrium expreses the equality and correlations between the required financial resources and the possibility of collecting these resources. The financial equilibrium of the company implies the covering of all the operational expenses out of own or borrowed incomes, of the expenses not shown in costs, of the development and modernization expenses, of the expenses with personnel and shareholders incentives, as well as of the contractual and financial obligations towards banks and state budget.

The activity of a company has to be performed so that there is ensured an equality among financial resources (R) and their use (F), so that R=F.

The financial resources (R) of a company may be made up of incomes resulting from the basic activity and from other activities (V), financial incomes (Vf), extraordinary incomes (VE), liabilities of operation and those from the investment sector (Pe), bank and other financial institutions credits (C) and new cash contributions of shareholders and other resources (Ar), so that:

$$R = V + Vf + VE + Pe + C + A + Ar$$

The uses of resources can be represented by clients inventories and assimilates (S), expenses with personnel and other salarial rights (Ce), expenses with investments and modernization (Ci), research and development expenses (CE), non deductible expenses (Cn), payment of obligations to the state as taxes and the contributions to the social insurance budget (imp), payment of credits and corresponding interest (Rc) and other expenses (Ac), so that:

$$F = S + Cp + Ci + Ce + Cn + Imp + Rc + Ac.$$

Taking into account the financial resources and their use, the financial equilibrium of the company is presented through the following equality:

$$V + Vf + VE + Pe + C + A + Ar = S + Cp + Ci + Ce + Cn + Imp + Rc + Ac$$

Taxes may influence the financial equilibrium of the company. Taxes represent a factor of influence over the financial stability of a company as far as the two aspects analyzed – expense and debt- are concerned.

3. The effect of taxes on the net standing

The net standing calculted as difference among total assets and total debts provides a first (accounting) evaluation of the company at the end of the financial period. This fundametal equation of the balance sheet represents the net wealth of the shareholders, respectively the asset not engaged in debts.

Indicators	Period			
	S_1	S_2	S_3	S_4
Total assets	10.000	10.000	10.000	12.000
Debts	3.000	4.000	2.000	3.000
Out of which taxes	1.000	2.000	500	1.800

Net standing	7.000	6.000	8.000	3.000
Variation of net standing	x	6.000	- 2.000	1.000

NET STANDING = ASSET – DEBTS

The net standing presents an increase or decrease in timpe, a fact that signifies the increase or decrease of shareholders' equity.

Analyzing the due taxes, we may say that the increase, respectivley decrease, of the taxes included in total debts influences with a positive or negative effect the net standing of a company and, consequently, its financial equilibrium.

During the S_2 period with increased debts on the account of taxes, the net standing of the company decreases. Under these circumstances, the debts and expenses of the company increase and we may notice a fiscal pressure.

Net statement S_2 = 10.000 – 4.000 = 6.000

During S_3 period with the decrease of debts on the account of taxes, THE NET STATEMENT of the companies increases. Under these circumstances, the expenses and the debts of the companies decrease and we may notice a fiscal relaxation.

The net statement S_3 = 10.000 – 2.000 = 8.000

During the S_4 period, when the value of the asset is determined by other factors but from total debts we notice a increase of taxes. Under these circumstances, even if the net standing records an increase, we may say that the fiscal pressure is positive as compare to S_1.

Net statement S4 = 12.000 – 3.000 = 9.000

4. Working capital, measure of the financial equilibrium

In order to accomplish the financial equilibrium of the company, it is necessary to respect the principle of maturities parity according to which permanet allocations (intangibles) have to be financed on the account of permanent sources (shareholders' equity and long term credits) due to their slower rotation; cyclical allocation (non current assets) are financed on the account of the temporary sources (short term liabilities).

The higher permanent sources are as compared to permanent requirements of funds allocation, the more the company enjoys a security margin, which protects it from unforeseen events.

This surplus of permanent resources, resulting from the financing cycle of investments, may be rotated for renewing inventories and account receivable. This potential use is responsible for its name, which is working capital. It expresses the long term financial equilibrium and its contribution to the accomlishement of the equilibrium of short term financing.

WORKING CAPITAL = PERMENENT SOURCES – PERMANENT ALLOCATION

Working capital = (Shareholders' equity + Financial debts) – Net amortization non current assets.

INDICATORS	S1	S2	S3	S4
SHAREHOLDERS' EQUITY	790.000	802.000	925.000	1.123.000
FINANCIAL DEBTS	0	0	0	12.000
NET NON CURRENT ASSETS	800.000	839.000	972.000	1.160.000
WORKING CAPITAL	- 10.000	- 37.000	- 47.000	- 25.000
WORKING CAPITAL VARIATION		- 26.000	- 10.000	22.000

FR S1 = (790.000 + 0) – 800.000 = - 10.000

FR S2 = (802.000 + 0) – 839.000 = - 37.000

FR S3 = (925.000 +0) – 972.000 = - 47.000

FR S4 = (1.123.000 + 12.000) – 1.160.000 = - 25.000

FR VARIATION S2/S1 = - 37.000 - (-10.000) = - 26.000

FR VARIATION S3/S2 = - 47.000 - (-37.000) = - 10.000

FR VARIATION S4/S3 = - 25.000 - (-47.000) = 22.0000

The negative value of the working capital reflects the absorbtion of a part of the temporary resources for financing certain permanent needs, contrary to the principle of financial administration: to permenent needs there are allocated permanent sources, so that long term allocations are finances by short term resources. These situations may be less unfavorable if the company leads an investment policy – an orientation towards development. At any rate, a negative working capital has serious effects on treasury and payment capacity.

During the S_4 period, there may be noticed a tendency of improving this long term lack of balance, thw working capital, even if still negative, is half the value of that of the preceding year; the company better administers the resources attracted from shareholders or creditors.

5. The need of working capital – way of reflecting the financial equilibrium.

It is the expression of the short term financial equilibrium, of the equilibrium between the requirement and use of operational capital.

NFR = CYCLIC ALLOCATIONS – CYCLIC SOURCES

NFR = (INVENTORIES + ACCOUNTS RECEIVABLE) – OPERATIONAL DEBTS

INDICATORS	**S1**	**S2**	**S3**	**S4**
INVENTORIES	75.000	49.000	27.000	54.000
ACCOUNTS RECEIVABLE	88.000	820.000	71.000	61.000
DEBTS	330.000	653.000	1.053.000	963.000
NFR	- 167.000	- 522.000	- 955.000	- 848.000
NFR VARIATION		- 355.000	- 433.000	107.000

NFR S1 = (75.000 + 88.000) – 330.000 = - 167.000

NFR S2 = (49.000 + 82.000) - 653.000 = - 522.000

NFR S3 = (27.000 + 71.000) – 1.053.000 = - 655.000

NFR S4 = (54.000 + 61.000) – 963.000 = - 848.000

NFR VARIATION S2/S1 = - 522.000 - (-167.000) = -355.000

NFR VARIATION S3/S2 = -955.000 - (-522.000) = -433.000

NFR VARIATION S4/S3 = - 848.000 (-955.000) = 107.000

NFR is negative. There is a surplus of temporary resources, this standing is accepted only if it results from the increase of the rotation speed of current assets and the engagement of debts with more relaxed due times. Otherwise, it implies the inadequate administration of inventories.

6. Net treasury – form of reflecting the monetary resources of the company

Net treasury represents the difference between the working capital and the required working capital.

Net treasury is the most conclusive expression of the unfolding of a balanced and efficient activity. It indicates the quality of the general equilibrium of the company both for long and short term.

TN = WORKING CAPITAL – REQUIRED WORKING FUND

INDICATORS	S1	S2	S3	S4
WORKING CAPITAL	- 10.000	- 37.000	- 47.000	- 25.000
WORKING CAPITAL VARIATION		- 26.000	- 10.000	22.000
REQUIRED WORKING CAPITAL	- 167.000	- 522.000	- 955.000	- 848.000

REQUIRED WORKING CAPITAL VARIATION		- 355.000	- 433.000	107.000
NET TREASURY	157.000	458.000	908.000	823.000
NET TREASURY VARIATION		- 328.000	423.000	- 85.000

Net treasury is positive for all the years, showing that the financial periods ended with a monetray surplus, the real expression of net profit from balance account liability anf other monetary accumulations. The increase of net treasury in S_3 as compared to S_2 and, respectively, the decrease in S_4 as compared to S_3 represents the cash flow which goes to the shareholders as dividends to be cashed and/or profit to be reinvested.

7. Intermediary administration balance account – modalities for reflecting the company's efficient activity

TRADE MARGIN = GOODS SALE – COST OF THE SOLD MERCHANDISE

INDICATORS	S1	S2	S3	S4
GOODS SOLD	2.000.000	1.999.000	3.250.000	3.761.000
EX. WITH MERCHANDISE	1.300.000	1.200.000	1.695.000	1.642.000
TRADE MARGIN	700.000	799.000	1.555.000	2.119.000

PRODUCTION OF THE PERIOD = PRODUCTION SOLD +/- PRODUCTION RETAINED + INCOMES FROM PRODUCTION OF NON CURRENT ASSETS

INDICATORS	S1	S2	S3	S4
PRODUCTION SOLD	12.431.000	14.000.000	1.985.000	25.650.000
PRODUCTION RETAINED	0	27.000	116.000	117.000
INCOMES FROM PRODUCTION OF NON CURRENT ASSETS	2.195.000	3.286.000	3.700.000	3.546.000
PRODUCTION OF THE PERIOD	14.538.000	17.313.000	23.401.000	29.313.000

ADDED VALUE = TRADE MARGIN + PRODUCTION OF THE PERIOS – CONSUMPTION FROM THIRD PARTIES

The added value expresses the increase in the value resulted from the use of the production factors, especially work and capital, over the value of the materials, energy, services purchased from third parties. This added value represents the source of monetary accumulations out of which there is made the remuneration of the direct and indirect participants to the economic activity of the company: personnel, state, creditors, shareholders and company through the capacity of financing itself.

INDICATORS	S1	S2	S3	S4
TRADE MARGIN	700.000	799.000	1.555.000	2.119.000
PRODUCTION FOR THE PERIOD	14.538.000	17.313.000	23.401.000	29.313.000
CONSUMPTION WITH THIRD PARTIES	6.989.000	7.555.000	8.617.000	9.834.000
ADDED VALUE	8.849.000	10.557.000	16.338.000	21.598.000

GROSS SURPLUS

FROM OPERATIONAL ACTIVITIES (EBE) = ADDED VALUE

+ SUBVENTIONS

- EXPENSES WITH THE PERSONNEL

- TAXES

INDICATORS	S1	S2	S3	S4
ADDED VALUE	8.849.000	10.557.000	16.338.000	21.598.000
INCOMES FROM SUBVENTION	0	0	0	0
EXPENSES WITH TAXES	79.000	237.000	992.000	1.342.000
EXPENSES WITH THE PERSONNEL	1.298.000	2.325.000	3.922.000	3.730.000
EBE	7.472.000	7.995.000	11.424.000	16.526.000

EBE expresses the gross accumulation from the operational activity, taking into account the fact that anortization and provisions are only expenses calculated, not paid. EBE expresses the potential capacity of self financing investments (from amortizations, provisions and profit), paying the debts to the state budget and remuneration of capital investors (shareholders and creditors).

The self financing capacity expresses a financial surplus resulting from the profitable activity of the company. It has only a potential character if not sustained by effective financial means. The monetary surplus resulting from the increase of net treasury during the most recent financial periods shows that the largest part of this self financing capacity is sustained by an available treasury.

8. Conclusions of the tax effects on the financial equilibium

The finances of the companies represent the main, basic link of the entire financial and credit system. This statement bases on the fact that most of the monetary funds formed on different levels result from the incomes created in the basic cells of the economy through taxes. The financial phenomenon emerges from the realtions that the company has with all the companies, the state and other institutions.

On a overstructural level, the finances of the company appear as a branch of financial science, which analyzes the mechanisms and processes of procuring and administering financial resources, their sources and destinations, in order to satisfy the different needs and to obtain profit.

In a company there may be created numerous funds, among which: fixed asset fund, working capital, reserve funds, scientific research funds, funds for training, rewarding and including employees in the profit disctribution. These funds that ensure the financial equilibrium of the company are conditioned by the total amount of taxes to be sustained.

The fiscal pressure may cause a state of financial lack of balance, respectively fiscal relaxation may generate financial equilibrium. Companies, through financial mechanisms and their specific methods may proceed to the formation and administration of capital.

The investment process implies, at a certain point, an amount of financial resources in a direction that might produce incomes during several successive periods of time.

Investments represent expenses that are made for obtainingfixed assets. For the financial manager, investment is, first of all, a decision of making capital intangible for the purpose of obtaining a future profitability. If the budgetary constraint of taxes is a strong one, the company cannot get the used funds.

The payment capacity expresses the possibility that a company should cope with due payments towards suppliers, employees, bansk, state budget, social insurances budget and social protection.

Payment capaicty refers to the report between a certain part of liquid assets – main liquidities - and due time payment obligations.

Under the circumstances of an exaggerated fiscal pressure, taxes have a negative influence over the financial stability of the companies, expressed as financial balance. NET STANDING, WORKING CAPITAL, REQUIRED WORKING CAPITAL, NET TREASURY and by intermediary administration balance accounts: TRADE MARGIN, PRODUCTION FOR THE PERIOD, ADDED VALUE, GROSS SURPLUS FROM OPERATIONAL ACTIVITIES, NET RESULT, SELF FINANCING CAPACITY, LIQUIDITY, SOLVABILITY.

Fiscal pressure via taxes negatively influences the administration rates. Under the circumstances of fiscal relaxation, taxes have a positive influence over the indicators of financial balance.

An effect of taxes is also held by the concordance between the measure of taxes and the paying capacity of the companies.

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CASH - FLOW ANALYSIS MODEL

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Abstract. In the paper the authors show a new method of computing and a system of indicators in order to analyze the cash-flow statement of a company.

Key words: cash-flow, current assets, debts, current liabilities

1. Introduction

The cash flow statement is made by analyzing the effects of each transaction on cash. Because of the large number of transactions made by a company and registered in accounting, even for a short period of time, this procedure is seldom used. However, the statement of cash-flow is usually made by comparing the values from the balance sheet for the beginning of the year and end of the year and analyzing the changes in monetary assets account that occurred during that period.

2. Method and Results

The aim of the cash flow statement is of showing the nature of the cash changes occurring throughout the year. A change in cash equals the net change in all the balance sheet accounts, others then cash. This can be shown by transforming the basic accounting equation, as below:

Basic equation:

$$\overbrace{(N + AC + AI)}^{\text{Assets}} - \overbrace{(DTS + DTL)}^{\text{Liabilitie}} = \overbrace{SN}^{\text{Net}}$$

From which the transformation: $\mathbf{N = SN + DTS + DTL - AC - AI}$

So:

Cash flow statement will be: $\Delta N = \Delta SN + \Delta DTS + \Delta DTL - \Delta AC - \Delta AI$

where:

N = cash

AC = current assets other then cash

AI = non current assets

DTS = short term debts

DTL = long term debts

SN = net statement

The last equation demonstrates that a change in cash (the left part of the equation) equals the net change in all the balance sheet accounts, others then cash (the left part of the equation). It can be noticed that, besides the changes in current assets, others then cash and the changes in non current asstes, each component from the right side of the equation is preceded by plus „+". The sign minus „–„ associated to the changes in assets, others then cash, show the fact that these changes are opposed as direction to the changes in cash. (for example, an increase of investments in real estate notes generates a cash decrease). On the other hand, the changes of all the other components from the right side of the equation (shareholders' equity and debts) have the same direction as cash changes.

	2002	2003		2004		2005	
Indicator	**Sume**	**Sume**	**Dif.**	**Sume**	**Dif.**	**Sume**	**Dif.**
Cash and cash equivalents	6 582 479	3 600 671	-2 981 808	6 138 998	2 538 327	5 310 029	- 828 969
Shareholders' equity	86 545 935	123 204 887	36 658 952	150 607 746	27 402 859	146 207 167	-4 400 579
Short term debts	67 486 896	61 361 149	-6 125 747	105 624 076	44 262 927	129 975 666	24 351 590
Long term debts	29 730 177	28 603 328	-1 126 849	33 712 286	5 108 958	29 594 985	-4 117 301
Circulating assets + advance payments	46 989 157	62 864 017	15 874 860	103 130 449	40 266 432	120 732 335	17 601 886
Non current assets	130 191 372	146 704 676	16 513 304	180 674 661	33 969 985	179 735 454	- 939 207
Flows	x	x	-2 981 808	x	2 538 327	x	- 828 969

Table 1 - The Evolution of Cash –Flow at SC FELEAC SA

From the data presented in table 1, there results that negative cash flows in 2003 were due to certain decreases in both short term and long term credits, while the increase of share capital was not able to finance all the increases in non current assets and current assets, other then cash. As a result, between 2002 and 2003 there were recorded negative cash flows of 2,981,808 RON.

During 2003-2004, the financing sources of asset increase recorded a higher level then theirs, a fact that led to the obtaining of positive cash flows of 2,538,327 RON.

During 2004-2005, the decrease of shareholders' equity and long term financing was not able to compensate for the increase of current assets, thus generating negative cash flows of 829,939 RON.

Besides the indicators presented above, in the analysis of cash flows there can also be used other indicators:

1. Cash flows per share;
2. Cash flows from operational activities as percent from the total cash flows;
3. Cash flows from operational activities as percent from long term debts;
4. Cash flows from operational activities as percent from investment expenditures.

RON

No.	**Indicator**	**2003**	**2004**	**2005**
	Cash flow	- 2 981 808	2 538 327	- 828 969
	Number of shares	9 246 102 000	9 246 102 000	9 246 102 000
1	Cash flow per share	-0.0003	0.0003	-0.0001
	Operational cash flow	10 994 557	4 601 201	16 557 837
	Total cash flow	- 2 981 808	2 538 327	- 828 969
2	% Operational cash flow/total	-368.72	181.27	-1997.40
	Operational cash flow	10 994 557	4 601 201	16 557 837
	Long term debts	29 730 177	28 603 328	33 712 286
3	% Operational cash flow /DTL	36.98	16.09	49.12
	Operational cash flow	10 994 557	4 601 201	16 557 837
	Investment expenditures	9 084 494	35 307 180	16 482 427
4	% Operational cash flow / Investment expenditures	121.03	13.03	100.46

Table 2 - The Evolution of Indicators at SC FELEAC SA

Cash flow per share

Since 1973, the Commission for Securities and Exchange from USA has forbidden companies the reporting to the number of shares of cash flows. The committee believes that the investors accustomed to the data supplied according to earning per share, could be mislead to considering the cash blows based on shares as a measure of the companies welfare. Today, the position of FASB is the following: the reporting of cash flows per shares will incorrectly indicate the fact that cash flows, or one of its components, equals or is even higher then earnings as indicator of the performance or alternative of earnings per share.[32]

Limits of indicator "cash flow per share". The high concern of market analysts and investors with the cash flow per share does not imply the fact that this replaces profit in measuring the performance of a company. Both of them are important for financial analysis and their importance depend on certain circumstances. As previously noticed, the cash flow generated by operational activities excludes, in the case of the direct method, amortization and the transactions made but not cashed or paid. As a result, the harmonization of expenditures and incomes made according to the traditional method (which uses as starting point in earnings forecast) can not be found in the calculation of cash flows. Many companies obtain, during certain time intervals, negative cash flows that are not necessarily important in the future. High tech companies such as IBM or XEROX usually have, during the first years of activity, negative cash flows (caused by the intensive research and development expenses) that are not relevant for the future cash flows generated by operations.

In the case of SC FELEAC S.A., there can be noticed negative values of the indicator in 2003 and 2005 and positive values in 2004.

Cash flows from operational activities as percent from the total cash flows

When a significant part of the cash flow derives from other sources then operational activities (share issuing, long term debts or non current assets sale), the liquidity of the company is doubtful. Thus, a low percent of the cash flow resulting from operational activities usually signals a serious financial crisis. In fact, in 2003 and 2004, SC FELEAC SA the recorded negative levels of the indicator were close to triggering company’s bankruptcy.

Cash flows from operational activities as percent from long term debts

The cash flows from operational activities as percent from long term debts is usually called covering debts. It is a key indicator of liquidity used in appreciating shares and long term bank loans and shows the necessary time interval in which current cash from operational activities should cover long term debts. The balance sheet of SC FELEAC SA shows on the 31st of December 2003 long term debts of 29.7 million Ron, while the cash generated from operational activities was of 10.9 million RON. As a result, the required period of time for covering the debt was 2 years and 7 months. In 2004, the required period of time for covering the debts was 6 years and 2 months, and in 2005 the period of time for covering the debts was 2 years.

Cash flows from operational activities as percent from investment expenditures

On long term, a company has to generate sufficient funds from operational activities in order to finance the development and renewing activity and to satisfy shareholders. Even on short term, when development expenses are beyond the funds generated by operational activities, the liquidity problem can be solved. From the analysis made at SC FELEAC SA, we noticed that the development expenses of the company were, in 2003 and 2005, 60.7 million RON, while the funds resulting from operational activities were 32 million RON (52.7% from capital). This means that the company had enough funds from financing investments.

3. Conclusions

Cash flow statement is a report in order to help foreseeing the company’s capacity to sustain (or to increase) the cash from current operations. For this purpose, the statement provides several objective information ob:

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[32] *The plan of exposing the statements proposed by FASB, „Cash Flow Statement”*

- the capacity of a company to generate cash flows from the operational activities;
- tendencies in the components of cash flows and the investment and financing decisions consequences over cash;
- Management's decisions regarding the critical areas as well as the financial policy, dividend policy and investments for obtaining the economic growth of the company.

Both cash flow statement and profit and loss account alone contain enough information in the process of decision making. The data from the profit and loss account and from the balance sheet have to be combined with cash flows in order to create a profound analysis of the company's capacity of investing in assets basing on reported profits and of paying the debts resulting from the engaged expenses and, thus, to help the analyst in introducing other relevant evaluation measures.

The data contained in cash flow statement may be used for:

- Over viewing the individual elements of cash flows for the analytical significance of cash movements;
- Examining the tendency of different cash flow components in time and their relation to elements corresponding to the profit and loss account;
- Considering in time the relation between cash flow components;

Generally speaking, cash flows from operational activities should be positive and to increase over time, since they provide resources for covering debts, for investing in assets and for remunerating shareholders.

Even if the profit and loss account and the balance sheet are imposed as parts of financial statements, cash flow statement is not required in many countries.

Cash flow analysis represents, in our opinion, an important instrument for international comparisons, due to the significant accounting differenced among countries. Cash flows are less susceptible then profit to variations resulting from the differences in accounting methods. Nevertheless, the differences in accounting methods influence the classification of cash flows. Thus, comparison on international scale requires the adjustment of reported cash flows.

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MODELS OF COMPANY'S SOLVENCY ANALYSIS

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Abstract. In the paper the authors show the different models of analyzing the company's solvency, taking into account many ratios with different importance.

Key words: general stability, financial solvency, reimbursing capacity

1. Introduction

The status of financial solvability is multi-criteria approached by local specialists and from abroad.

The International Accounting Standards mention the fact that solvency refers to cash availability for a greater period of time during which the due time financial engagements ought to be covered[33].

In our opinion, solvency has to be analyzed from the point of view of its function and the time horizon it implies. That is why we believe that solvability expresses the capacity of an economic agent of reimbursing on due time (larger then 1 year) the current rates towards banks and other financial institutions.

At the same time, we believe that solvability is a state of financial equilibrium measuring the value of the capital, as compared to the patrimony's size.

2. Method and Results

Solvency can be shown through many models. They are presented below.

– The analysis of general stability

The indicator of general stability (ISG) shows the degree in which the total assets of the company are able to cover the total debts of the company. This indicator shows the degree in which debts can be covered using assets.

$$ISG = \frac{Total\ asset}{Total\ debt}$$

The minimum level acceptable is of 1.66 (even if it should be at least 2.00). Under this level, the company faces the danger of payment incapacity. The optimum level is 3.00.

The general solvency report (RSG) indicates the amount of the net accounting asset in total asset:

$$RSG = \frac{Net\ Accounting\ Asset}{Total\ asset}$$

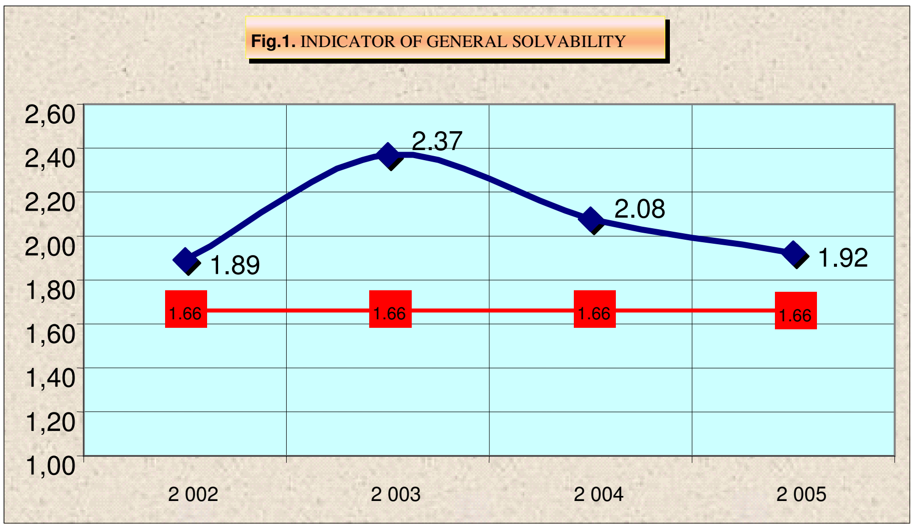
The minimum level acceptable is of 35%, but the optimum one is of at least 50%.

Indicator	2 002	2 003	2 004	2 005	Simbol
Total Asset	183 763 008	213 169 364	289 944 108	305 777 818	At
Total Liability	97 217 073	89 964 477	139 336 362	159 570 651	Dt

[33] *O.M.F.P. no. 1752/2005 – Q work.*

Net Accounting Asset	86 545 935	123 204 887	150 607 746	146 207 167	Anc
Indicator of General Sovency	1.89	2.37	2.08	1.92	Lsg = At/Dt
Growth Indicator	100%	125%	88%	92%	Iclsg = lsgn/lsgo
Variation of the indicator	0.00	25%	-12%	-8%	dlsg = (Δlsg)/lsgo
Minimum value acceptable	1.66	1.66	1.66	1.66	Min
General solvency report	47.10%	57.80%	51.94%	47.81%	Rsg=Anc/At
Minimum value acceptable	35.00%	35.00%	35.00%	35.00%	Min

Table 1 - General Solvency at SC AMPELUM SA



During the entire analyzed period, the level of the general solvability indicator is over the normal limit, even if slightly descending during 2003-2005. The descending tendency of the indicator is due to the more rapid growth rhythm of total debts, as compared to total assets. Nevertheless, from this point of view SC AMPELUM SA is safe during the entire period of analysis, a fact that means that it is able to cover all its debts basing on assets. The same conclusion results from the analysis of general solvability report.

– The analysis of financial solvability

The indicator of financial solvability (ISF) shows the degree in which the total assets of the company are able to cover total financial debts.

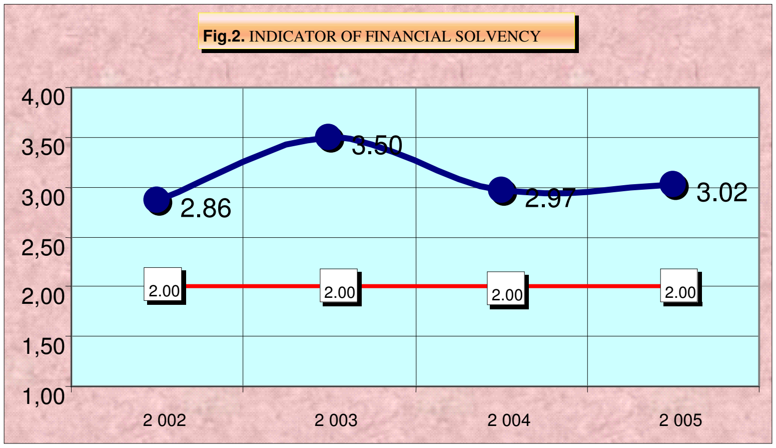
$$ISF = \frac{Total\ asset}{Total\ \ financial\ debt}$$

The minimum level acceptable is of 2.00. Under this level the company faces payment incapacity.

Indicator	**2 002**	**2 003**	**2 004**	**2 005**	Simbol
Total Assets	183 763 008	213 169 364	289 944 108	305 777 818	At =Ai+Ac
Total Financial Liabilities	64 325 931	60 831 920	97 621 346	101 417 082	Dft = Dtml+Cbts
Financial	2.86	3.50	2.97	3.02	IsF = At/Dft

Solvency					
Minimum value acceptable	2.00	2.00	2.00	2.00	Min

Table 2 - Financial solvability with SC AMPELUM SA



During the entered period analyzed, the value of the indicator is over the average limit, even if in 2004, as compared to the previous year, the value decreased. The descending tendency of the indicator is explained by the more rapid growth of financial debts, as compared to total assets. However, from this point of view, SC AMPELUM SA is safe during the entire period of analysis, a fact that shows the capacity of the company of covering all its financial debts basing on assets.

– The analysis of debt reimbursing capacity

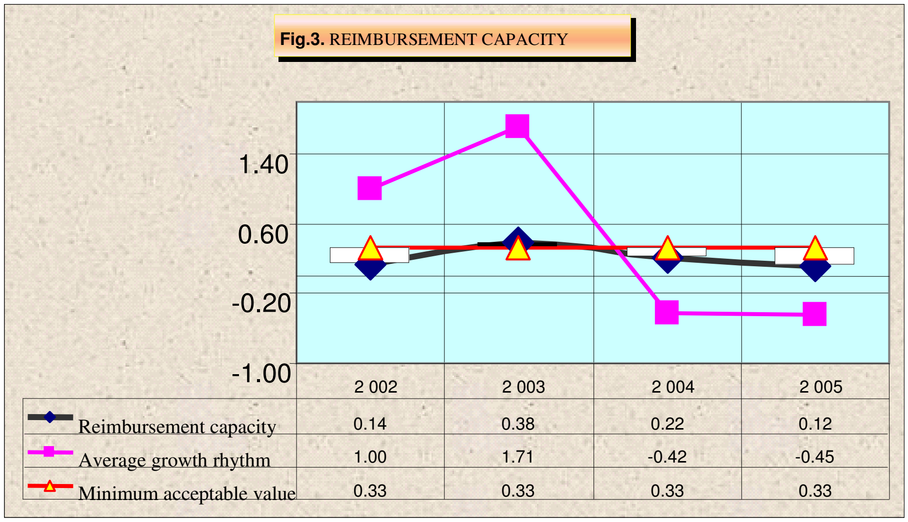
Debt reimbursing capacity (CRD) shows the degree in which the potential sources of self financing resulting from the activity of the company can cover total debts.

$$CRD = \frac{Self\ \ financing\, debt}{Total\, debt}$$

The minimum level acceptable is of 0.33 (corresponding to the covering of debts in a period of 3 years). If the level is under 0.33, the company faces payment incapacity and the optimum level is 1.00.

Indicator	2 002	2 003	2 004	2 005	Simbol
Self financing capacity	13 383 951	34 284 540	30 191 651	18 975 448	Caf
Total debts	97 217 073	89 964 477	139 336 362	159 570 651	Dt
Reimbursement capacity	0.14	0.38	0.22	0.12	Crd = Caf/Dt
Growth indicator	100%	271%	58%	55%	IcCrd = Crdn/Crdo
Variation of the indicator	100%	171%	-42%	-45%	dvlCrd = (ΔCrd)/Crdo
Average growth rhythm	1.00	1.71	-0.42	-0.45	Rmc
Minimum acceptable value	0.33	0.33	0.33	0.33	Min

Table 3 - The Capacity of Reimbursing Debts at SC AMPELUM SA



In 2003 the value of the indicator was over the minimum level; as compared to the previous year it increased by 171%. The tendency of the indicator is descending. From this point of view, SC AMPELUM SA has an acceptable financial security during the analyzed period.

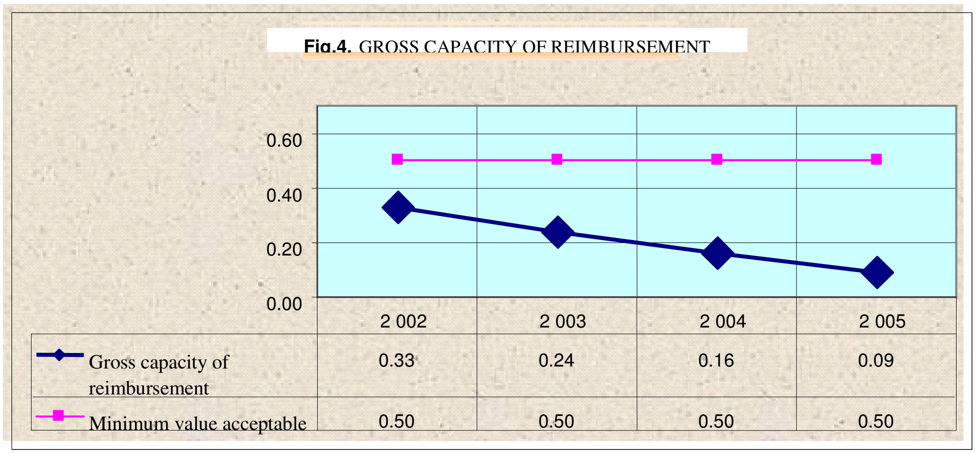
The gross capacity of reimbursing debts (CBRD) shows the degree in which the potential sources of self financing resulting from the operational activity of the company are able to cover the total debts of the company.

$$CBRD = \frac{Gross\ surplus\ from\ operational\ activities}{Total\ debts}$$

The minimum acceptable level is 0.50 (corresponding to covering debts in a 2 year period), under this level the company faces payment incapacity. The optimum level is 1.00.

Indicator	2 002	2 003	2 004	2 005	Simbol
Gross surplus from operational activities	32 451 335	51 338 829	45 515 107	28 734 234	Ebe
Total liabilities	97 217 073	213 169 364	289 944 108	305 777 818	Dt
Gross capacity of reimbursement	0.33	0.24	0.16	0.09	Crd = Caf/Dt
Minimum value acceptable	0.50	0.50	0.50	0.50	IcCrd = Crdn/Crdo

Table 4 - Gross Capacity of Reimbursing Debts at SC AMPELUM SA



For the entire period analyzed, the value of the indicator is under the minimum value acceptable. As compared to the previous year, it shows a tendency of constand decrease. Ther general tendency of the indicator is descending. From this point of view, the company is not safe as far as its payment capacity is concerned.

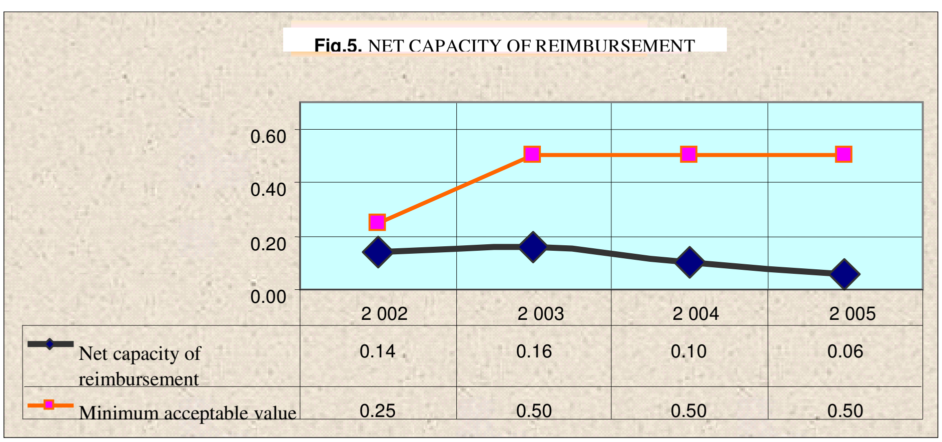
b) Net capacity of reimbursing debts (CNRD) shows the degree in which net self financing is able to cover the total debts of the company. It indicates a report between own sources and borrowed ones.

$$CNRD = \frac{Net\ self\ \ financing}{Total\ debts}$$

The minimum acceptable level is of 0.25 (corresponding to covering debts in a 4 year perios); under this level the company faces payment incapacity. The optimum level is 1.00.

Indicator	2 002	2 003	2 004	2 005	Simbol
Net self financing	13 383 951	34 284 540	30 191 651	18 975 448	Afn
Total liabilities	97 217 073	213 169 364	289 944 108	305 777 818	Dt
Net capacity of reimbursement	0.14	0.16	0.10	0.06	Cnrd = Afn/Dt
Minimum acceptable value	0.25	0.50	0.50	0.50	Min

Table 5 - Net Capacity of Reimbursing Debts



During the entire analyzed period, the value of the indicator was under the average limit. During the last year, the value of the indicator significantly decreased, as compared to the preceding year. The general tendency is of continuous decrease. From this point of view the company is in a state of financial instability.

- The analysis of financial expenses requirements

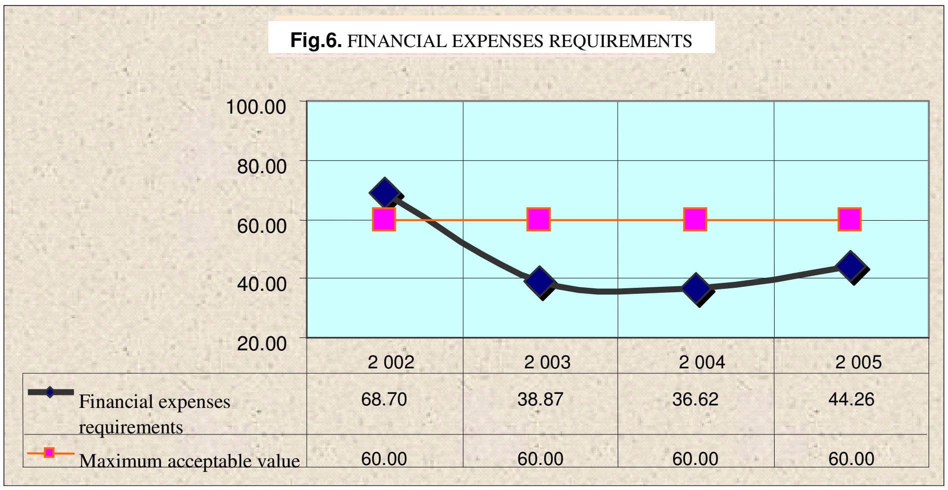
The ratio of financial expenses requirements (RPCF) shows the degree in which financial expenses consume cash from the gross accumulations of the operational activity.

$$RPCF = \frac{Financial\ expenses}{Gross\ surplus\ \ from\ exploitation}$$

The maximum level acceptable is of 60%; over this level the company faces the danger of negative cash.

Indicator	2 002	2 003	2 004	2 005	Simbol
Financial expenses	22 293 955	19 954 458	16 668 688	12 717 525	Chf
Gross surplus from exploitation	32 451 335	51 338 829	45 515 107	28 734 234	Ebe
Financial expenses requirements	68.70	38.87	36.62	44.26	Rpcf = Chf/Ebe
Maximum acceptable value	60.00	60.00	60.00	60.00	Max

Table 6 - The Ratio of Financial Expenses Requirements



During the first year, the value of the indicator was within normal limits, but it increased, as compared to the previous year. The indicator has a general descending tendency, both basing on the decrease of the financial debts, which generate expenses with interests, as well as basing on the decrease of the surplus from operational activities. Nevertheless, from this point of view the company is not safe during the analyzed period.

3. Conclusions

Taking into account the above said, we may draw the conclusion that the solvability SC AMPELUM SA is adequate. The leverage level of the company does not generate significant risks with continuing the activity. However, we noticed that there is a tendency of depreciation of the solvability indicators in the last part of the time interval analyzed.

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THE FINANCIAL STRUCTURE AND ITS ROLE IN THE FINANCING OF THE ENTITY

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Abstract. In the paper the authors show the importance of capital structure and the financial structure in the company financing taking into account the owner's capital and the borrowing capital.

Key words: capital structure, debts, leverage

1. Content of the financial structure of the entity

The financial structure of the enterprise is determined by the structure of the entire liability of the balance sheet and we believe it shows the role of capital in financing the company. Comparing to the structure of the capital, the financial structure additionally includes the capital borrowed on short term basis.

We also believe that the financial structure include the capital structure of the company. In this sense, by financial structure we understand the report existing between the short term financing and the long and intermediary term financing of the company.

$$\textit{The financial structure of the company} = \frac{\textit{Short term financing}}{\textit{Long term and Intermediary term financing}} = \frac{\textit{Treasury resources}}{\textit{Permanent capital}}$$

The financing requirements emerge both in the line of operating, respectively production activity, as well as on the line of certain operations non-specific to operating.

The treasury resources are formed by short term banking credits, as well as by commercial credits and cover a part of the circulating assets.

Permanent capital is formed by the own funds of the company and intermediary and long term loans and covers the non current assets, as well as a part of the circulating assets seen as the working fund.

Indicator	**2 002**	**2 003**	**2 004**	**2 005**
Non current assets	130 191 372	146 704 676	180 674 661	179 735 454
Circulating Assets	53 557 906	66 459 041	109 256 641	124 800 912
Advance Payments	13 730	5 647	12 806	1 241 452
Current Assets	53 571 636	66 464 688	109 269 447	126 042 364
Total Assets	183 763 008	213 169 364	289 944 108	305 777 818
Due (intermediary and long) term debts	29 730 177	28 603 328	33 712 286	29 594 985
Owners'Capital	86 545 935	123 204 887	150 607 746	146 207 167
Permanent Capital	116 276 112	151 808 215	184 320 032	175 802 152
ShortTerm BankCcredits	34 595 754	32 228 592	63 909 060	71 822 097

Commercial Credits	32 891 142	29 132 557	41 715 016	58 153 569
Treasury Resources	67 486 896	61 361 149	105 624 076	129 975 666
Total Liabilities	183 763 008	213 169 364	289 944 108	305 777 818
Long Term Financing	63.28	71.21	63.57	57.49
Short Term Financing	36.72	28.79	36.43	42.51

Table 1 - The evolution of resources and allocations at SC ELBA SA

From the table above there results that during the entire analyzed period of time, over 60% of the resources have been allocated for the investment activity and a bare 40% of the resources have been allocated for the operational activity.

The leverage of the company may occur by using banks and other specialized financial institutions or bond financing.

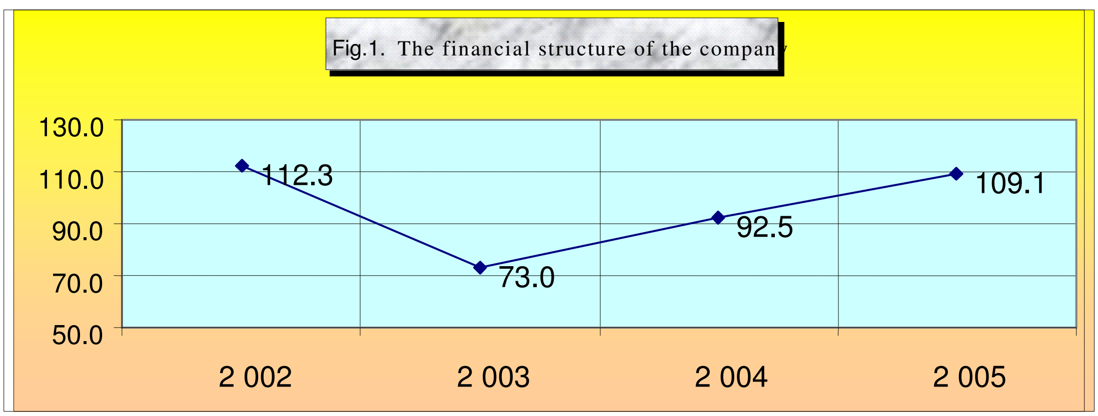
In a simplified way, *the financial structure of the company* can be appreciated according to the report:

$$\frac{\textit{Total debt}}{\textit{Shareholders' equity}}$$

Reflecting the amount of financing based on borrowed resources, as compared to own resources.

Indicator	**2 002**	**2 003**	**2 004**	**2 005**
Total debt	97 217 073	89 964 477	139 336 362	159 570 651
Shareholders equity	86 545 935	123 204 887	150 607 746	146 207 167
Financial structure of the company	112.3	73.0	92.5	109.1

Table 2 -The Evolution of the Financial Structure at SC ELBA SA



From this graphic representation, we may notice that foreign financing resources are larger then the own resources in 2002 and 2005 with 12.3%, respectively 9.1%. This is important since it influences negatively the financial autonomy and independence of SC ELBA SA.

The choice of a certain financial structure represents an important *financial policy decision*. If the financial covering through short term obligations provides a certain flexibility for the entreprizer, in the sense that he/she may develop or reduce operatively the volum of the activity, the financing through permanent capital is less expensive, therefore more profitable. Even if the profitability criterion is a very important one, the decision regarding the financial structure also takes into account other elements, such as the total volume of the needs to be financed, as well as the nature of the various capital uses.

The financial structure is a variable that does not depend solely on the company, its economic growth objectives, foreseen profitability or the risks it agrees to assume. The financial structure is influenced, and often determined, by shareholders, bank or other financers, by the state, as well as by the economic-financial context: the situation of the financial market, the oscillations of the interest rate, monetary devaluations etc.

Last but not least, the adoption of a financial structure is also determined by the creditors taking into account the risk to which they are exposed when crediting the respective client. Creditor's risk may be a risk of capital loss when the debtor can no longer reimburse the contracted loan; it can be an interest risk when the debtor can no longer reimburse the due interest, but it can also be an non current risk, which can emerge even when the debtor pays his/hers due time obligations. This means that the creditor blocks his/her capital in different assets (inventories, receivables) thus being forced to re-finance himself/herself under crcumstances of interest and time that may be unfavorable.

In order to prevent these risks, the creditor (the bank) acts by creating insuring collaterals and, at the same time, imposes the participation of the debtor with own capital to the respective financing. If the profitability is low, the debtor has to provide a larger participation with own funds in order to protect the creditor, and vice-versa. In the case of an unsatisfying profitability, the financing through leverage stresses the insolvability and lack of liquidity risk.

2. Criteria in choosing a financial structure

In order to choose a certain financial structure, managers have to take into account several criteria, presented below:

- The criterion of profitability in choosing a financial structure

Both shareholders equity and the borrwed capital imply risks. The fundamental difference between the cost of shareholders equity and borrowed capital is represented by the fact that shareholders equity is not remunerates unless the company makes profit, while borrowed capital has to be remunerated irrespective of the company's profitability.

An enterprise with highly levered (over 50%) will permanently have high financial expenses (principal plus interest), a fact that diminishes its possibilities to finance itself. Therefore, the respective company will have to use new credits in order to cover its financing needs, credits which will increase financial expenses. This is possible when the profitability rate is higher then the interest rate, this making possible and desirable the use of credits, as compared to the alternative of waiting the gradual formation of own funds for financing a project.

The leverage effect is obtained by comparing the economic profitability of the company with the cost of the borrowed capital. This:

- if economic profitability is higher then interest rate, there results a positive or favorable leverage effect;
- If economic profitability is lower then interest rate, there results a negative or unfavorable leverage effect.

Supposing, for example, that the economic profitability (R_e) is of 16%, and the interest rate (D) is 12%, the company is interested to *finance through leverage*, since it makes a profit with 4% higher then the borrowed capital ratio. The profitability ratio of the shareholders equity is as high as the report borrowed capital/shareholders equity is higher.

- The criterion of sources destination in choosing a financial structure

The non-current assets, which represent permanent needs, may be covered with permanent capital, while circulating assets (the expenses of the operating cycle) mainly formed by goods inventories and other material values, by receivables over clients and short term financial investments, may be covered, if possible, with the own working fund – which represents a part of permanent capital – but also with short term debts formed by treasury credits and obligations towards suppliers.

For every company it it important to adapt its financing decision according to the permanent or temporary character of the financing needs.

As previously presented , there results that *the financial structure of a company* is expressed not only as report between *leverage and shareholders' equity*, but also as a report between *short term financing and long term financing*.

Financial structure = Short term financing/Long term financing = Treasury resources/Permanent capital

Indicator	2 002	2 003	2 004	2 005
Treasury Resources	67 486 896	61 361 149	105 624 076	129 975 666
Permanent Capital	116 276 112	151 808 215	184 320 032	175 802 152
Financial Structure	58.0	40.4	57.3	73.9

Table 3 - The Financial Structure at SC ELBA SA

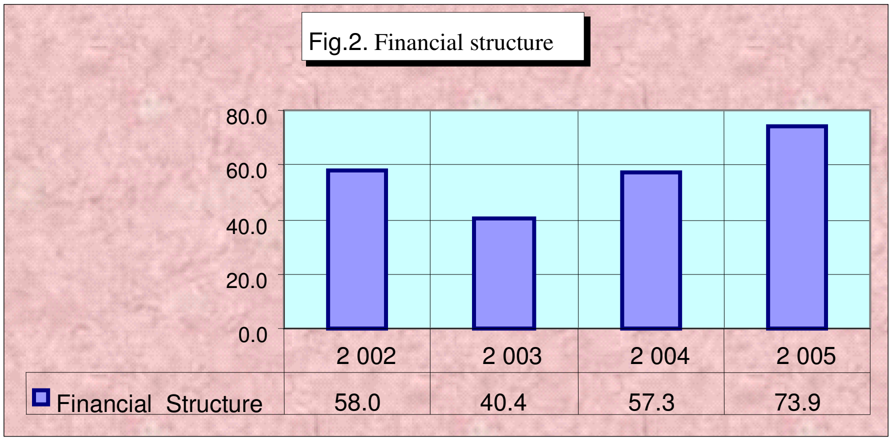


Fig.2. Financial structure

From the graphic representation above there can be noticed that treasury resources, as compared to permanent resources has the following values: 58% in 2002, 40. 4% in 2003, 57%3% in 2004 and 73.9% in 2005.

– Leverage capacityis is another criterion

Taking into account the importance of the financial structure for any company both for evaluating its own situation and for expressing it in the relation with the bank, it is useful to determine, in the case of *financial analysis*, certain *indicators* that would show *the usage degree of shareholders' equity*, as compared to long and intermediary term loans or with total loans.

If we state that **the asset** of a company is formed by non current assets, goods investories and other material values, clients discount and other liquidities, and **the liability** is formed by permanent capital (shareholders' equity, long and intermediary term debts) and by short term debts (suppliers, treasury credits), we may use as *analysis instruments of the financial structure* the following indicators:

Global leverage coefficient

$$\frac{\textit{Total debts}}{\textit{Total liability}} \leq \frac{2}{3}$$

$$\frac{\textit{Total debts}}{\textit{Shareholders' equity}} \leq 2$$

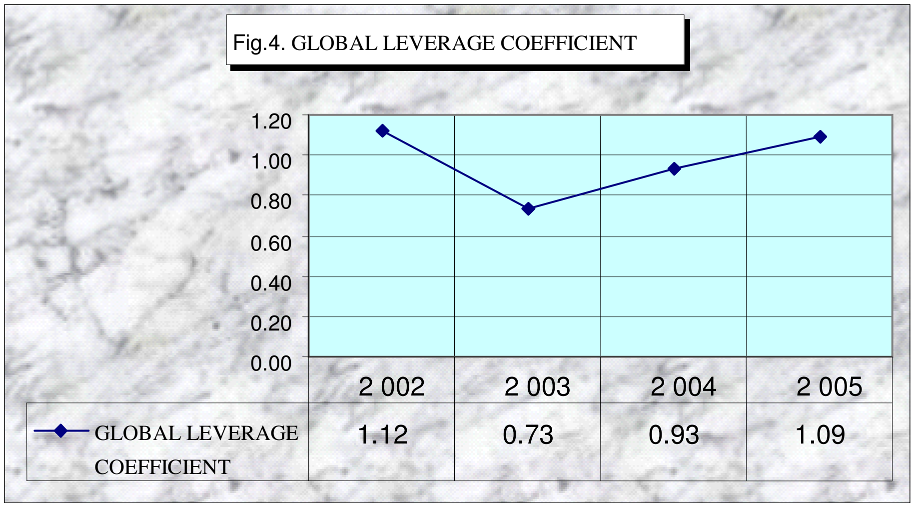
Indicator	2 002	2 003	2 004	2 005
Total debt	97 217 073	89 964 477	139 336 362	159 570 651
Total liability	183 763 008	213 169 364	289 944 108	305 777 818
Global leverage coefficient	0.53	0.42	0.48	0.52

Table 3 - The Evolution of the Global Leverage Coefficient at SC ELBA SA

From the graphic representation above we can notice that SC ELBA SA is situated in a gry area, with a leverage ratio between 30% and 50%. This is a negative aspect from the point of view of the suppliers and creditors, who, in the case of insolvency, would record bigger losses then the company's owners.

Indicator	2 002	2 003	2 004	2 005
Total debt	97 217 073	89 964 477	139 336 362	159 570 651
Shareholders' equity	86 545 935	123 204 887	150 607 746	146 207 167
Global leverage coefficient	1.12	0.73	0.93	1.09

Table 5 - Evolution of the Leverage Ratio at SC ELBA SA



The evolution of this indicator was: 1.12 in 2002, 0.73 in 2003, 0.93 in 2004 and 1.09 in 2005.

In our opinion a leverage ratio over the unit endangers on short term basis the financial autonomy of the company, and, on a long term basis, th capacity of reimbursing the loan.

The indicator „global leverage" is expressed above in two ways, but we believe that it suffices the approach of an unique model when referring to the analysis of the financial structure or the solvability of the company. Analysis favor *the second calculation method of the indicator* since it refers to the usual banking norms, according to which total debts *can not be twice as shareholders' equity*. These limits may be reconsidered by the banks. In the situation in which these leverage limits are reached, the leverage capacity is seen as *saturated* and the company can no longer obtain long or intermediary term financing sources through leverage.

3. Conclusions

The indicators presented above express essential elements that characterize the financial standing of the company, but, in order to maintain normal relations with the banks, they are concerned with their clients' situation also in the sense of their capacity of reimbursing the contracted credits. Banks are interested to know beforehand whether the reimbursement of the loan and the payment of the corresponding interest can be fulfilled by the clients in normal circumstances, without creating major financial difficulties. For this purpose, there can be used come indicators presented above, expressing the possibilities, which may be accepted by the banks, for fulfilling the obligations of the debtor clients towards the credit institution.

From a fiscal point of view, it is believed that a leverage ratio smaller then 1 provides the possibility that the company completely deducts the expenses with interests and net loss related to the foreign currency exchange. If the leverage degree equals 1 or is higher then 1, the amount of expenses with interests and net loss related to the foreign currency exchange is deductible only in the limits of the following sums: the income from interests plus 10% of the other taxable incomes, less: income from interest, income from foreign exchange, income recorded in 711, 721 and 722 accounts, as well as the other incomes resulting from operations having as aim the increase of this limit[34].

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[34] *Code of Fiscal Procedure, approved by Governmental Order 92 from 24 december 2003, published in M.Of no 941 from 29.12.2003, art. 69*

THE INTERNET AND THE CREDIT INSURANCE

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Abstract: Credit insurance provides companies with coverage four outstanding commercial recivables, protecting against risk of buyer default or insolvency. In adition to managing credit risk, credit insurance supports financing needs: by reducing the risk of non-payment of trade recivables, a firm can borrow at lower interest rates.

keys: e-marketplace, e-business, internet

1. Introduction

The outlook for credit insurer is promising. Credit insurers enjoy a significant competitive advantage due to their vast expertise in credit risk management and their proprietary databases on millions of companies worldwide. This expertise and information on trade recivables is the basis for underwriting credit risk. It can be used to provide new services to credit departments, in addition to credit insurance.

Credit insurers are beginning to provide new products an to unbundle existing products by separately providing information and risk coverage. Related services such as invoicing and debt collection, are providing additional sources of earnings.

The internet is facilitating these developments by providing a less expensive distribution channel and high-speed communication to support services such as claims adjustment. The explosive growth of business to business internet transactions is providing an opportunity for credit insurers and other credit service companies. By providing lines of credit to buyers on the internet, credit insurers are enhancing their fee-based revenue by leveraging their proprietary information of the credit worthiness of buyers. Finally, the growing market for derivates and asset backed securities presents opportunities and challenges for credit insurers. Credit insurers can provide asset specific credit enhancement, particularly for the underlying assets of the asset backed commercial paper of the trade recivables.

The internet provides new opportunities and challenges to credit insurers.

Currently, credit insurance companies are utilizing the internet in three different ways. First, they can use the communications features of the internet to improve client communication and reduce costs. Second, they can market, sell and manage their traditional credit insurance via the internet. Third they can provide new products for the rapidly growing volume of e-commerce, particularly business-to-business(B2B) internet sales.

2. New technologies are helping to reduce costs

Besides being an important information and communication medium, the internet has developed into a powerful distribution channel, which can improve client communication and reduce costs.

The internet can help insurance companies deliver high quality, personalized information to their clients. It can also help in reducing paper work and other costs related to processing information and forms by doing the work online. The increasing use of the internet by insurers is expected to improve efficiency in underwriting, distribution, administration and claims settlement, which will be reflected in lower costs for insurers. According to a recent study [35] on e-business, its greater use could lead to about 9% costs savings in commercial lines. We expect that the cost saving for credit insurance could be about the same. There is some potential for extraordinary savings for credit insurers on underwriting, but only after a large amount of expenditure on information technology.

3. Traditional credit insurance can be provided via internet

Providing traditional credit insurance via the internet is fairly straightforward, though it faces potential technical and regulatory hurdles. It is technologically feasible to match a company's customer to a credit

[35] Swiss Re, " *The impact of e-business on the insurance industry: Pressure to adapt-chance to reinvent*", Sigma No 5/2000.

rating database and provide some indicative pricing on a credit insurance policy. The data needed from the credit insurance client are company identification, value of sale and data of sale. Unknown companies would need to be eliminated from the price of the credit insurance. In addition, credit insurers can use the internet to enhance the quality of their services, for example by improving communications with clients and speeding the claim process. For many years now, technological developments have been improving the electronic exchange of information between the insurer and the insured.

However, there will remain frequent personal interactions between the policy holder and the insurance provider.

The credit insurance companies are devising new and innovative solutions for the growing volume B2B transactions over the internet. Internet sales of products in the B2B market have been growing rapidly. The turnover of internet trading between companies was estimated to be USD 150 billion worldwide in 1999, and USD 7,3 trillion by 2004.

The growth of internet B2B sales has accompanied by a growing number of anonymous transactions on e-commerce marketplaces (e-marketplaces), substantially increasing credit risk. Credit insurers has recognized this and devised differing business models to mitigate the risks associated with the extension of trade credit on the internet .

4. Two business strategy

Credit insurance companies bundle two similar and related services for their clients. The first service is the provision of information on buyers. The insurance companies have collected huge amounts of information on the credit worthiness of business all over the world. This information is used by the insurers to price premiums and is also supplied to clients to help them manage their trade recivables. The second service provided by the credit insurers is the risk coverage that protects the sellers against default by the buyers. These two services can be packaged together or separately, providing two strategy or models.

The first strategy relies more on the credit insurer’s information advantage. In this model, the insurers unbundled their services and provide information separately from their information product. The credit insurers’ rate firms included in their databases and sell these ratings to their clients and e-marketplace. Lesser known, or new, firms can pay a fee to an insurer to be rated. Since the insurer continue to provide insurance products, the clients can choose whether they want to buy information services alone or information bundled with insurance.

Large business seeking for self-insure and to reduce the cost of monitoring theirs costumers or suppliers will only purchase information services from the credit insurers. Small firms that find credit insurance too expensive may also buy only ratings from the insurer. The emphasis in the business model is on providing information services to a larger market than is currently interested in credit insurance. Though, not necessarily related to the internet, this business model lends itself to providing other unbundled services, such as invoicing and debt collection, to support credit departments.

In the second model, instead of providing information risk coverage separately, these services are provided together. Normally, in this model the credit insurer insures the entire e-marketplace with which it has a relationship. All transactions on the insured e-marketplace are covered. This is similar to traditional credit insurance, which generally covers the whole turnover of large clients with a diverse portfolio of buyers.

In e-business the credit insurer extends credit limits to buyers in the e-marketplace. The size of the firm does not matter as long as it is doing business at an e-market place covered by the insurer. This business model has a lot in common with the consumer credit card market. The e-marketplace brings buyers and sellers together, deriving its revenue from fees added on to sales. For example, the e-marketplace might be a conduit for sellers of automobile parts to vehicle manufactures and the auto parts after-market.

Alternatively the e-marketplace site might sell only one’s company product line to many buyers, as in a computer parts company selling to computer manufacturers. Buyers are accepted if they have a credit limit set by the credit insurer or other acceptable firm. The financial firm that provides the credit line and guarantees the sell receives a portion of the sales fee from the e-marketplace, in much the same way that credit cards companies receive a portion of all sales involving use of their credit card. The financial firm, such as credit insurer, can work with the e-marketplace to provide Credit Certificates to all customers using the site for purchases. A payment guarantee ensures that the seller will receive even if the buyer defaults.

Alternatively, the financial firm could work with buyers, providing credit limits directly to them for use on any site affiliated with the financial service.

In either case, buyers are also assigned a spending limit, based on data to be provided by buyers and credit information agencies. The credit providing agency will also monitor payments, deducting the value of a transaction from the credit limit after a purchase, and adding it back after the invoice has been paid. This product involves information on the buyers and risk coverage for the sellers.

Though there is a great overlap in company strategies, the large credit insurers have somewhat different approaches to the internet. Coface is using the internet to enhance its relationships with important clients, and a large proportion of their credit limit requests and policy amendments are now handled online, improving service and reducing costs. In January 2000, Coface launched an internet-based commercial debt rating system called @rating which markets information about buyers to sellers. Coface's ratings are based on its database of payment recordsfor over 32 million companies. Coface has trading partenerships with Wisekey, a leading internet service provider, and Tradecard, an online payment and settlement software company. Coface also sells insurance to clients and e-commerce marketplaces.

Euler's e-commerce strategy consists of servicing existing clients as well as providing insurance for internet transactions. For internet services, Euler primarily uses its Online Information Service (EOLIS) to manage the insurance policies of their clients. Customers can check outstanding limit on existing clients, track claims field, check information on potential customers and even get automatic responses to requests for extensions in credit limits.

For internet transactions Euler provides insurance for all transactions of an e-marketplace.

Gerling Kredit provides insurance for the entire selling chain. In addition to the electronic business-to-business transactions it also offers insurance for the electronic business to consumer transactions. Within the electronic business-to-busines segment, Gerling Kredit provides online service to its existing clients by Net&Serve and has recently created Trusted Trade GMBH, a new company aimed at insuring business-to-busines transactions. Trusted Trade provides credit insurance for entire e-marketplaces. In addition Trusted Shops, another company affiliated to Gerling Kredit, protects online consumers form a company's failure to deliver goods or damaged delivery of goods.

NCM provides its online services through an affiliated company, eCredible.com. eCredible.com's offering consists of two elements: credit management services and the eCredible Payment Guarantee. The key element of credit management services is the credit certificate that is issued to the sellers current customers or new prospects to authenticate the buyers credit worthiness. Buyers are also assigned a spending limit, based on data provided by buyers as well as from credit information agencies or NCM's database. NCM also updates the balance on the buyer's account, deducting the value of a trasnsaction from this spending limit and adding to the limit the value of payments on the accounts. The eCredible Payment Guarantee ensures that the sellers will receive payment if the buyer defaults.

5. Competitive issues

Some firms, such as Dun&Bradstreet, compete with credit insurers by providing company credit information. In November 1999, Dun&Bradstreet launched its electronic joint venture, eccelerate.com, with internet trust services provider VeriSign. The group facilitates e-commerce trading by providing unique, secure identifiers and access to credit checks. Digital certificates, similar to the Payment Guarantee provided by eCredible.com, contain a company identifier and pre-qualify a firm to conduct e-commerce on a range of exchanges, online auctions and procurement sites.

The internet has made access to vast amounts of information easier and less costly than previously. The ease of access and competitive pricing may pose a significant challenge to credit insurance companies which have always exploited the value of their company databases. Some company information is publicly available- this is how information service providers like Dun&Bradstreet hve built their databases- and can be supplemented with information solicited directly from companies. The credit insurers have a vast amount of proprietary information based on actual transactions, which should prove to be a better source of information on future payment practices. The credit insurers can leverage this proprietary information to their advantage. Also, credit insurers have experience in underwriting transactions and debt collection which can provide significant value to credit management departments.

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BENEFITS OF BANCASSURANCE

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Abstract: Bancassurance, the provision of insurance services by bank, is an established and growing channel for insurance distribution. However, bancassurance is applied heterogeneously around the world. Regulatory considerations, as well as cultural and socio-demographic factors, could explain some of this variation. Despite this heterogeneity, overall bancassurance penetration has increased in recent years, particularly in emerging markets.

keys: distribution agreements, joint ventures, integrated operations

1. Introduction

Successful bancasurance models have thus far primarily involved selling simplified products over the counter to customers who make on-the-spot decisions. Bancassurance products tend to complement existing bank products, which can in turn lead to additional selling opportunities. Worldwide, insurers have been successfully leveraging bancassurance to gain a foothold in markets with low insurance penetration and a limited variety of distribution channels. It is believed that the ability to integrate banking and insurance can help to lower costs and maximize synergies.

The economics behind integrated operations, however are being increasingly challenged by regulatory changes. New regulations have eliminated many of the capital advantages previously enjoyed by bancassurance. At the same time, the quest for additional growth has led some bancassurance to explore alternative business models. Some, for example, are beginning to focus exclusively on distribution, and are employing multi-supplier and multi-channels strategies. The marketing of more complex products has also gained ground in certain countries, alongside a more dedicated focus on niche client segments and the distribution of non-life products. In many of these situations, significant re-engineering of existing marketing and back-office process is needed, particularly in areas such as claims management, due to higher claims frequency of non-life insurance products.

Over the last two decades, bancassurance has become a key distribution channel in many insurance markets. Its prevalence is most pronounced in Southern Europe, but its use has also spread to other regions, in particular emerging markets.

2. Determinants of bancassurance

Bancassurance has achieved remarkable success in some markets. In Europe, it is not uncommon to find over half of life insurance business being transacted by banks. For example, in France, Portugal and Spain, banks handle over 60% of life insurance business. Banks and insurers are attracted to the idea of bancassurance for different reasons, which also influence the way their cooperation takes place.

The following will briefly summaries the determinants of bancassurance from the perspective of various stakeholders- banks, insurers, consumers and regulators.

2.1. Banks

Retail banks earn their income from the spread between the rates they charge on lending and those they pay for deposits. Growing market competition, however, weighing down heavily on banks' interest margins while credit risk is always a headline concern. As a result, banks are increasingly looking to commissions and fees from selling insurance products to supplement their core earnings. Some banks are eying bancassurance as a step to the formation of financial supermarkets where one institution serves all the financial needs of its customers. A potential benefit is the reduction in the volatility of return on equity due to the lack of synchronization between insurance and banking profitability cycles[36].

From the perspective of banks, bancassurance is attractive because banks can>

- Secure an additional and more stable stream of income through diversification into insurance and reduce their reliance on interest spreads as the major source of income;
- Leverage on their extensive customer bases;
- Sell a whole range of financial services to clients and increase customer retention;
- Reduce risk-based capital requirement for the same level of revenue;
- Work towards the provision of integrated financial services tailored to the life-czcle of customers;
- Access funds that are otherwise kept with life insurers, who sometimes benefit from tax advantages.

2.2.Insurers

The benefits to the insurers are equally convincing. The ability to tap into banks' huge customer bases is a major incentive. The extensive customer base possessed by banks is considered to be ideal for the distribution of mass-market products. On the other hand, insurers can make use of the wide reach of bank customers to categorise potential clients in detail according to their needs and values. With increasing sophistication on bancassurance operations, some insurers can focus on the high-net-worth segment, which offers greater potential for wealth management business.

Apart from the ability to tap into new customers groups, escaping from the high cost of captive agents is another reason prompting insurers to look into alternative channels. In some cases, teaming up with a strong bank can help to fund new business development and boster public confidence in the insurer.

In a nutshell, insurers are attracted to bancassurance because they can:

- Tap into a huge customer base of banks;
- Reduce their reliance on traditional agents by making use of the various channels owned by banks;
- Share services with banks;
- Develop new financial products more efficiently in collaboration with their bank partners;
- Establish market presence rapidly without the need to build up a network of agents;
- Obtain additional capital from banks to improve their solvency and expand business.

There are different organizational structures under which banks can work together with insurers, including distribution agreements, joint ventures ore some integrated operations. It is then only logical to presume that different motivations will drive the choice of different organizational models

[36] Swiss Re, Sigma No. 7/2001, "World financial centers: New horizons in insurance and banking ", p.25

Table 1: Benefits of bancassurance

Benefits to banks	Distribution	Joint ventures	Integrated operations	Benefits to insurers	Distribution	Joint ventures	Integrated operations
Secure an additional and more stable stream of income through diversification into insurance and reduce their reliance on interest spreads as a major source of income	x	x	x	Tap into the huge customer base of banks	x	x	x
Leverage on their extensive customer bases	x	x	x	Reduce their reliance on traditional agents by making use of the various channels owned by banks			
Sell a whole range of financial services to clients and increase customer retention		x	x	Share services with banks		x	x
Reduce risk-based capital requirement to the same level of revenue	x			Develop new financial products more efficiently in collaboration with their bank partners		x	x
Works towards the provision of integrated financial services tailored to the life cycle of customers		x	x	Establish market presence rapidly without the need to build up a network of agents			
Access funds that are otherwise kept with life insurers who sometimes benefits from tax advantages		x	x	Obtain additional capital of banks to improve their solvency and expand business		x	x

Source: Swiss Re, Sigma **No. 7/200***2, "Bancassurance developments in Asia-shifting into a higher gear ", p. 10*

2.3. Consumers

Unlike with banks and insurers, where benefits of bancassurance will have to be weighted against business risk, the positive impacts on consumers are unequivocal. Part of the lowering of distribution costs will be passed on to clients in the form of lower premium rates. In addition, it is likely that new products will be developed to better suit client needs, which otherwise may not be available if banks and insurers worked independently. Examples are overdraft insurance, depositors' insurance and other insurance covers sold in conjunction with existing bank services. The convenience offered by bancassurance should also increase customer satisfaction, for instance, when it is possible to pay premium as well as to withdraw and repay cash loans backed by life insurance policies through bank's ATM s. Just as important, is more than often a strategic step of financial service providers to shift from being product-oriented and to focus on distribution and customer relations.

2.4. Regulators

Bancassurance poses major challenges to regulators. The ability of financial institutions to diversify into others sectors should help to lower the level of latent systemic risk. Banks will benefit from lower income volatility while insurers could potentially obtain additional capital to bolster their solvency levels.

3. Overview – keeping up with the strong growth tempo

The popularity of banassurance remains strong although regional disparities persist as can be observed from table 2 bellow. Europe has the highest bancassurance penetration rate, with life bancassurance accounting for more than half of premium income in many markets. In North America, the penetration of bancassurance is much lower in both the US and Canada, partly reflecting the previously restricted regulations on banks' distribution of insurance. The market of bancassurance was fully liberalized in Japan by the end of 2007; therefore penetration has remained low.

In contrast, Australia has a high level of bancassurance penetration in the life sector, due to the acquisition of many life companies by banking groups. Emerging markets have very diverse bancassurance penetration rates depending on the local regulatory frameworks, the level of foreign participations and other social and cultural considerations. Bancassurers have generally made significant inroads in penetrating the Asian markets, many in the life insurance sector. At the same time, successes have also been reported in Central and Eastern Europe as well as in Latin America.

Table 2: Share of bancassurance distribution in selected markets

		Non-life				Life			
		Banc assurers	Agents	Brokers	Other-incl dir. sale	Banc assure rs	Agent s	Broke rs	Other-incl dir. sale
A	United States	n.a.	n.a.	n.a.	n.a.	2,0	n.a.	n.a.	n.a.
M	Canada	negligible	18,0	74,0	80	1,0	60,0	34,0	5,0
E	Brazil	13,3	n.a	71,6	n.a.	55,0	n.a.	30,0	n.a.
R	Mexico	10.0	25,0	50,0	15,0	10,0	←	90,0	→
I	Chile	18,8		81,2		13,0	←	87,0	→
C A									
	UK	10,0	4,0	54,0	32,0	20,3	10,0	65,0	5,0
E	France	9,0	35,0	18,0	38,0	64,0	7,0	12,0	17,0
U	Germany	12,0	75,0	22.0	9,0	24,8	27,1	39,4	8,7
R	Italy	1,7	84,2	7,6	6,5	59,4	19,9	9,4	11,7
O	Spain	7,1	39,5	28,3	25,2	71,8	15,4	5,4	7,4
P	Belgium	6,1	10,1	65,6	18,2	48,0	3,2	26,5	22,3
E	Portugal	10,0	60,7	26,7	12,6	88,3	6,9	1,3	3,5
	Poland	0,6	58,2	15,7	25,5	14,4	39,7	4,3	41,6
	Turkey	10,0	67,5	7,8	14,7	23,0	30,1	0,8	46,2
	Japan	n.a.	92,9	0,2	7,0	n.a.	n.a.	n.a.	n.a.
A	South Korea	4,0	49,7	0,9	45,4	8,5	←	91,5	→
S I	P R China	n.a	45,4	2,0	52,6	16,3	←	83,7	→
A	Taiwan	n.a.	62,0	30,0	8,0	3,0	11,7	6,6	48,7
	Malaysia	10	40,0	23,0	27,0	45,3	49,4	2,4	2,9
AUSTRALIA		n.a.	21,0	74,0	5,0	43,0	←	57,0	→

Source: Swiss Re, Sigma **No. 5/200***7, " Bancassurance: emerging trends, opportunities and challenges ", p. 11*

While the lack of consistent and comprehensive data have made it difficult to quantify how bancassurance penetration has developed in recent years, anecdotal information largely confirms that bancassurance has continued to gain importance in most regions.

In continental Europe and Oceania, bancassurance penetration in the life insurance sector has stabilized at a relatively high level with the exception of Germany since 2000. Non –life distribution is gaining in popularity, albeit from a low level. The US and Canda have yet to fully embrace bancassurance although some of regulatory hurdles have been removed. In Japan, bancassurance did not exist in 2000, but has since become a competitive channel. Further liberalization is likely to see bancassurance gaining market share.

Among emerging markets, bancassurance has a developed robustly in the life markets of Latin America, Central and Eastern Europe (CEE) and Asia, many from relatively low levels. Activities in the non-life sector generally remain limited. However, in Latin America, non-life distribution has actually preceded life distribution for bancassurers. In comparison, bancassurance has not flourished in the Middle East of Africa where penetration has remained low over the last few years.

We should be aware that the generalisation of regional trends could conceal significant developments in individual markets.

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THE FINANCING OF THE FIRM BY BONDS

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Through this present paper there are presented a few aspects concerning one of the instruments of medium and long term debt which can be used by companies, and that is the bonds credit.

So that, after a short presentation of the framework in which this debt method can be used, there are presented the conditions that have to be fulfilled so that a company could have access on the bonds market. Then there is briefly presented a parallel between the mechanism of forming the capital through the issue of stocks and bonds. A large space is occupied by the parameters of the issue of bonds. Also, there are widely presented the elements included in the prospect of emission. After a short presentation of the conditions which have to be fulfilled in order to have access to a certain category of listing and emphasizing the six emissions of bonds quoted on the Bucharest Stock Exchange, in march 2008, finally, there are presented the advantages and disadvantages of appealing of this method of debt.

Key words: bonds, credit, firm, share, capital market

The financing through the capital market represent an efficient and flexible option for dinamic firms.

Together with the equity and the financing by means of bank loans, important sources of financing from outside the company are attracted appealing to the public savings that is the bond financing.

For any company, in some situations, the equity is insufficient to cover the financing needs, and its growth (by new cash subscription or by the incorporation of the reserves) may encounter difficulties, not only from the juridical point of view but mostly from the inherent risks related to the potential investor's trust in the issuer of shares and those related to the possibility of loosing control for the old shareholders. In addition to that, contracting bank loans implies for the company, sometimes, more restrictive conditions to be fulfilled. These are the reasons that determine the companies, especially the big ones that are marketable, to apply to bonds financing.

For the countries where this means of capital mobilization is an usual practice, the issue of bonds, as a means of attracting the public savings, is preferred mostly by small and middle companies unquoted on this market section, and the issue takes place by the association of these firms to contract bank loans in common name. In the latter case, the issue takes place by the association of many firms that guarantee the loan together, by means of some institutions and collective emplacement agencies, that allocate the attracted capital as loans for the issuing firms. There are situations when even the big firms use this technique, especially when they have relatively reduced financial needs and they don't wish to spend the confidence capital to the public through individual credits, reserving this option only to attract large amounts of money from the market.

At first sight, one might appreciate that a total capital growth by means of the issue of bonds has a bad influence on its financial structure toward the growth of the balance of debts in the total capital. But, in fact, such a procedure has a series of benefic effects over the firm because it connects it, in a durable way, to the capital market, with serious implications in the dynamic adjustment of the capital cost, in the dynamics of the capitals and in the transparency of the external image offering in the same time, new values to the programming of the production activity and to the investments.

There are several *conditions* to be fulfilled in order to have access to bonds financing market:

- it has to be a joint-stock company;
- the firm has to have at least two or three years of activity reflected in the balance sheet approved by the shareholders;
- the issue of bonds by public offer is made on the basis of a prospect of issue;
- the value of the subscribed bond financing has to be completely subscribed.

These requests are specified in the 31/1990 law regarding Commercial Firms republished and modified.

The bonds can be issued in a material form, on paper, on an abstract/unembodied form, by account subscription.

Therefore, as a specified form of the loan, the bonds loan supposes the materialization of the debentures over the issuing firms as securities called bonds.

Therefore, we can define the **bond** as a **securities** that proves that a medium or long term loan that the issuer obliges to repay in a determined period of time, that gives the right to its owner (the creditor of the firm) to a certain annual interest, during the whole period, no matter the economic or financial situation of the issuer.

In the sense of a better understanding of the mechanism of forming the capital through bonds and the financial consequences of the issue of bonds, there can be made a parallel with the mechanism of forming the capital through the issue of stocks. The shareholder of the company is the owner of a part of the company and he takes the risks and perspectives of profit. The bondholder, on the contrary, borrows the company for a definite period of time with an interest settled at the time of the issue, and in case of its bankruptcy, he prosecutes the recover of his rights. The shareholder has the right to vote at the General Shareholders' Meeting concerning the administration of the company and sharing the profit for dividends and/or capitalization, while the bonds' owner deliberates within the bonds' owners meeting, concerning his rights. So that, bonds give to their owner no power of decision within the respective company, and neither permit him to benefit from the company's growth, as it happens in case of stocks. Bonds' owners meeting, legally constituted can name a representative of the bonds' owners and one or more substitutes, with the right of representing them in front of the company and in the court law. Usually, the cost of procuring the bond credit is smaller than the subscriptions at the stockholders' equity.

The issue of bonds is settled by the general shareholders' meeting and not by the council of administration or by the company's manager, so that the legislator wanted to protect the bonds' subscriptors against the commercial companies that do not offer all guarantees necessary for the loan reimbursement. Besides, the legislator asks for maximum of information to be given to the future bondholders for him to take the decision of buying the bonds with full knowledge of the facts.

The public offer of selling the bonds takes place in a similar way with the stocks' selling. Just like the stocks, the bonds are emitted through public offer only through a specialized company of mediation, called Society of financial investments services (SSIF).

This has the role of coordinating all operations bond through financing through stocks:

- elaboration of the issue prospect based on the parameters established in accordance with the issuing company and with the data received from it;
- coordination of bonds' selling operations;
- elaboration the closing offer report;
- listing the bonds.

The issuing company of the bonds establishes, through consulting with the mediation company and based on the its own needs of financing the characteristics **(parameters) of the issue:**

- ***the par value of the bond*** equals the part of the landed amount/stock, represented by each bond. The par value, as mentioned before, is established by law. The bonds from the same issue must be of an equal value, to give the owners equal rights. *The par value of one bond cannot be smaller than 2.5 RON,* except for the par of the bonds convertible in stock, that have an equal value with the stock. The convertible bonds can be turned/changed in shares of the firm that issued them, in the conditions established in the public offer prospect. A small par value presents the advantage to bring foreword the transactions and the inconvenience of complicating the commercial data processing of the debts.
- ***the issue price*** represents the amount paid by the buyer to become the owner of the bond. In some cases, the issue price equals the par value, and in other situations, as, for example, the need to speed up the bond sale, there is a difference between the par value and the issue price (the par value may be bigger than the issue price), called *issue premium*. Sometimes, to make the bonds more attractive, or when the period is big, they are returned when due time at a bigger price than the par, the difference being called *returning/repayment premium* (returning premium - par).

The issuing and returning premiums, the payments concerning the bond issuing and the remuneration for the personnel that ensures the bond sale, decide a cost of the credit higher than the nominal interest.

When the issue of bond financing is *underpar*, and its return is at a higher value than the par, both a issue premium and a returning premium will appear.

- the numbers of bonds;
- the total amount of the bonds financing, is obtained by multiplying the issue price with the numbers of bonds, i.e., practical, the amount which is financed the firm;
- the data of use is the date when the interest begins to flow;
- the data of regulation is the date when the investors deposit the amounts for the bonds financing;
- the amount of the interest. The issuer remunerates the borrowed amounts, with a periodic interest on a detachable bond coupon. The interest is determined by multiplying the par value (V_N) with the rate of interest established by the issue process (d). So, the average calculating operation is:

$$\text{Interest}=\frac{V_N \cdot d}{100} \quad (1)$$

- the life period, the frequency of payments and the returning modalities.

In the financial practice, there are used many returning ways. A bond may have one or more specifications for amortization. Generally there are:

a) the normal amortization of the loan;
b) the amortization with specifications for the return with anticipation.

a) The normal amortization is always presented as a table, and can be made according to many methods, the most used being:

a_1) in equal portions (constant amortization);

a_2) constant annuities;

a_3) full amortization at maturity date.

The **annuity** of a loan is the total annual amount made up of interest and the credit rate (the amortization) that the issuers use to pay the debt.

a_1*) Equal portions amortization* infer the return of an equal number of bonds each year.

In this situation, the annuities are given by the relation:

$$A_i = \frac{D}{n} + D_i \cdot d, \qquad i = \overline{1,n} \quad (2)$$

where:

A_i = the annuity to be returned in the “i” year;

D = the value of the bond credit;

n = the period of the credit;

$\frac{D}{n}$ = the credit rate (amortization)

d = interest rate (the percentage);

D_i = the value of the bond credit remaining to be reimbursed in the beggining of the year “i”.

a_2) The amortization in constant annuities

The annuity value is determined according to the formula:

$$A = D \cdot \frac{d}{1-(1+d)^{-n}} \quad (3)$$

where:

A = the annuity to be returned, that, in this case is the same for every year.

The constancy of the annuities is established by the decreasing variation of the debts and, compensatory, the on growing amortization variation (the credit rate)

a_3) *Full amortization at maturity date* is the most frequent case. The issuer returns the entire loan at the maturity date.

In this case, the annuities are determined according to the formula:

$$A_i = D \cdot d, \quad i = \overline{1, n-1} \quad (4)$$

$$A_n = D + D \cdot d \quad (5)$$

By using the amortization methods a_1) – a_3), the returning is made, generally, by parity, and the bonds to be returned are, in the most cases, established either by the drawing of lots of the series and numbers of the bonds, or they are bought back on the bond market at an equivalence of no more than half of the amount of amortization.

The reimbursement on stock exchange is interesting for the debtor firm when the quotation is inferior to the refund value.

b) The anticipated amortization

The reimbursement may be done anticipated, if this right was provided on issue. In this case, sometimes the firms covers the loan by another loan with a lower interest.

According to art. 176, law no. 31/1990 regarding the firms modified and republished, in our country, the bonds are reimbursed by the issuer at maturity date.

Before the maturity date, the bonds from the same issue and with the same value may be reimbursed, by drawing of lots, at a higher value than their par value, established by the firm and openly announced, with at least 15 days before the drawing of lots.

- ***the sale period of the bonds and their type (convertible or non convertible)***. The convertible bonds may be changed in shares at the firm of issue, in the conditions established in the public offer prospect.
- ***the warranty modality and the quotation on the organized market***

Based on these characteristics and on the information received from the issuing company, SSIF elaborates an official document of presenting the issuing company and the bonds that are to be sold, called **prospect of issue**

Through the elements included in the prospect of issue of the bonds there are:

- presenting the companies and the persons that have participated at the prospect elaboration;
- the informations about issuer (the name, the headquarters, and the duration of the society; the other issued bonds; the share capital and the reserves; the date of the publication in the Romania's Official Monitor of the completion of the registration and the modifications that were made to the constitutive document; the situation of the shareholders' equity after the last approved balance sheet; the categories of shares issued by the corporation; the assignments that are imposed on the tangible assets of the corporation);
- the informations about issued bonds and the attached rights (the numbers of the issued bonds, the par value of the bonds, the issue price, the means of repayment, the payments, their interest, to point out whether they are bearer or registred bonds, and weather they are convertible from a category to another or in shares, the warranty modality, the listening, the offer and the destination of funds);
- the informations about the activity of the issuing (operations, economical-financial performances, head quarters, research and development, law procedures, wage earners, investments, financing sources);
- the informations about the management, future perspectives, risk factors;
- the date when the decision for the issue of bonds of the extraordinary general assembly was published

The issue prospect has to be approved by the Romanian National Securities Commission (CNVM). Analog with stocks, bonds cannot be offered to be sold if this procedure had not been done. Also, according to the regulations in force it is recommended the bonds' guarantee with actives, especially in the case of new issues.

After the approval there takes place the official publicity of the offer, meaning its presentation in national newspapers and through other methods.

During the development of the offer, bonds are put on sale at distributors' head quarters – companies of financial investments services and banks with which the issuing company has concluded distribution contracts.

After the successfully closing of the offer, bonds are registered at CNVM, and after that these can be listed at Bucharest Stock Exchange(BSE).

The listing al BSE will be done in the sector "Credit titles" at one of the three categories. Fitting in a certain category will be done on the basis of the following conditions (table 1):

Table 1

Conditions\Category	**Category 1**	**Category 2**	**Category 3**
Corporative bonds must be public distribute at least	1000 persons	100 persons	-
The total value of bonds credit	>200.000 EUR	>200.000 EUR	>200.000 EUR

Source: BSE

Bonds credits that are not emitted by entities from Romania fit in "International" and have to have a value greater than 200.000 euros.

At the time being (March 2008), for the financial instrument "Corporative bonds" we have four issues of the companies from Romania and two international ones. These are presented in table 2

Table 2

Symbol	**Name**	**Total number of bonds**	**Par value (RON)**	**The total value of the issuing (RON)**	**Issuing date**	**Quotation date**	**Maturity date**	**Con vert**
Issued by firms from Romania								
Category I								
No financial instrument quoted at this category								
Category II								
BCR09	Romanian Commercial Bank	2.428.278	100	242.827.800	28.11.06	29.03.07	28.11.09	No
YTLS10	International Leasing	48.000	100	4.800.0000	05.01.06	21.02.07	05.01.10	No
Category II								
BCC09	Carpatica Commercial Bank	367.992	100	36.799.200	30.06.06	23.10.06	29.05.09	No
PRCR09	Procredit Bank SA Bucharest	80.500	500	40.250.000	23.03.06	12.02.07	15.02.09	No
International								
EIB14	European Bank of Investment - Luxemburg	3.000.000	100	300.000.000	10.05.07	08.06.07	10.05.14	No
IBRD09	IBRD	525.000	1000	525.000.000	18.09.06	19.10.06	18.09.09	No

Source: BSE

An issuing company of bonds, through public offer, will have to fulfill a series of obligations of reporting to the institutions of the capital market and to the investor public: financial reports, communiques with the events that affect the bonds' owners, interests' payments etc.

Resorting to the bond financed has both advantages and a series of limits:

As *advantages* we can cite:

- it allows the procurement of some important amount of money to make some large scope investments;
- putting aside the banks and the expenses to remunerate them in the process of getting the equity for production;
- obtaining a bigger net result than the one that would have been obtained if the bond financing value had been the result of the shareholder's equity growth (the gain of net profit equals the savings from the income tax for the interest paid for the bond financing, that are deductible), with direct implications over the relative cost of the bond financing;
- the debt cost is absolutely limited, and the creditors do not take part of the profit growth except for some situations;
- the bonds give the holder no power of decision inside the enterprise, the shareholders not being forced to share the control when they use the debt financing;
- the possibility to withdraw the old bonds, when the possibility of a new bond issue with a lower interest rate;
- the possibility to ransom on the exchange markets their own bonds at the market price (if the ransom price is lower than the par, the enterprise would gain profit).

The *limits* refer to:

- no matter the firm situation, the debts from the bond financing are a fixed expense, the firm paying periodically the interest obligatorily;
- it has a higher risk than other financing forms;
- the annuities that have to be refunded have an exact maturity date, a moment when the enterprise might be caught on the wrong foot as far as liquidities are concerned, and even if they do exist their diminution inevitably takes place;
- in the case of an economic recession, the bond financed firm would have big difficulties to make the payments as compared to the case of share issue financing;
- the contractual relation on a short and medium term inherent to a bond issue imposes much more restrictive specifications in comparison with the share issue or the case of the short term loan/credit;
- the risk of not subscribing the bonds, and, as a consequence, the loss of the investment opportunities might drive, sometimes, to difficulties for the enterprise and, why not, to its bankruptcy.

As for Romania, we consider that we can speak only theoretically about a bond market, because :

- the securities market where the bonds are issued and circulate is insufficiently developed, having a lot of syncope, not functioning continuously as a very active market in this direction;
- people's lack of trust in firms, because even firms that believed themselves to be very solid were bankrupt;
- the people's habit to work with banks (more than that, there is the guarantee of collecting an amount of money as refund in the established guaranteed limit if bankruptcy occurs) and the temptation of currency investment and state titles in the last few years. But, once with the drastic deflation of the deposits interest rates and with the sinuous evolution of the exchange rate we can also expect a sense of direction of the firms and natural person towards the types of investment like shares and bonds.

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FINANCING LOCAL INFRASTRUCTURE INVESTMENTS IN ROMANIA AND OTHER NEW EU MEMBER STATES

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Abstract: In the context of European Union integration, the effort of European Union countries is oriented on reaching the same occidental standards in local public administration. Therefore, the reforms of local public administration are concentrating on local public investments, and especially on infrastructure projects and the sources of financing them. This paper presents these sources of financing local public investments in Romania and other new EU countries from Central and Eastern Europe.

Key words: European Union, local infrastructure investments, budgetary revenues, EU grants, private financing

1. Necessity of local infrastructure investments and the role of local authorities in financing them

The scientific literature admits the existence of a direct relationship between the level of investments in infrastructure (transport, telecommunications, environment etc.) and the performances of economic growth of a country. In this context, the increasing of investments is recommended as a precondition for sustaining the potential of a state's economic growth.

The necessity of massive infrastructure investments is specific not only to European states, but to the international level, too. At this level, it is manifested in a context characterized through three historic importance phenomena as follows: globalization, which imposes to create a competitive infrastructure, the decentralization process, which sometimes is not accompanied by authority or resources transfers and urbanization, which imposes the assurance of some basic services withought precedent.

In the European context, big infrastructure investments are important especially for the new member states of EU (from Central and Eastern Europe) for sustaining the real convergence program. A study made in 2005 estimated the necessary of investments in infrastructure in the new EU member states in 1995 – 2010 at 505 billion euro (44 billion for roads, 37 for railways, 63 for telecommunications, 180 in the water/sewage sector, 110 in the energy sector and 71 in environment) [Brenck and others, 2005].

The lack of investments in infrastructure, especially in transport, is a reality for Romania too. In accord with Ernst & Young Research „Investments attractivity in S-E Europe in 2008", although Romania is the main destination of investments in South-Eastern Europe, improvements are still necessary, from the foreign investors perspective, in some areas such as communications, transport, logistics, social environment and the quality of life.

In this context, the financing of investments in infrastructure, in EU countries and on international level, too, seems to be "one of the most important challenges of the millennium" [Sierra, 2005].

The decentralization process generates the implication of local authorities in local infrastructure investments, as a result of exclusive competences and, so, the necessity of ensuring the financing sources for them. At the same time, the statute of EU member state imposes restrictions on local authorities, but, also, offers them the opportunity to access new financing resources for local infrastructure projects.

2. Financing local infrastructure investments through budgetary revenues

In the traditional way, the financing of local investments projects in infrastructure should be made only with *ordinary resources of local budgets*. From this point of view, article 9 of the European Charter of Local Self-Government suggests, at least implicitly, that the structure of local authorities' resources should be broken into two broader concepts as follows: *own resources* and *transferred resources* or *financial transfers*.

The own resources, of which they may dispose freely within the framework of their powers, are from the local community territory and mean: local taxes, fees. Transferred resources are financial transfers from central budget with the help of tax-sharing system. The own revenues in accord with Romanian Local public finances Act [Act of local public finance, Art. 5 (1)] are: local taxes, contributions, quotas from income tax (in total amount of 82%) and others. Another source of financing are the transfers from the state budget or other budgets, but as a rule of local financial autonomy, it is indicate this amount to be smaller. The transfers from state budget have the form of sums from VAT and subventions.

If the ordinary resources are insufficient, a solution for local investments in infrastructure is *local indebtedness* using borrowings, as *extraordinary resources of local budgets*. There are two main possibilities that local government can use in borrowing: bonds and loans from commercial banks.

The Romanian local public finance Act stipulates that local councils, counties councils and the General Council of Bucharest County can contract internal and external loans, short, medium and long-term, for local public investments and for refinancing local public debt. An important prudential rule is that “annual debts representing the due installments deriving from contract loans…shall not exceed 30% of own revenues of the local budgets…” [Act of local finance, Art. 63 (4)].

However, prudence is recommended when employing local indebtedness, for Romania and other EU member states, because of the nominal convergence criteria which says that the ratio of government debt to GDP must not exceed the benchmark value of 60%. The practice of local indebtedness in the context of a big central government debt stock can generate the unfulfilment of the convergence criteria. For Romania and the other Central and Eastern European countries the situation is not a worrying one because they have a low level of total public debt, much less than 60% (Hungary being an exception).

If the public deficit ratio to Gross Domestic Product (GDP) exceeds the reference value of 3% (convergence criteria of The Treaty of Maastricht, also stipulated in the Stability and Growth Pact), no project will be financed from the Cohesion Funds, until the deficit problem will be solved. So, it is necessary to practice a prudent local indebtedness for not limiting the access to EU funds. In 2007, Romania was very close to the government deficit limit (2,7% of GDP).

The low level of funds available for local public administrations and real impossibility (and not legal) to raise local taxes for bigger revenues of local budgets, makes the money look insufficient for infrastructure investments, even for small investments. Local borrowing must be used prudently for not generating budgetary deficit over the limit, although it looks like a viable solution. In this context, it is necessary to find alternative sources of financing, such as European Union funds or public-private partnership.

3. EU funds for financing local infrastructure investments

The EU integration offers to the member states new opportunities to obtain financial resources for financing the development projects, inclusively local infrastructure projects. Starting with the moment of accession, the states benefit by non-reimbursable financial assistance through the funds allocated in accord with the European Union policies.

The fundamental policy of EU is the Economic and Social Cohesion Policy, whose implementation is realized with the help of three structural instruments, as structural funds (European Regional Development Fund – ERDF - and European Social Fund - ESF) and the Cohesion Fund - CF. The actions financed by these funds and the categories of eligible member states are presented in Table 1.

EU Fund	Supported actions	Eligibility
Cohesion Fund (CF)	- Transport infrastructure projects - railways, road traffic, inland waterways, civil air transport, etc. - Environment projects - energy efficiency, renewable energy and transport projects	EU Member States whose GNP per capita is below 90% of the EU-average
European Regional Development Fund	- Direct aid to investments in enterprises (focus on SMEs) to create sustainable jobs - Infrastructures related to research and innovation, telecommunications, environment, energy and transport	All 27 EU Member States

(ERDF)	- Support via financial instruments such as capital risk funds, local development funds, etc. for regional and local development and encouragement of cooperation between cities and regions - Technical assistance	
European Social Fund (ESF)	- Lifelong learning and adoption of workers and enterprises - Integration of unemployed, women and migrants in the labour market - Fighting discrimination in the labour market - Reforming education system and improving human capital	All 27 EU Member States

Table 1: Eligible Member States and supported actions from EU Funds

For the 2007–2013 period of time, the intervention objectives of the Economic and Social Cohesion Policy are:

- Convergence – for the regions where GDP/inhabitant is under 75% of the EU average (financed by the ERDF, the ESF and the Cohesion fund);
- Regional Competitiveness and Employment – for regions which are not eligible for the Convergence objective (financed by the ERDF and the ESF);
- European Territorial Cooperation – for regions, counties and transnational zones (financed by the ERDF).

In accord with their stage of economic development, the new EU member states from Central and Eastern Europe, inclusively Romania, can benefit by all three funds. For the period of time 2007 – 2013, Poland benefits by the biggest amount of funds (67284 mill. Euro, almost 19,37% of total funds), followed by the Czech Republic (7,68%) and Hungary (7,28%) (Figure 1)

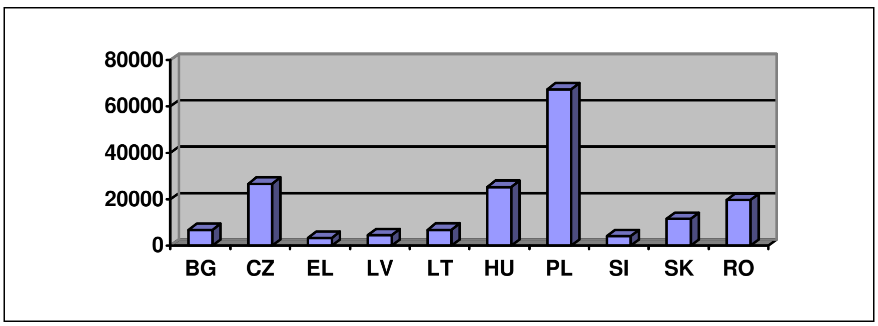

Figure 1: Cohesion policy 2007-2013: Indicative financial allocations for the new EU Member States (million Euro, current prices)

Source: European Commission

The total amount of Cohesion and Structural Funds allocated for Romania for 2007-2013 is 19668 million Euro, representing 5,66% of the total funds. 12661 million Euro are allocated through Structural Funds in the „Convergence" objective, 6552 million Euro are allocated through Cohesion Fund and 455 million Euro are allocated to the "European Territorial Cooperation" objective. The distribution of Structural Funds – Convergence objective- and of the Cohesion Fund for Operational Programs makes evident the priority of infrastructure projects in transport (23,8%) and environment (23,5%) (Figure 2)

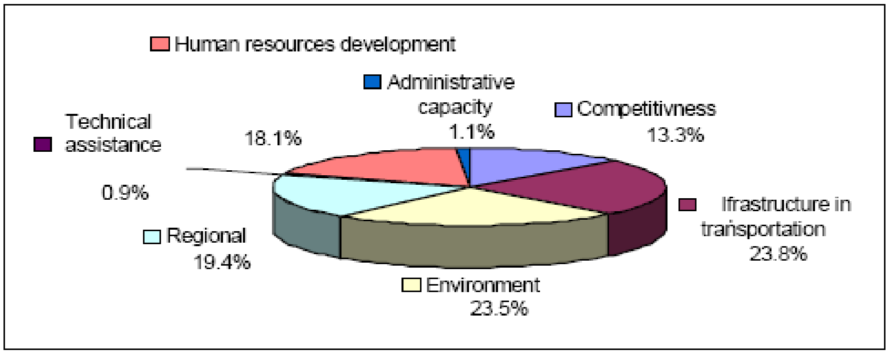

Figure 2: Estimative allocation on operational programs for Romania, 2007-2013

Source: The Romanian National Strategic Reference Framework (RNSRF) 2007-2013

Resources from Cohesion and Structural Funds represent an opportunity for the new member states, because they offer the possibility to make big investment projects, also in local infrastructure, withought using ordinary resources and without affecting the level of consolidate budgetary balance. The differences between borrowing and EU funds are as follows: the funds are not reimbursable and don't suppose interest rates.

Though, there are two aspects which must be taken into consideration. First, the rules of Cohesion and Structural Funds impose the necessity of co-financing by the member states. The maxim level of EU contribution is established by the Council Rules no.1083/2006, according to the EU financial perspectives for 2007- 2013.

Romania can benefit by a maximum communitarian financing rate at the level of OP of 85% for all three funds: ERDF, ESF and Cohesion Fund. The RNSRF allocation within the "Convergence" objective needs a national co-finance estimated at 5.07 billion Euro, proceeded from public sources (2/3 from the total of co-finance) and from private sources (1/3). The public co-financing will be assured from the state budget by the Romanian Government and from the local budgets of the public authorities which will apply structural instruments for financing.

Considering the lowest financial capacity of many local authorities to assure this co-financing, the Romanian Government decided to reduce as far as possible the local budget contribution. Thus, the principle which will be applied in the operational programs tell us that the personal co-financing which the local authority need to assure for a project will be in general 2% from the eligible value, a major exception being the projects which generates incomes. Consequently, the approved contribution of the local authorities is under 5% from the total of national co-finance.

Secondly, the new EU member states, and Romania in particular, don't have the capacity of absorption of these funds because of the inadequately institutional and legal framework, although the volume of cohesion and structural engagements is considerable.

In the first two years after the integration of the ten countries in the EU in 2004, the absorption rate has been under expectation (Poland, Hungary and Czech Republic). Only Latvia registered some performances. Also, Romania encountered the same problem in 2007. A study published by the National Bank of Romania in March 2008 pointed out that the level of European funds absorption by Romania in the first year as a EU member state (21,7%) was at the half of the level registered by other countries as Czech Republic, Poland (42,8%), Hungary (42,9%) and Slovakia. In this context, Romania became a net contributory to the European Union budget. Unless such a problem is properly addressed, it may result in de-commitments and the opportunities offered by EU funds would never materialize.

4. Financing local infrastructure projects through private participation (Public Private Partnership)

Public Private Partnership, as an alternative of financing the public investment projects, is applicable in the local infrastructure field, too. The mobilizing of available resources of both parts, public and private, presents a big advantage: it creates the possibility of local public administration to make big projects, which would be impossible without private partnership. Respecting the restrictions imposed by The Treaty of Maastricht and the Stability and Growth Pact on fiscal criteria, the Public Private Partnership is an alternative to make big local investments in infrastructure without practicing supplementary pressure on local budget. On the contrary, the relief of local budget from the obligation to entirely finance the local investment projects creates the instrument to reduce budgetary deficit and to rise other categories of current expenditures.

An analyze of the employment of Public Private Partnership in the European Union countries demonstrates that this instrument of financing is relatively new. Only The Great Britain has been using the Public Private Partnership as an alternative of financing public investment, for over 15 years. This financing alternative is familiar in Great Britain and Portugal. In the other countries of EU, the amounts of Public Private Partnership contracts are low.

The same situation is present in the Central and Eastern European states of EU, including Romania. The legal framework of Public Private Partnership was developed only recently and so, its employment is still at the beginning. The legal framework of PPP in Romania started with Act no. 219/1998 on concession regimes and Government Ordinance no. 16/2002 on public-private partnership contracts. The harmonization with the European directive on public acquisitions and concessions determined the new legal framework in 2006, GUO no. 34/2006 (approved by Act n. 337/2006) on public acquisition contract, equipment and services concessions contracts.

Country	Number of projects 1990-2006					Value of projects 1990-2006 (million USD)				
	Total	Energy	Telecom	Transport	Water and sewage	Total	Energy	Telecom	Transport	Water and sewage
Bulgaria	22	13	5	3	1	7133	3566	2881	534	152
Czech Republic	67	27	14	6	20	21186	5165	15216	390	415
Hungary	58	26	17	6	9	24362	5903	13817	4437	206
Latvia	9	1	5	3	0	1985	177	1598	210	0
Lithuania	10	4	6	0	0	2384	409	1975	0	0
Poland	47	19	13	8	7	28261	2981	23365	1845	70
Romania	20	9	7	1	3	9563	2166	6258	23	1116
Slovak Republik	13	6	3	1	3	8107	4460	3592	42	14

Table 2: Private participation in infrastructure projects in the new EU Member States

Source: World Bank, Private Participation in Infrastructure Database

The incipient stage of development, from this point of view, registered in the new member states of EU from Central and Eastern Europe, can be presented using the number and the value of infrastructure projects financed by private participation (Table 2). Romania registered only 20 projects with a total value of 9563 million USD, after the Czech Republic, Hungary and Poland. The most important fields are telecommunications and energy. On the contrary, participation of private capital for financing transport projects is very small.

Being a European Union member state, Romania is expected to register a significant development of this financing mechanism in the next period of time, thus Public Private Partnership is an important option for future infrastructure local projects.

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LABOR MARKET DEVELOPMENTS IN THE EU

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Abstract. Labor market performances in the region have further improved with unemployment rates reaching historically low levels and employment rates increasing. Real wage growth is slowing in most countries in the region, but remains strong especially in Latvia and Romania. Despite the wage moderation, unit labor costs continue to rise in much of the region.

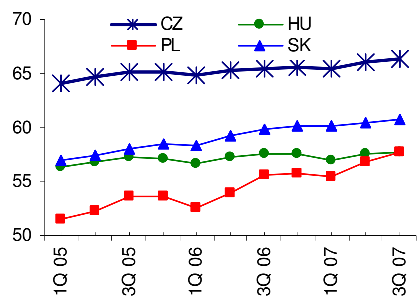
Keywords: labor market, unemployment rates, real wage growth, regional differences, educational systems.

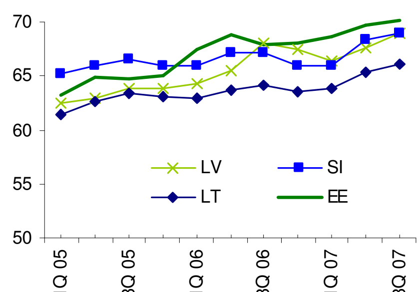
1. Unemployment Rates

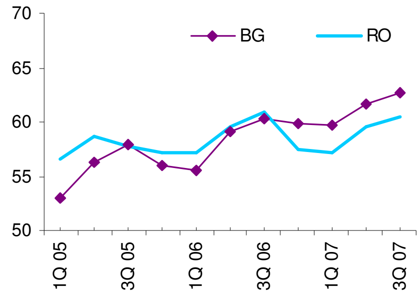
With the exception of Hungary unemployment rates in the EU8+2 are now at the lowest level since 1Q 2000. While in 1Q 2000 unemployment rates across the region ranged from 7 to 19%, and the average rate was at almost 13%, in 3Q 2007 unemployment rates were in single digits in all countries but Slovakia (11.3%). Poland has made the most significant progress by reducing the unemployment rate by half within the past 3 years.

Lower unemployment rates result mainly from higher demand for labor and go hand in hand with higher employment rates (Chart 1). Still, only the Baltic countries, Slovenia, and the Czech Republic come close to the Lisbon Strategy target of a 70% employment rate. Significantly, three out of these five countries (Estonia, Slovenia, and the Czech Republic) are the best performers in the PISA assessment in the region. Although labor market performance is improving in the remaining countries too, their employment rates remain 10 percentage points or more below the Lisbon target.

Chart 1. Employment rates, %





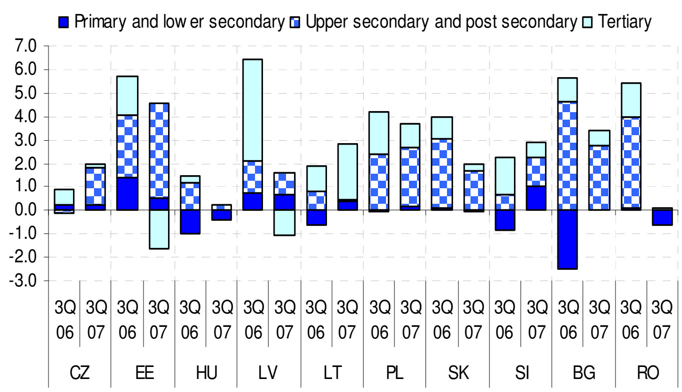


Source: Eurostat, 2007

Educational attainment and quality of education are significant determinants of employment rate differentials within countries. Tertiary education gives at least an 80% guarantee of employment in all EU8+2 while employment rates of those with primary and lower secondary education vary strongly across the region (from 15% in Slovakia to almost 50% in Slovenia). In the Baltic countries, the Czech Republic, Slovenia, and Bulgaria, 70% or more of the labor force with upper secondary and post secondary education is employed (Table 1). People from this category and those with higher education contributed positively to overall employment growth between 3Q 2006 and 3Q 2007 in all countries with the exception of Estonia and Latvia (Chart 2).

PISA 2006 reveals that 15-year old students in the region generally perform below the OECD average. Only young Estonians and Slovenians performed above the OECD average in science, reading and mathematics. The Czechs performed better than the OECD average in two areas, while Poles and Hungarians did in one (reading and science, respectively). The remaining five countries in the region scored below the OECD average in all three areas (Chart 3). The very sizeable gaps for Romania and Bulgaria are particularly disturbing.

Chart 2. Contribution to employment growth by educational attainment, %



Source: Eurostat, 2007

Table 1. Employment rate by educational attainment, %

		Total	Primary and lower secondary	Upper secondary and post secondary	Tertiary
CZ	3Q 06	65.4	24.0	71.7	83.0
	3Q 07	66.3	25.1	72.6	83.3
EE	3Q 06	67.9	32.0	72.6	87.0
	3Q 07	70.2	34.9	75.4	87.3
HU	3Q 06	57.6	28.1	65.3	80.8
	3Q 07	57.7	28.3	64.9	79.6
LV	3Q 06	68.0	38.0	73.4	88.1
	3Q 07	69.0	39.5	74.8	87.9
LT	3Q 06	64.2	25.2	68.5	87.0
	3Q 07	66.1	27.4	69.5	88.2
PL	3Q 06	55.6	25.1	59.2	82.2
	3Q 07	57.8	26.4	61.6	82.1
SK	3Q 06	59.9	14.8	67.9	83.3
	3Q 07	60.7	15.2	68.7	81.8
SI	3Q 06	67.2	43.7	69.8	87.3
	3Q 07	69.0	47.5	71.5	86.5
BG	3Q 06	60.3	31.7	69.0	82.0
	3Q 07	62.7	33.6	71.0	83.8
RO	3Q 06	60.9	43.1	66.1	86.5
	3Q 07	60.5	43.4	65.0	85.8

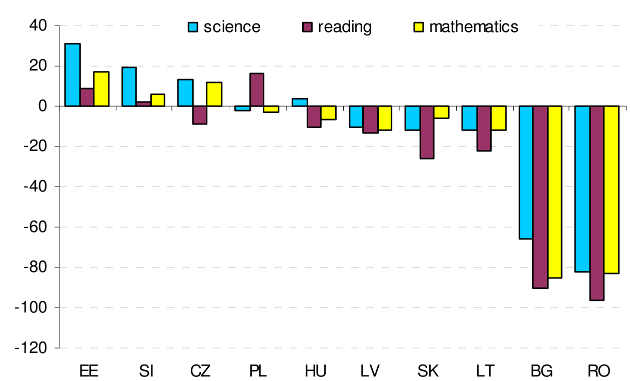
Source: Eurostat, 2007

2. Performance of the EU8+2 and Croatia in PISA 2006

PISA (Program for International Student Assessment) was launched in 1997 by the OECD. It represents a commitment by governments to monitor the outcomes of education systems in terms of student achievement on a regular basis and within an internationally agreed common framework. PISA has now become the most comprehensive and rigorous international program for assessing student performance and providing data on the student, family and institutional factors.

The first PISA survey was conducted in 2000 and focused on reading literacy. PISA 2003 focused on mathematics and PISA 2006 focused on science, but also examined student attitudes towards science and their awareness of the opportunities that science competencies may bring, and of science learning opportunities and environments offered by their schools. It also placed student performance in the context of other factors, such as gender, socio-economic background and school policies and practices, providing insights into how they influence the development of knowledge and skills at home and at school and analyzing what the implications are for policy development.

Chart 3. A distance of the national score from the OECD average, points

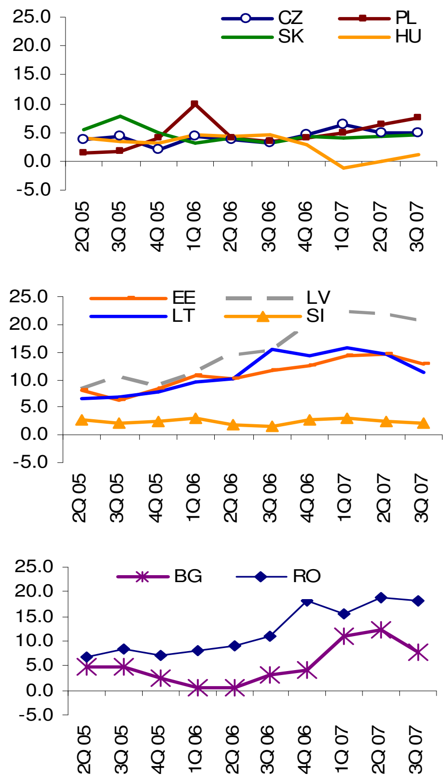


Notes: Positive distance stands for better than OECD average performance.

Source: OECD (2007).

Labor markets are tightening as labor shortages become more evident. The resulting increase in real wages in 3Q 2007 varies considerably across the region. Wage pressure remains high in the EU8+2, and even the where there has been some moderation of real wages (Baltic countries, Bulgaria, and Romania) it results largely from an acceleration of inflation rather than deceleration of nominal wages. Unit labor cost dynamics in the Visegrad countries and Slovenia still remain moderate as compared with the Baltic countries, Bulgaria, and Romania (Chart 4). The persistence of wage pressure may undermine countries' competitiveness and weaken their prospects for high and sustainable economic growth.

Chart 4. Real wage growth, yoy, %



Note: Data in line with CSO methodology

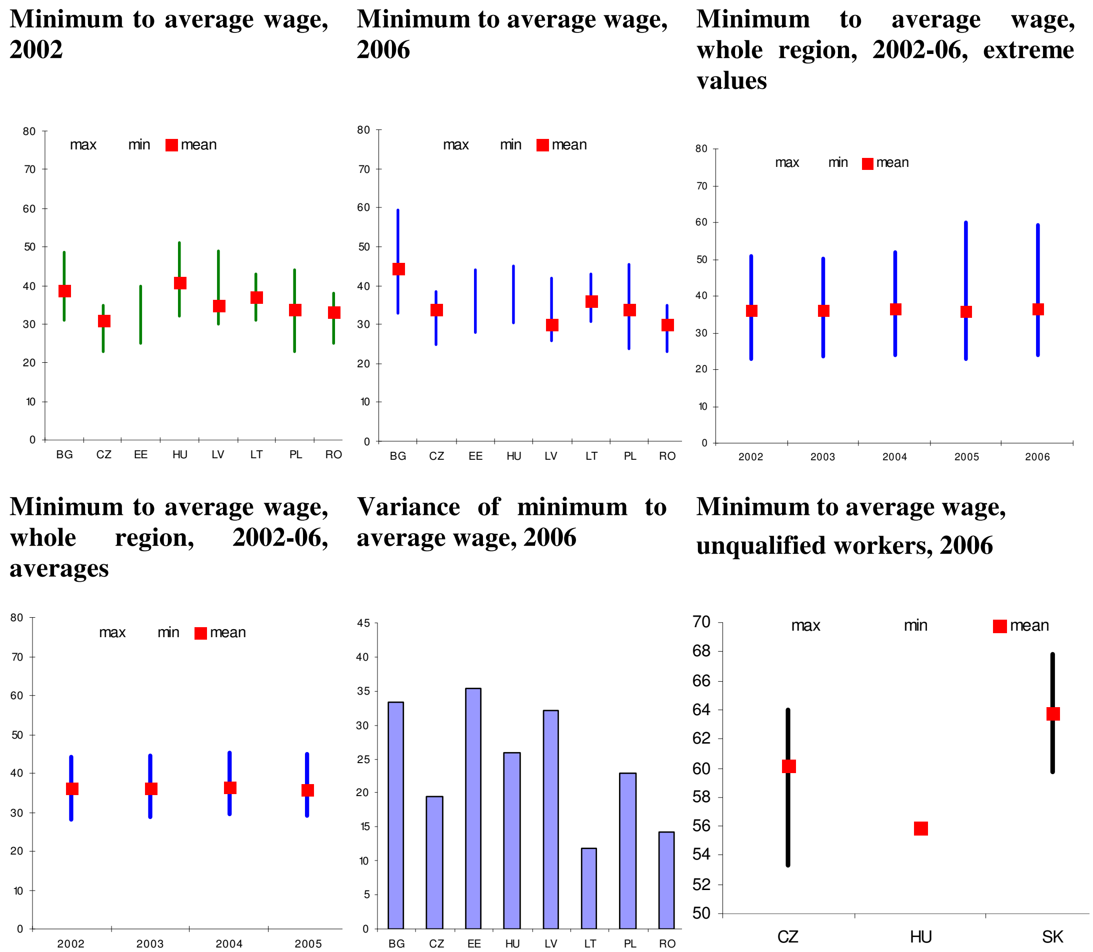
Source: CSOs

3. The minimum wage may be too high for unqualified workers in lagging regions

Regional differences within individual EU8+2 countries are considerable and may interact with country-wide minimum wage rates. These regional differences are also related to educational attainment as people with lower education levels are overrepresented in lagging regions. Hence, uniform economy-wide minimum wages may prevent the local labor market from clearing at a lower level of wages.

Twenty EU member states have a statutory national minimum wage despite the potentially negative impact on employment. While on average the minimum wage is too low – compared to the average wage – to affect a significant number of workers in the economy as a whole, it could affect unqualified workers in lagging regions.

Chart 5. The minimum wage for unqualified workers



Source: CSOs,

Note: in %. Romania only 2002-05, Lithuania 2003-2006. Source: Eurostat, CSOs and WB staff.

Regional data for EU8+2 from 2002-2006 indicate that the ratio of the minimum to the average wage is low in the regions surrounding capital cities, but is as high as 59% in some regions of Bulgaria. The ratio is falling in almost all countries, but especially in Hungary and Latvia. Bulgaria, is one of a few countries where the ratio increased, on average by 3.4 percentage points every year. More importantly, the variance of regional ratios has fallen in half of the countries – in Estonia, Hungary, Latvia, Romania and Slovenia.

The ratio of minimum to average wages for unqualified workers is much higher than the economy-wide average. It reached 64% in the Czech Republic in 2006 and 68% in Slovakia in 2005. Unfortunately, regional figures are not available for more countries, but it seems reasonable to assume that the ratio for unqualified workers could be at about 60 to 80% of the economy and nation-wide average. This could drive unqualified workers in lagging regions out of the formal labor market.

Conclusions

Frequently less than a fifth of public spending on active labour market programmes is in programmes targeted specifically at youths facing difficulties in the labour market, but partial data for EU countries suggest that up to two-fifths of participants in these programmes, including subsidised apprenticeships, are aged under 25. Strategies of early intervention and diverse pathways in education and training are described, and recent labour market policy experience is reviewed under headings of activation strategies; broadly-targeted employment programmes; dual systems; and “safety nets” for school leavers. New or greatly expanded youth programmes, introduced by a number of countries since the mid-1990s, have had a visible impact on youth unemployment rates in some cases. Youth labour market outcomes are sensitive to general economic conditions, but additional structural features that are often associated with good outcomes in international comparative terms include active public management of the transition-to-work process, involving youth unemployment benefits combined with activation measures and backed up by a "safety-net" approach, and early contact with the world of work through apprenticeships or student jobs.

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ROAD INFRASTRUCTURE AND ITS ISSUES

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The European Union development is an irreversible and complex process which enforces the deep reorganizations, reforms, especially for the countries which want to be integrated, and for the countries that are member big expenses, but it will assure the growth of the economic and human potential of E.U. Transport is particularly important for developing links between Romania and the E.U., but he road network is one of the least developed in Europe. Two thirds of the total surface of the road infrastructure from Romania must be rehabilitated. Beside the absence of grounds, the authorities don't dispose of experts who are able to develop viable projects which to attract European financing. The access to the structural funds is not an easy one, because is a bureaucratic organization, and in combination with our bureaucracy has a negative result for our country.

Key words: road infrastructure, rehabilitation, European funds, projects

Currently European Union follow the creation of a space of freedom, of security, of justice and integrates the accumulations resulted from previous collaboration of the second states, which will carry on (continue to) consolidate it self on fundamental principles of freedom, democracies, man` s law and stat` s law rightful. A prime interest is that binded of the realization of unique market on the background custom union, an economic dynamic space, bank on the common rules and equal condition of competition, the harmonization of taxation methods, reciprocal reconnoiter of diplomas and the freedom of all access to the professions in the respective countries. Therewith involves the enterpriser's freedom to establish themselves in the communitarian's areas, what presupposes the juridical harmonization settlements concerning the freedom of capitals, economic goods, and cetacean's movement.

Another communitarian objective is that considering the agrarian politic commune intended to harmonize the distinct national mechanisms and let them establishes the commune custom barriers for the merchandises extra communitarians, followed by industrial politics. This is adverted to:

- The simplification and the update of existing settlements in the profitable sense of the relation cost - profit, envisaging also the risk factor and environment;
- The Assurance of competition efficient frame in the sectors where the monopoly of the state is not justified (energy, telecommunication, and mail);
- Massive investments in the priorities sectors – future sectors of the economies (scientific research, projection, technology) beginning with the preparation of the necessary work forces until labor exploitation;
- The concentration of scientific research and its collaboration with the priorities areas (information and communication, industrial technology, environment, energies).

Another E.U.` s aim of creation and operation is the economic union and monetary union, and an important component is the politics of competitions, having in sight the mechanism of competitive economies from its terms of reference, and also outwardly its. In this sense there are the following areas of action:

- The elimination of the competitions restrictive agreements and abuses of dominant arrangement;
- The check of firms` s fusion in the aim of preventing the formation of a dominant firm;
- The liberalization of the sectors with monopoly arrangement (energy, telecommunication);
- The closely pursuit of stat` s subventions.

The E.U. development is an irreversible and complex process which enforces the deep reorganizations, reforms, especially for the countries which want to be integrated, and for the members countries big expenses, but it will assure the growth of the economic and human potential of E.U. Romania had a temporally series of different agreements with European Economic Community in diverse areas, as: mercer, metallurgy, industrial products. Beginning with February 2000, our country initiated the process of integration in E.U., on the strength of an application enunciate in this sense and respecting the requirement of economic order and politic enforced.

The adhesion requires profoundly process of economic reform considering the economic convergence and which foresees as much the macroeconomic stability, quotient and the financial one. Romania` s process in this sense follows:

- The economically breed supported on the strength of internal investments and also external resources in the shape of direct investments, in conditions of transparency;
- The assurance of economic transparency on the strength of a budgetary tolerable deficit (about of 33 from PIB), managing public debts adequately and reducing gradually the inflation;
- The promotion of a coherent politics concerning the improvement of economic structure, the vivification of competitive activities, the capitalization of agricultural and touristic potential, the amplification of financial services;
- The creation of legal settings necessary promoting the environment of competitive businesses;
- The development and the modernization of public services in the interests of citizens and national economies as much as possible nearer the E.U.` s standard.
- Long-term programs concerning ecologic accidents, levels of environment pollution.

Nevertheless, it does warn there is a need for more rapid adaptation to shifting economic trends and fresh thinking about the role of social policy in adjusting to new sources of competition – whether due to technological change or the other effects of globalization.

The warpath and objectives fixed by competent organs from Romania, for the period 2001 - 2004 and 2004 - 2006 there are subordinated in total amount to " National Strategy of Economic Development of Romania on average term", but also concordantly with the negotiations from the E.U.` s terms of reference concerning at the real and durable growth of P.I.B., in the conditions of competitive economy.

The transport sector has great importance for the Romanian economy. Transport is particularly important for developing links between Romania and the European Union. The railway network is extensive but the road network is one of the least developed in Europe. The long-term objectives of the program are to help prepare the transport sector for accession to the European Union through support for developing appropriate legislation, institutions, regulatory systems, human resources and infrastructure support market reforms in the transport sector aimed at contributing to overall economic development.

An enormous main road rehabilitation program has begun in Romania. One vital route is the Budapest to Bucharest route (1053 km of roadway from the Hungarian border to Pitesti, North Bucharest). The project to bring the road up to European standards began in 1994 and will be completed in 1998. Romanian, and European Union Private contractors have won contracts for the work with international experts supervising the construction on behalf of the Romanian government. Phare funding of 21 MEcu is 35% of the total. The remaining 65% is being financed by the European Investment Bank.

Two thirds from the total surface of the infrastructure from Romania must be rehabilitated. Many international studies show that the bad condition of the roads and the absence of investments in this segment represent a major impediment in the path of economic development. In these conditions, the development of the infrastructure as like the European standard is one of the national priorities for the period 2007-2013. Otherwise, the infrastructure is principal beneficiary of the E.U.`s backgrounds of cohesion. Romania has to retrieves a very big shifting in the infrastructure area, against the remainder countries from E.U. For instance, from the network almost 80 hundred km of roads, just 20 per cent represents national roads. The remainders are country and earth roads which degree of utility had diminished dramatically in last years, this because only 21 km from those roads had been repaired. The state of detritions is big also because the number of highways from Romania remained the same about ten years. The highways from touristic areas became extravagantly agglomerated in seasonally periods. Related with its surface, Romania has the smaller density of roads from all states which are member of E.U., meaning 33, 5 km to 100 of square km.

A report of World Traveling of Tourism Council (WTTC), consider that bad state of roads represent a major impediment in the path of development Romanian `s tourism, in the conditions in which most foreign visitors come in Romania on terrestrial path. The WTTC `s representations support that the roads are an essential elemental not only for tourism, but also for the development of the country. There are necessary strong investments in the principals route to Black Sea, and towards town as Brasov, Sighisoara or Sibiu, as the like as the north of the Bucharest. Project concerning improvement of road infrastructure represents an important segment on the buildings market from Romania, it shows in a study of Polish companionships of PMR `s consultants. The PMR `s specialists estimate that two thirds from the total surface of road infrastructure from Romania must be remade. The considerable funds allocated by European Union for the remaking the infrastructure project offers Romania the opportunity for resolving the infrastructure problems. Considering the PMR `s statistics, no less than four billions of Euro, representing irredeemable funds, were allocated for Romania by E.U. for infrastructure project. The biggest part of those funds, 60 per cent will be used for the main axis 1, which carries the visa of a development transport incident to network system of roads and freeways of E.U.

Likewise, 34 per cent from funds will be fated to modernization and development of national infrastructure. Romanian transport strategy is based in the main time to network transport construction, what means new freeways and the finalization of those which are in building. For the national and county roads, the strategy is based on their rehabilitation. Until the year 2013 is advisable that Romania to have almost 2. 000 of km of freeway. For the construction of freeways in the period 2007 - 2012 is necessary a yearly finances of 1, 86 billions of Euro, according National Company of Freeways and National Roads from Romania. The value represents an average of 11, 8 per cent from the incomes of state's budgets for the year 2007.

For the infrastructure development, up to the adhesion date, the most important European funds were allocated through ISPA and Phare programs. Opening with year 2007, financial assistance through ISPA is changed automatically with solidarity funds. Otherwise, all financial support will continuum to grow for three or four times more then ISPA fund in the moment of adhesion. From all the European funds allocated to Romania, 19, 7 billions of Euro represents the structural and cohesion funds. Almost 60 per cent from sum will go to basic infrastructure. Money will be allocated to the projects from the basic infrastructure area. Also, through the ISPA program, Romania beneficiated of important funds for infrastructure. In the period of 2000-2006, Romania covered 95, 9 per cent from the financial parcel of 2 billion of Euro allocated through the ISPA program. Romania received between 20 and 26 per cent from the annual budget available for ISPA facility on the period 2000-2006, so that becoming the second country after Poland in what looks the help granted. Romania also beneficiated of important funds through Phare program - component of Regional Infrastructure. For the period 2004 - 2006 were anticipated funds of 152 of millions of Euro.

Taking count of the Romanian necessity of reducing economic and social development disparity comparative with others state members of European Union, as well as the fact that an efficient, durable, flexibly and secure transport system can be considered a prerequisite condition for the economic development, corroborate with the commitment of developed the network TEN-T 7 = Trans European Network Transport and main projects TEN-T 7, the world objective of Operational and Sectorial Transport Program (POST) is of promoted a durable transport system in Romania. This will facilitated the transport in safe seat conditions, speedster and efficient, for persons and the merchandises with a duty level to European standard, between and in the frame of Romanian regions. After modernization, transport infrastructure thus improved will go directly to the growth of products competitively and the jobs supply, from the key sectors of economies and in the regions from Romania. The global impact will go to the improvement of economic activity in Romania. For achieving the objective POST, the European Union` s funds and those from the state` s budget were anticipated for being allocated to the transport sector in sight of implementation the follower main axes:

- - The modernization and the development of main axes TEN-T 7 in the aim of a development of a durable transport system and its integration with transport networks of European Union.

- - The modernization and the development of national transport infrastructure situated out of main axes TEN-T 7 in the aim of a development of a durable national transport system;
- - The modernization of the transport sector in the aim of improving the environment protections, human health and safety of passengers;
- - Technical assistance.

Each main axis is financed either from the cohesion fund, or FEDR, but don't from both, and containing one or many operations. This area of intervention is addressed to only one beneficiary, National Company of Freeways and National Roads from Romania, which is the lessce of all the national road infrastructures from our country. Its intervention follows:

- finances of projects preparation in the road infrastructure situated on the route of axis TEN-T 7 and the national road one situated out of this route;
- finances of investment's works for the modernization of national roads, the building of circuitous variant and /or freeways on the route of axis TEN-T 7 and those situated out of this route

The axis TEN-T 7 presents on the territory of Romania two branches which continuations the follow routes: Northern branch: Nădlac – Arad - Timişoara - Lugoj - Deva – Orăştie - Sibiu - Piteşti - Bucureşti – Cenavodă - Constanța.

Southern branch: Lugoj - Drobeta Turnu Severin - Craiova - Calafat with a variant at Simian - Maglavit, rounding Craiova

We will present you the variant as a rough guide of financial allocation for the expenditures which follow to be registered in the period 2007 - 2013 for the modernization and the development of road infrastructure placed on the route of axis TEN-T 7.

Year	***TOTAL***	***U.E. (FC)`s Contribution***	***National Public Contribution***				***Private Contribution***
			Stat budget	***Local budget***	***Other Public Surces***	***Total***	
2007	126.042.728	107.136.319	18.906.409			18.906.409	
2008	180.236.753	153.201.240	27.035.513			27.035.513	
2009	242.322.861	205.974.432	36.348.429			36.348.429	
2010	291.200.020	247.520.017	43.680.003			43.680.003	
2011	313.285.242	266.292.456	46.992.786			46.992.786	
2012	336.755.322	286.424.024	50.513.298			50.513.298	
2013	360.900.642	306.747.146	54.153.496			54.153.496	
Total	1.850.743.568	1.573.113.634	277.629.934			277.629.934	

Financial allocation as a guide for the modernization and development of road infrastructure situated on main axis TEN-T 7.

Year	TOTAL	U.E. (FC)`s Contribution	National Public Contribution				***Private Contribution***
			Stat budget	Local budget	Other Public Surces	Total	
2007							
2008	48.125.876	36.094.107	12.031.469			12.031.469	
2009	76.077.107	57.057.830	19.019.277			19.019.277	

2010	86.546.665	64.909.999	21.636.666	21.636.666
2011	93.479.397	70.109.548	23.369.849	23.369.849
2012	99.078.216	74.308.662	24.769.554	24.769.554
2013	105.169.072	79.278.070	25.891.002	25.891.002
Total	508.476.333	381.758.516	126.717.817	126.717.817

Financial allocation as a guide for the modernization and development of road infrastructure situated out of main axis TEN-T 7.

As you can see from both presentation, the most important participation is the one of European funds, because the participation of Romanian part is smaller then the first one. The difference can be observed better in the first example, that with the modernization and development of the road infrastructure out of the main axis TEN-T 7.

The requests of financing afferent to the preparation` s projects of the future investments or for the works `s projects that was not followed in exact way by the Authority of Management of Operational and Sectorial Transport Program can be deposits to the initiative of the National Company of Freeways and National Roads from Romania in the period 12. 07. 2007 - 31. 12. 2013, only that is recommended as the National Company of Freeways and National Roads from Romania to has been informative consulted with the Authority of Management of Operational and Sectorial Transport Program (AM POST) before the official prompted of financial requests. AM POST was constituted in the settings of Transports Minister, having the resposability to manage, administer and implementation of financial assistances allocated to the POST. Each project from this major area of intervention will do the object of impact evaluation of environment and the indicators be used-up for the monitoring of the programs` s implementation results.

The projects of finances from this major area of intervention will lead to the communitarian` s objectives accomplishment to decrease and/or eliminate the negative effects caused by the growing of traffics. The project of investment effectuated will generate new work places especially in the building phase. These will be accessible to all social categories.

In the case of projects from this major area of intervention is not applied the rule of state` s help, because the infrastructure which follow to achieve represents the infrastructure of public state and which will be managed by the National Company of Freeways and National Roads from Romania, the concessionaire of all the infrastructures of national roads and freeways from Romania. In the case in which is decided the reassignment of construction and maintenance to other companionship will be taken into account the national and communitarian rules concerning the public acquisitions.

Since the year 2000, respectively in the last seven years, Romania did not succeeded into expending for the road infrastructure more than 200 millions Euro from European funds, although the ISPA program allocated for this sector for the period 2000 - 2010 near 673 millions Euro. This one means that until the year 2010, the central and the local administration must expend for the roads and freeways 471 of millions of Euro, respectively across 70 per cent from the money, in just 33 per cent from the time granted to loan ISPA. The project suggested to be financed from ISPA` s funds attracted feather in currently 364, 5 millions Euro, from which only 200 of millions of Euro were spent, as the numbers given from National Company of Freeways and National Roads from Romania show. The reasons which caused the low degree of absorption are many and known, sauce as: the problem of expropriations, which have not been made on time and for which there are not money now, the lack of experts whom to manage the making and the carrying on of the projects, and, not at last, the acute absence of financing. The most big problem is the absence of available grounds for building the roads, the process of expropriation being made heavier by the lack of proper legislation and of a previous strategy of unlocking the passages on which carry on being built the highways and freeways. It would be better if in the beginning of years '90, those roadways were reserved. For instance on the freeway Bucureşti - Constanța, on the transom Cernavodă - Constanța, on Bucureşti - Ploieşti here are not free grounds, 100 per cent available ground is not anywhere and there aren't money for expropriations.

Beside the absence of grounds, the authorities don't dispose of experts who are able to develop viable projects which to attract European financing. The solution could be the employment of some big companionships specialized on the works of ruttier infrastructure, which to carry on a big part from the responsibility of National Company of Freeways and National Roads from Romania. So that, the administration of the roads will must conceives the package of project, for which management would organize auctions in order to place them in the carry of another specialized company.

They found a solution for incurred problems: 'Express - roads' instead of freeways -1, 2 billions of Euro will be used for building those roads, as an intermediate solution between freeways and national roads, which they will be building on the transoms Arad - Oradea, Turda - Sebeş, Piteşti - Craiova and Tetea - Satu Mare - Baia Mare, 380 of km, the project being finalized in a year and three months, and own execution will begin in the year 2009.

Because in the case of investments in the TEN project is a high risk in what concerns the incomes in the beginning of operational phase of the project, European Commission and European Bank of Investments signed an agreement of cooperation for settle the instrument of guarantee the borrowed for the projects concerning the European network of transport (LGTT). The instrument will encourage the participation of private sector for financing the transport infrastructure of European importance. LGTT, which is part of the program concerning the European network of transport (TEN-T) and the initiative of BEI" Action for development" will cover fractionally this risk, improving thus in significant way the financial viability of TEN-T investments. The contribution of capital, in value of 1 billion of Euro (500 of millions of Euro from Commission and 500 of millions of Euro from BEI), is meant to guarantee up to 20 of billion of euro from the investments of capital. In the case of some projects, the partnership of public sector with the private one could prove to be the most efficient path to be traced. The new instrument of warrant is an important middle of facilitates such a partnership.

In all one presented must exist and a negative part, that access to European funds represent a main problem, because it synthesized a whole series of dysfunctions. The access to the money arrives many times at the paradoxes, that zone most needy can let us access incomparably many such difficulty sources because their access means qualification, not poverty. Romania was entitled to funds of 2 billions Euro in 2007, from which succeeded the attracts only 440 millions Euro, respectively 21 per cent from sum put to disposal by European Union only on one area they accessed all money. After on year from adhesion at European Union, the degree of access is 21-22 per cent from which 32 per cent structural and cohesion funds and only 3 per cent funds for agriculture and rural development, mean while in the first year from cohesion Cehia had 41 per cent, Poland 42, Slovakia 41, Hungary 42, therefore round double. These countries attract successfully more than they paid to the communitarian found.

The access to the structural funds is not an easy one, because is a bureaucratic organization, and the combination among our bureaucracy and theirs has a negative result for our country. Because of the low degrees of access we were net contributors. The contributions aren't little, being in year 2007 of 1,2 per cent from PIB, that means 1 billion Euro contribution to the communitarian budget, and arrive in year 2011 to 1, 3 billion Euro, that means 0, 7 per cent from PIB. If the process of accessing will not be radically improved, Romania will remain in the position of being a poor developed country, clear contributor to the European budget.

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ANALYSIS MODEL OF COMPANY TREASURY IN THE EUROPEAN THEORY AND PRACTICE

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Abstract: The paper approaches the financial analysis starting from the tenet that the treasury analysis represents the pivot of financial analysis, suggesting in this way the multiple aspects of this analysis for the corporate assessment.

In this regard, some cash-flow approaches are presented which can signify different analysis models of corporate cash-flows. The author presents some models reflected in the French financial theory.

Key words: corporate treasury,cash-flow; French theory.

French financial accounting is strongly marked by the concept of ownership. As a consequence, its main compulsory output has for a long time been the balance sheet. About two decades ago, however, proposals started to emerge to include a statement of changes in financial position (or a funds statement) as well in order to improve the accounting presentation of a business operation and its policies. Organizations such as banks, the associations of professional accountants and even the French accounting standard setters designed models of such statements which were discussed in numerous papers and monographs. Due to the work of professional accountants and financial analysts, as well as professors of accounting and finance, a debate arose out of these deliberations focusing on what is termed 'cash-flow accounting' in English-speaking countries. The French debate reflects this prior linkage rooted, as it was, in previous work on statements of sources and uses of funds.

Interest in the area was initiated in the late 1950s and early 1960s when a few banks and some French companies started to use funds statements, following the example of American firms. The statement only became more officially recognized in 1968, however, when a study group of the Ordre des Experts Comptables et Comptables Agrees (OECCA), the French legal association of accountants, proposed a model for the funds statement and recommended that it be presented in addition to the balance sheet and income statement. That recommendation became quite an influential one and French companies which included such a statement in their annual reports very often used it as a reference.

Another well-known model has been designed by the 'Centrale des Bilans' of the Bank of France, a statistical agency that utilized the model for its own statistical purposes. Proposed in 1975, the model was aimed at facilitating the analyses of corporate performances and policies by banks. Although this model had not been commonly used for either internal management or external reporting purposes, it nevertheless served as a reference point for the articulation of the optional model included in the 1982 Plan Comptable. In 1987, the Bank of France issued two new statements inspired by the French evolution of the last decade.

While emerging amid pragmatic influences, the concept of the funds statement has evolved since 1977 on the basis of proposals made by a number of professionals and academics. In the process, the concept was changed to become more of a form of cash-flow accounting. There is no doubt that the work of de Murard, a practitioner, played an important role in this transformation, given both his charismatic personality and the attention which the work attracted. In subsequent years, the ideas of a number of finance academics were also to be influential, no doubt reflecting the fact that initially cash-flow accounting had been regarded as an aspect of finance. It only became an accounting topic with the implementation of the 'new' Plan in 1984.

Although in the next section consideration is given to the conceptual and methodological characteristics of the various proposals, thereafter it is important to return to a discussion of the different rationales lying behind the various proposals. For already it should be evident that different emphases have emerged from different institutional contexts. While both the banker and the financial executive might incorporate social and economic, as well as financial concerns in their proposals, their interpretation of such environmental contingencies might be very different.

Only the most typical funds statements will be described in the following discussions. Although an attempt is made to avoid being too technical, the main features of each statement nevertheless need to be presented, not least because some of them are specific to the French context.

Designed to describe how the resources a company had at its disposal during the period under review have enabled it to meet its financial needs, the first part of the statement lists the uses of funds and the sources from which these were obtained. The resultant change in working capital is then analyzed in the next part of the statement which lists changes in all the individual working capital accounts.

The reporting format, although widely used by both large and small firms (the statement used by the Centres Agrees was of the same type), started to become obsolete for the purpose of financial analysis. It was proposed at a time when the concept of working capital and the distinction between short-term and long-term were important components of an analysis of the financial equilibrium of a firm. Additionally, the statement is closely related to the opening and closing balance sheets, its aim being to explain changes between the two.

The concept of 'working capital needs' (besoins en fonds de roulement) started to be articulated in 1970 and has been quite influential thereafter, allowing the analyst no longer to reason in terms of short- and long-term but rather to focus on the level of working capital in relation to factors influencing the need for it. Although the concept of need takes a normative form in planning, under this approach it enables a descriptive analysis of financial reports.

The idea was developed by three bankers, Meunier, de Barolet and Boulmer, and its success certainly reflected the particularities of the French context. The reasoning behind the concept takes the following form. At any given time, a firm must not only finance its inventories but it must also consider the credit it grants to its customers or clients, credit which can be particularly significant in France where it is customary to grant sixty or ninety days' credit. Of course, the firm itself is also a recipient of credit, the extent and conditions of which are negotiated with its suppliers. Taking account of both sides of the financial equation, a 'need' emerges which can, in some cases, be negative. In so far as inventories, accounts receivable and accounts payable are constantly renewed in a continuing activity, such needs are permanent and, according to conventional financial principles, must be financed by stable resources, i.e. be what is defined as working capital. The idea formulated by Meunier, de Barolet and Boulmer in order to facilitate the assessment of the financial equilibrium of a firm is expressed in the following equation which gives the 'cash situation', including short-term bank credits which are another peculiarity of the French system:

Cash situation = working capital - working capital needs

With: cash situation = cash less short-term bank credit

While the above equation is established either on the descriptive basis of the balance sheet or the normative basis of the financial plan, the equivalent concept applicable to the funds statement is as follows:

Change in cash situation = Change in working capital +Change in working capital needs

The concepts behind the latter equation subsequently had a marked influence on thinking about and models of funds statements. For, although the appearance might still be one of technical calculation, the approach is significant since it represents an attempt to interrogate and formulate accounting formats in terms of their subsequent analytical functions rather than in terms of their compatibility with traditional accounting statements. In this way, research was starting to provide a different basis for appreciating and changing the domain of accounting practice.

Conceptually the regulatory proposal is not as rich as the Bank of France matrix. Nevertheless it is an important step that the official text for French accountants now provides a model for the funds statement, not least because the transformation of this statement from being only a financial concern to being also one for accounting can only serve to improve French financial reporting. The structure of the proposal embodied in the Plan represents a compromise between the OECCA document and the now conventional French financial analysis equation articulated by Meunier *et al.*

Change in working capital = Change in working capital needs + Change in cash situation

Moreover, in its entirety, the model analyses two types of changes in working capital needs: those related to changes in business operations and those related to the non-operating changes.

Compared with previous approaches, that of Murard is a major conceptual and methodological change. It represents the completion of the evolution from a funds statement to cash-flow accounting. The structure of the proposal can be summarized in three parts. As can be seen from Table 1, the first part begins with a synthesis of the income statement which results in earnings before depreciation, interest and income tax, a figure which is also found in the Centrale des Bilans statement but not in the model of the Plan Comptable. Murard, who is a practitioner, then considers a sequence of dispositions or allocations which give a series of different types of results or surpluses. For instance, in the first part of the structure given in Table 1, the first disposition that Murard considers is the financing of working capital needs. An operating cash flow then remains, from which the financing of fixed assets is deducted giving a notion of surplus E (or 'economic'). It provides a measure of the ability of the firm to respond to the financial needs which come from its current operations as well as its capital expenditure programme.

The second part of the statement is independent of the first. It provides a measure of a specifically financial surplus (surplus F) which is seen as the difference between the change in total debt, on the one hand, and outflows related to debts, i.e. interest expenses and other necessary payments (income tax and dividends), on the other hand.

Table 1 1 The de Murard analysis

PART I		
_	Earnings before depreciation, interest and income tax Changes in working capital needs	
=	Operating cash flow	
-	Expenditures on fixed assets	
=	Operating surplus (or 'economic' surplus)	(E)
PART II		
-	Issuance of long-term debts less reduction of these debts Interest expense Income tax Cash dividends	
=	Financial surplus	(F)
PART III		
+	Operating surplus Financial surplus	
=	Current surplus (or global surplus)	(G)
+ ±	Disposal of fixed assets Issuance of additional capital stock Extraordinary items	
=	Change in cash	

Other flows are presented in the third part of the statement which begins by the addition of surpluses E and F to arrive at a global figure, surplus G. Other changes in cash flows are then acknowledged, resulting in the overall change in cash.

From a methodological point of view, two main differences from the other statements are apparent. First, it totally ignores the notion of working capital which was a traditional basis for statements of changes in financial position. Second, it considers a more global notion of capital expenditure since the surplus E is calculated after considering not only the acquisition of fixed assets but also changes in working capital needs. The structure proposed for the statement therefore reflects a very particular mode of analysing the financial policy of the firm. Not surprisingly, the statement has been widely commented upon. Academics, in particular, have discussed the particular structure, the proposed analysis of dispositions and the related surpluses, and have presented alternative models that are perceived to be more neutral. A consideration of one of these follows.

Charreaux's analysis, which was inspired by the previous work of Levasseur and Poncet and Portait, is based on six steps which enable an analysis of different aspects of a firm's policy. These steps are related to:

- industrial operations (surplus A)

- operations related to investments (surplus B)
- changes in cash (surplus C)
- operations related to equity (surplus D)
- long-term debts (surplus F)
- short-term debts (surplus G).

A further surplus, surplus E, is also included to represent the cost savings on interest expenses, a tax effect.

Some elements of the preceding analysis are to be found in the Charreaux statement, particularly the notions of earnings before depreciation interest and income tax, and operating cash flow. However, according to the author, the main originality of the proposal compared with that of Murard is that there are no specific dispositions or allocations: resources are not supposed to cover particular uses in a more or less arbitrary manner. As such, it differs from statements emanating from a more practical context, its coherence reflecting financial theory rather than practice (table 2).

Table 2 The Charreaux proposal, 1984

FIRST PART: REAL FLOWS	
	Earnings before depreciation, interest and income tax (EBDIT)
	Changes in working capital needs
	OPERATING CASH FLOW
	Theoretical calculation of taxes (no debt hypothesis)
A =	INDUSTRIAL FLOW
+	Transactions on investments
	Interest and dividends received
B =	INVESTMENT FLOW
C =	CHANGES IN CASH
SECOND PART: FINANCIAL FLOWS	
_	Issuance of additional capital stock Payment of dividends
D =	FLOW ON EQUITY
E =	COST SAVINGS ON INTEREST EXPENSES
	Change in long-term debt
	Interest expense on short-term debt
F =	FLOW ON LONG-TERM DEBT
	Change in short-term financial debt
	Interest expense on short-term debt
G =	FLOW ON SHORT-TERM DEBT
NB: A+B+C=D+E+F+G (Total real flows = Total fiinancial flows)	

If the Bank of France uses both statements in its financial studies of French firms, the public accountants (the OECCA) also issued two statements in 1988 but recommended a cash-flow format (Table 3).

The first, a funds statement, is quite close to the document of the 'plan comptable' although presented in a different manner. It is not developed here.

As to the second, a cash-flow statement, the application is obvious: it is strongly inspired by SFAS n° 95 from which it borrows the general structure:

Cash-flow from operating activities + Cash-flow from investing activities + Cash-flow from financing activities = Increase (or decrease) in cash + Cash at beginning of period = Cash at end of period

Table 3 The OECCA cash-flow statement, 1988

(A) NET CASH FLOW FROM OPERATING ACTIVITIES

* Net income

* Elements without effects on cash or not related to operations (depreciation, amortization, gains or losses on disposals of assets, etc.)

* Changes in inventories, clients, suppliers and other items related to operations (change in operating working capital needs)

(B) NET **CASH FLOW FROM INVESTING ACTIVITIES**

* Acquisition and disposal of fixed assets

* Transactions on investments

* Changes in accounts related to investing activities

(C) NET CASH FLOW FROM FINANCING ACTIVITIES

* Changes in capital stock

* Dividends paid

* Issuance and reduction of debt

CASH * Effects of exchange rates changes (D)

* Opening cash (E)

* Closing cash = (A) + (B) + (C) + (D) + (E)

It is noticeable that the conceptual content of the statement is not in line with some definitions of the Accounting Plan. The two main differences bear on the definition of cash (larger in the US and OECCA texts than in the PCG) and on the concept of operating activities (larger than in the PCG). The promoters of the document have clearly preferred the international (i.e. US) framework rather than consistency with the French tradition. This is altogether a testimony to the influence of international standards and a mark of independence of the French profession. If the Conseil National de la Comptabilite is still 'the' official French accounting standard setter, other bodies such as the OECCA have from time to time the willingness to assert their autonomy.

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THE EFFICIENCY OF CAPITAL INVESTMENTS INSIDE COMPANIES

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Abstract: Justifying the decisions regarding the investment projects that are going to be implemented by companies is based on a series of efficiency criteria which reflect the most important aspects of the investment process tied to the obtained results in accordance with the expenses. Considering the opportunity cost of the invested capital and the time's influence on value, making the investment decision is not an easy task. The paper presents aspects regarding two important criteria used in substantiating the economic efficiency of the capital investments: the net adjusted present value and the internal rate of return.

Key words: economic efficiency, capital investments, net adjusted present value, the internal rate of return, substantiating decisions

1. The net adjusted present value method

Because the investment objectives usually have a long exploitation period, naturally their economic parameters manifest differently in time and affect the efficiency degree and the economic viability.

The project's investors are the main capital suppliers who, by financing the project, give up a potential earning resulted from using the capital in a different business or on the capital market. They will be interested in the invested capital's opportunity cost and its value at different moments of time, which is important for substantiating the decisions regarding the proposed project. For the investors it means the expected rate of return which justifies giving up the chance to render profitable the capital in a different alternative of investment. For the entrepreneur the invested capital's opportunity cost represents the minimum profitability level, which must be guaranteed by efficiently managing the resources allocated for the desired objective.

In setting the invested capital's opportunity cost its influence factors intervene, such as: the incomes resulted from the project during its life duration, the investment's cost and the influence of the time factor.

For the investment projects, time is an important economic resource which leaves its fingerprint on each element involved in reaching the objective. Both the investment efforts' elements and the elements of the resulted effects have a bigger or smaller size when they are analyzed in comparison with the epoch outlook. Establishing the correct economic profitability, which means the earning brought by the project, implies a temporal approach of its economic parameters by using up-dating techniques.

For investment projects the most important moment is the launching of the objective's execution. From this moment the capital suppliers give up allotting their capital in other investment alternatives and pour their money into the project.

When analyzing the opportunity cost, the biggest interest is studying the economic-financial indicators specific to the investment's objective at the moment of substantiating the decision and at the start of the project's life cycle. When evaluating the project's economic efficiency we usually adjust the parameters at the m_o moment, but depending on the interests of the investors other scenarios can be used.

By placing the moment of the economic profitability's analysis in the phase of substantiating the investment decision, in order to compare different economic-financial indicators achieved in different time periods it becomes necessary to find out the adjusted present values of the efforts' and investments effects' parameters at the time of starting to implement the project (m_0).

The financial approach of the opportunity cost takes into consideration the liquid assets flows which are obtained in the future by exploiting the objective. These future earnings are evaluated through their present value.

When an S sum is invested in the project and the investment objective is reached in a number of years (d) and from its functioning result annual net earnings (P), the calculus formula of the net adjusted present value ($NAPV$) is:

$$NAPV = \sum_{h=1}^{n} \frac{P_h}{(1+a)^h} - \sum_{h=1}^{d} \frac{S_h}{(1+a)^h}$$

If we apply the formula for all the situations which imply making a net income or having investment expenses in any year of the objective's existence, the calculus formula is:

$$NAPV = \sum_{h=1}^{n} \frac{P_h}{(1+a)^h} - \sum_{h=1}^{n} \frac{S_h}{(1+a)^h}$$

or

$$NAPV = \sum_{h=1}^{n} \frac{I_h}{(1+a)^h} - \sum_{h=1}^{n} \frac{S_h + E_h}{(1+a)^h}$$

where: I_h şi E_h represent anual incomes and expenses for n years

The situation when the net adjusted present value is positive proves that capital suppliers can choose as investment to finance the project and thus have a comparative earning with the alternative to invest on the capital market. If the net adjusted present value is zero it means that allocating money for the project is not a good decision, because a superior fructification of the capital can't be guaranteed. In these conditions, the available financial resources can be directed towards the capital market with the same earning rate and with a lower risk, or towards financing a different, more profitable project.

In order to determine the net adjusted present value there are other calculus methods recommended by the methodologies of different financial institutions involved in monitoring funds destined for financing investment projects. They lead to approximately equal results.

An aspect which influences a project's efficiency is the capital's adjusting rate. It can be set at the level of the capital's opportunity cost, which depends on: the interbank bid rate (if the project is financed from long term loans), the inflation rate (to maintain the capital at least at the present level), the sector's or the economy's rate of return, etc. If the project is financed from own sources then the actualization rate is set depending on the average return of the company in which the project is implemented (set for the last 5-10 years) to which a certain risk premium is added.

For the actualization rate to guarantee a fair evaluation of the project, the rate should be set at the level of the weighted average cost of capital, which will lead to an earning regardless of the used sources of financing (own or lent). Because of the difficulties tied to establishing the cost of different capital components, in practice the actualization rate's size, which guarantees a reasonable profitability for a project, is at the return level of the money market and it corresponds to the opportunity cost of the long term capital. For the European money market the rate stretches between 5 and 10%. In Romania, for the 2000-2006 periods, the reference size recommended by specialized institutions for the adjusting of investment projects was 6%.

The rate's size also varies depending on the economic sector in which the project is set. For example, for agricultural investments the Ministry of Agriculture and Rural Development recommended a value rate of 8%, which covers the refinancing rate of the European Central Bank and the country risk margin.

2. The analysis of the internal rate of return

The analysis of the internal rate of return allows appreciating the future performance of the investment project, by offering information about the extent to which the project will ensure in a real manner the needed cash for its good functioning and won't be in the danger of being stopped.

The internal rate of return is an adjusting rate for which the total adjusted incomes resulted in a project is equal with the total adjusted expenses spent during the investment and its exploitation.

The rate's level shows the quality of the project, expressed through its capacity to recover the expenses caused by reaching the investment objective (the investment cost and the operating cost) and to create net income. Because it reflects the earning power of a project, in the case of multiple alternative projects, the chosen project will be the one which is characterized by a higher internal rate of return. A necessary acceptance condition for a project is for its internal rate of return to be higher than the capital's opportunity cost approximated through the adjusting rate, if this is an imposed regulation. In this case, the project offers the investors a higher financial yield than in the case of a different investment alternative (the banking system, papers, a different project).

The calculus algorithm of the internal rate of return is based on the idea of the net value's inversely proportional dependence to the adjusting rate. We must find that certain internal rate of return (adjusted) which when used to bring to present the net incomes derived from the project, can lead to a total adjusted income equal to zero. The economic significance of the indicator is at a low level of yield, a point when the total adjusted incomes equalizes only with the total adjusted expenses, thus, there is no profit. Over the level of the internal rate of return, the net adjusted value is positive (profit), and below its level there are losses. The steps of the algorithm are the following:

- in the beginning, the net value is adjusted to different adjusting rates;
- the size of the net adjusted value is established at >0 and has as correspondent the smallest adjusting rate a_{min};
- the first net adjusted value's level <0 is calculated and has as correspondent the biggest adjusting rate a_{max};
- the internal rate of return will be in the [a_{min}, a_{max}] interval, which must be lower than 5% and in the interjection.

The calculus relationship of the internal rate of return is based on the following formula:

$$IRR = a_{\min} + (a_{\max} - a_{\min}) \cdot \frac{NAV_1}{NAV_1 + |NAV_2|}$$

where: *IRR* is the internal rate of return;

NAV_1 – the positive net adjusted value;

NAV_2 – the negative net adjusted value.

3. Case study

Studying the profitability of an investment is illustrated in the case of a project which presents the following economic-financial indicators in table 1.

Indicators	**Years**									
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1. Annual expenses, as follows:	4576	14135	31753	28566	28284	29644	28644	28284	28284	28284
- Total investment	4576	6360	3903	320	-	1360	360	-	-	-
- Operating costs	-	7775	27608	27948	27948	27948	27948	27948	27948	27948
- Interests	-	-	-	32	32	32	32	32	32	32
-Taxes	-	-	242	266	304	304	304	304	304	304
2. Annual incomes	-	6000	23370	30100	30100	35218	36182	36265	36265	36265

Table 1. Financial indicators of the investment project, thousand lei

On the basis of the elements of expenses and incomes resulted from the investment objective's functioning it can be established which are the annual net income flows and what is their adjusted value. The results are presented in table 2.

Indicators	**Years**									
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
1. Annual expenses	4576	14135	31753	28566	28284	29644	28644	28284	28284	28284
2. Annual incomes	-	6000	23370	30100	30100	35218	36182	36265	36265	36265
3. Net incomes	-4576	-8135	-8383	1534	1816	5574	7538	7981	7981	7981

(2-1)										
4. The $(1+a)^{-h}$ factor	0,926	0,857	0,794	0,735	0,680	0,630	0,583	0,540	0,500	0,463
5. The net adjusted income	-4237	-6972	-6656	1127	1235	3512	4395	4310	3990	3695
6. The net adjusted value	4399									

Table 2. The net adjusted value (a=8%), thou lei

The analysis made on the basis of the net adjusted value indicator shows that the project is acceptable and represents an investment opportunity. It guarantees that at an adjusting rate of 8% the total adjusted cash flow is 4399 thou lei, a sum which represents the real earning resulted from implementing the project.

In order to find the internal rate of return, first we must determine the interval in which the profitability of the project is placed. In the case of the studied project, it has already been observed that for an 8% adjusting rate the adjusted net value is positive, but we must know the turnaround, which is the level of the adjusting rate from which the adjusted net value starts to be negative. To find the size of NAV_1 and of the $NAV<0$, which is NAV_2, the adjusting rate must be increased successively.

Years	**Annual net incomes**	**Net adjusted incomes**	
		a=10%	**a=15 %**
1	-4576	-4159	-3976
2	-8135	-6719	-6150
3	-8383	-6296	-5508
4	1534	1048	877
5	1816	1128	902
6	5574	3144	2408
7	7538	3867	2834
8	7981	3723	2610
9	7981	3384	2267
10	7981	3077	1971
Total	**19311**	**2197**	**-1765**

Table 3. The net adjusted income used to calculate IRR, thou lei

On the basis of the results obtained in table 3 it can be seen that the internal rate of return is in the [10, 15] interval and its value is:

$$IRR = 10\% + (15\% - 10\%) \cdot \frac{2197}{2197 + |-1765|} = 12{,}8\,\%$$

At a level of financial profitability of 12.8% the project can be accepted. This profitability covers the rate of interest, the expected inflation rate and a certain safety margin.

Conclusion

The used methods of analysis allowed substantiating the opportunity of the investment decision, the purpose being the company's economic-financial development. The criteria which guided the profitability's evaluation for the project was economic and both of the decision criteria pursued especially to signal the critical aspects that could lead to the impossibility to cover the financial efforts and to a lack of an earning for the capital suppliers. The real evaluation of the investment's profitability must be made on the basis of a more complex system of criteria, which will target benefits not only for the economic perspective, but also for the local communities and for the environment.

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PRESENT DIRECTIONS IN FINANCING PUBLIC EXPENSES. CASE STUDY PITESTI MUNICIPALITY

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The public local incomes and expenses have suffered important changes both as a consequence of the reform of public finances, in general, and of local finances, in particular, and due to the decentralization, who has added a whole series of expenses to the local budgets.

Out of the incomes of the local budget we provide the financing of expenses for the public services in the competence of the local public administration authorities. In fact, the public expenses from the local budget consist in buying goods and services necessary to the functioning of public services and institutions, by the local authorities, a series of services provided to the community.

Key words : strategy, public finance, local finances,management

The fundamental strategy, the planning and control of a local authority's actions are reflected in its budget. It represents the connection between the mobilization of fonds and the attaining of goals and objectives of the local authorities.

The public local incomes and expenses have suffered important changes both as a consequence of the reform of public finances, in general, and of local finances, in particular, and due to the decentralization, who has added a whole series of expenses to the local budgets.

As a consequence of the analysis of the budget of Pitesti Municipality for the period 2005-2007, we found its increase year by year. The total incomes of the budget of Pitesti Municipality have registered in 2007 an increase of 15.95% in comparison with 2006 and an increase of 69.88% in comparison with 2005.

In order to know the elements and factors which have led to this evolution, we have made an analysis of the income sources of the budget of Pitesti Municipality and of their evolution in time. But we have to mention the fact that, during the analyzed period, the budgetary classification has suffered major changes, and this is why the simple reading of the figures from the budgets of the years 2005, 2006, 2007 does not correspond to the conclusions we will refer to herein.

Analyzing the great categories of incomes, we may notice that:

The own incomes, also including the divided quotas of the revenue income, cashed on the territory of the Pitesti Municipality, which show, in fact, the potential and the development degree of the locality, have evolved from 48.22%, the percentage represented by this category of incomes from the total incomes of the year 2005, to 51.62% in the year 2006, while in the year 2007 it represented 53.16% of the total incomes of the local budget. This category of incomes has increased in value year by year, registering in 2007 an increase of 87,29% in comparison with the year 2005, and an increase of 19.41% in comparison with 2006.

Out of the total own incomes resulting from taxes and other local incomes, without calculating the quota on the revenue income attributed to the municipality, the incomes cashed from the taxes for buildings and lands and from the tax for the means of transport have the greatest weight. If in 2005 the weight of the three sources represented 46% of the total own incomes, in 2006 it represented 52% while in 2007 it represented 62% of the incomes resulted from taxes and other local incomes. We must mention the fact that during the analyzed period, the municipality has maintained a low level of the local fiscality, the level of local taxes being one of the lowest in the country. The registered increase was, in fact, influenced by the continuous development of the municipality, which has led to the capital accumulation both by the the inhabitants of the municipality and by the business environment who have invested both in car acquisitions and in building constructions.

Within the non-fiscal incomes, the concession and rental incomes as well as the disbursement incomes from the public institutions, on which the municipality has a direct influence by the way in which it administrates the public patrimony of the locality, represent the most significant sources in this category, namely over 70%. From the value point of view, in 2006 the three income sources registered an increase of 23% in comparison with the year 2005, and in 2007 an increase of 43% was registered in comparison with the year 2005.

The capital incomes have registered insignificant amounts, with the exception of the year 2006, because the municipality has not had a sales policy of some goods from the private domain of the locality

We may draw the conclusion that even if the municipality has not increased the level of the local fiscality, however, by offering some quality services, by creating the necessary infrastructure, it has influenced the development of the municipality and, implicitly, the increase of the own incomes of the budget of Pitesti Municipality.

With respect to the amounts of money from the state budget and the other amounts from other budgets attributed to Pitesti Municipality, we find out the fact that, even from the value point of view they have increased year by year, respectively with 112% in 2007 in comparison with the year 2006 and with 37% in 2006 in comparison with the year 2005, however, as a weight of the total incomes of the municipality's budget, they have registered a decrease in the analyzed period. The decrease of their weight is the effect of the increase of the own incomes of the local budget, which has brought about a greater degree of autonomy of the public administration authorities from Pitesti, in comparison with other municipalities in the country.

In the category of divided amounts of money, the greatest weight was represented by the amounts attributed for the partial insurance of the fonds necessary for the financing of some decentralized activities, namely for the preuniversitary education, for supporting the protection system of disabled persons, for the community services for registering the persons.

Some fonds were also attributed for the subsidy of the thermal energy supplied to the population in the centralized system or for financing some investments regarding the re-technologization of the system of supplying the thermal energy.

Pitesti Municipality made in 2006 a loan in value of 14.000 lei out of which it provided the partial financing of two major public investments and it was the beneficiary of some non-refundable funds which were used for developing the institutional capacity.

In 2006 and 2007, besides the incomes of the local budget, it provided the financing of some local public investments from the working balance, amounts which resulted from the budgetary surplus of the prior year.

The expenses of the local budget

Out of the incomes of the local budget we provide the financing of expenses for the public services in the competence of the local public administration authorities. In fact, the public expenses from the local budget consist in buying goods and services necessary to the functioning of public services and institutions, by the local authorities, a series of services provided to the community.

We also pay out of the budget the wages of the staff which provide these public services, as well as some rights of the disabled persons and of underprivileged families.

Another category of funds from the local budget is attributed as subsidy to the cultural institutions as well as for subsidizing a part of the tariff for supplying the thermal energy to the population in the centralized system.

For developing the services and ensuring the local infrastructure, we provide the necessary funds from the budget for the financing of capital expenses.

With respect to the expenses of the local budget, as well as to the other categories of budgets, the largest amounts of money have been attributed to the current expenses (staff expenses, expenses for goods and services, subsidies for covering the tariff differences for the thermal energy delivered to the population, the payment of interests for loans, transfers made to the local companies for carrying out some public investments, social security payments, scholarships and supporting the cults) and in a smaller proportion the funds have been directed towards investments (capital expenses).

Strategic objectives for drawing up, executing and controlling the local budget

From the inquiry of the civil society carried out in Pitesti Municipality, it resulted that the option of citizens with respect to the way in which the expenses of the local budget should be attributed in the next period, is the following:

- The increase of the expenses for health, education and social assistance;
- The increase of expenses related to the urban public services (sewage, green spaces, road infrastructure, handling the wastes);
- The decrease of the weight of expenses related to the gas and water supply.
- With respect to the financing sources of expenses (the incomes of the local budget), in the next years, they should, in the opinion of citizens, consist in:
- Concessions and rental incomes
- The profit tax from the economic agents
- Hotel taxes
- Land taxes.

In the same time, at the level of population, there is the opinion concerning the fact that among the financing sources of investments we should use the incomes from the privatization of public services, the loans (mortgage bonds or bank loans) and, as a last solution, the local taxes, with the observation that all sources have a score of over 50% (scores between a maximum of 3.77 and a minimum of 4, being thus above the median).

However, the observation referring to the way of financing the investing programs is in contradictory to the public opinion from Pitesti Municipality, regarding the privatization of some public services.

Thus, 45.3% of the respondents to the inquiry carried out in Pitesti Municipality have a bad or a very bad opinion (so they are rejecting such an orientation), 20% have a good and very good opinion (so they appreciate the privatization of some public services), and 34.7% are situated at the middle, between these two opinions.

Strategic directions proposed for the next period:

a. Ensuring the necessary funds for the quantitative and qualitative increase of public services in the competence of the local authorities having in view:

The maximization of the own incomes of the local budget by:

Creating an internal procedure for administrating the public patrimony as well as an efficient internal control.

Settling the level of local taxation, according to the short-term, medium-term and long-term objectives of the municipality but also with the condition of being bearable by the taxpayers, having in view the fact that in Pitesti Municipality the level of fiscality is one of the lowest.

Improving the activities of finding, observing, cashing and registering the local taxes in view of increasing the degree of cashing these incomes of the local budget by:

Evaluating the taxable mass;

Taxing the goods at their real value, and in this sense we should change the fiscal legislation;

The analysis and observation of the dynamic of debts for each debtor, so that there would be no debts older than six months.

The building of the budget must be made preponderantly out of incomes resulting from economic activities and provision of services;

Using the local public debt, namely the securities, the loans from commercial banks or from other credit institutions, supplier's credits, financial leasing; for obtaining supplementary fonds for financing some public investments;

Identifying some alternative solutions for supplementing the funds from the local budget:

Accessing non-refundable fonds, mainly those structural which cover a large range of domains, and in this sense:

- the development of the specialty service,
- the training of the staff in this domain,
- the identification of possible partners interested in carrying out some common projects, and
- the preparing of projects which are within the requests of the structural funds

are required.

Creating some public-public or public-private partnerships in view of providing some public services in common or in view of financing some public investments.

b. Improving the way of elaborating, executing, monitoring, controlling and reporting the local budget by:

- Developing the ability of elaborating the budgets on programs, the long-term budgets, a planning made for at least three years and giving priority to expenses;
- Elaborating some forecasts – in order to evaluate correctly the level of expenses which are to be made;
- Defining and monitoring the performance indicators – physical, efficience and result indicators – classified on directions, activities and actions for each tertiary credit release authority;
- Settling some quantitative and qualitative standards for the local public services;
- Creating a system for settling the priorities;
- Developing the internal control and the auditing procedures.

ORIGINES ET IMPACT DE LA CRISE DES SUBPRIMES

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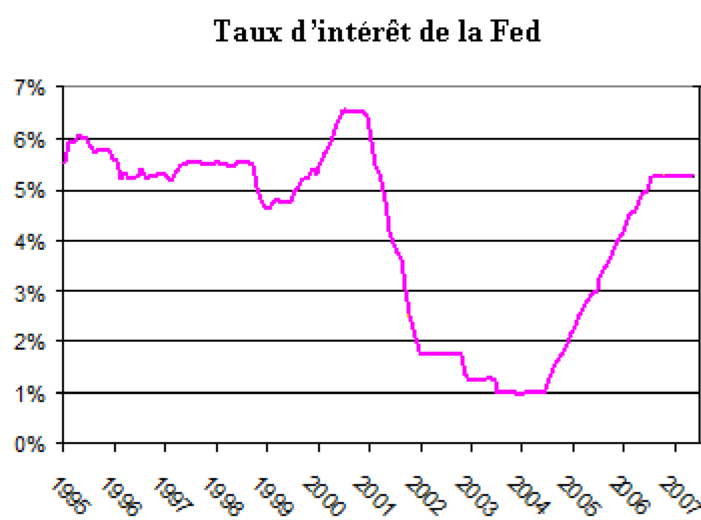
Abstract. The subprime mortgage crisis was made possible by the macroeconomical evolutions of the last years. An increase of the global liquidity, massively invested in the United States, caused a drop of the interest rates and the orienteering of the savings towards riskier investments (real estate) in search of a better return. The "subprimes" were encouraged to assume mortgages by the long-term trend of rising housing prices, hoping to be able to refinance at more favorable terms later. When the housing bubble burst, refinancing became more difficult and banks begun recording high default rates. The banks have used securitization to pass the risk to third-party investors and thus the crisis was transferred to the financial markets and to the global economy, notably Europe.

Key words: subprime, securitization, mortgage

La crise sur le marché américain des prêts hypothécaires à risques (« subprimes ») est apparue en 2006. Des prêts ont été consentis à des ménages aux revenus modestes et à faibles antécédents en matière de crédit, qui n'auraient pas normalement eu accès à un prêt hypothécaire classique. Les conditions d'octroi font peser un risque de solvabilité sur ces personnes : les mensualités de remboursement sont abaissées les premières années, les prêts sont consentis à des taux d'intérêt variables et de niveau élevé. En 2006, les crédits « subprime » ont représenté 24% des nouveaux crédits immobiliers octroyés aux Etats-Unis. En fin d'année, leur encours atteignait près de 13% du total des crédits hypothécaires aux Etats-Unis (10.200 milliards de dollars), contre 8,5% en 2001[37].

Le crédit hypothécaire, ou « mortgage », est le type de crédit le plus utilisé dans les pays anglo-saxons. Le bien acheté à crédit est hypothéqué auprès du prêteur, ce qui veut dire qu'en cas de défaut de paiement, la banque peut se payer en vendant la maison. Avec ce système, le pouvoir d'achat des ménages dépend très largement de la valeur du bien immobilier. Ainsi, lorsque la valeur de la maison chute et que les taux d'intérêt augmentent, les ménages voient leurs revenus diminuer car ils doivent rembourser plus.

1. L'éclatement de la bulle immobilière et la hausse des taux



La hausse des taux d'intérêt directeurs de la Réserve Fédérale[38] (Fed) a entraîné celle des taux des crédits immobiliers outre-Atlantique. Confrontées à un coût de l'argent plus élevé pour financer leurs besoins, les banques ont répercuté ces conditions plus sévères sur leur clientèle. Parallèlement, l'assèchement de la demande de biens immobiliers a tiré les prix de ces derniers vers le bas, entraînant du même coup une

crise. Les Echos, 26/12/2007

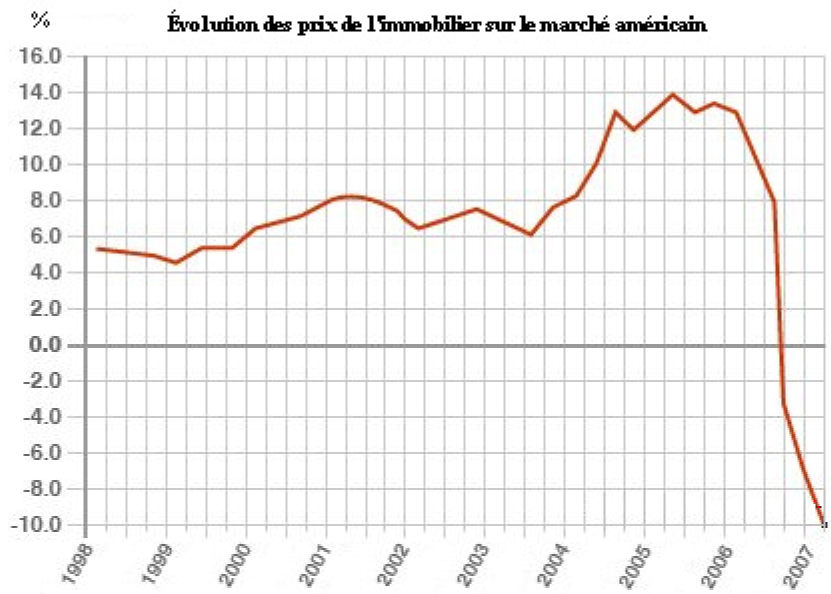
ain après une hausse continue des prix de
e la Banque centrale dans sa politique de
fixation des taux.

diminution de "l'effet richesse" des ménages - la valeur de leurs

Evolution du taux d'intérêt directeur de la Fed[39] appartements et maisons ayant baissé, leur richesse potentielle s'est amoindrie. La conjonction de ces deux évolutions défavorables a conduit à une hausse des défauts de paiement voire, dans certains cas, des situations d'insolvabilité de foyers.

Les ménages à faible revenu sont beaucoup plus sensibles à la hausse des taux. Comme ceux-ci ont donc augmenté, et comme, dans le même temps, les prix de l'immobilier ont chuté, les ménages les plus pauvres ont dû vendre, augmentant encore plus la baisse des prix sur le marché immobilier. Le résultat est que les banques ne peuvent plus se dédommager avec la vente de la maison d'où les problèmes voire les faillites de certaines banques.

La baisse des prix du marché de l'immobilier (graphique[40]) et le non remboursement par les particuliers de leurs prêts immobiliers ont provoqué la crise du marché immobilier américain qui après s'est diffusée au marché du crédit « subprime ». Le véhicule de transmission de la crise vers les marchés financiers à risque a été la titrisation. La titrisation est une technique financière par laquelle des créances traditionnellement illiquides (ou les risques de crédit y afférents) et gardées par leurs détenteurs jusqu'à l'échéance sont transformées en titres négociables et liquides. Par ce biais on réalise le plus souvent un transfert total ou partiel des risques de certaines institutions à d'autres.



La titrisation, véritable courroie de transmission de la crise

Les banques n'avaient pas donc de soucis pour intervenir sur ce segment de clientèle risqué car elles externalisaient leur risque grâce aux produits de titrisation. Ces créances risquées ne figuraient pas dans leur bilan. Elles étaient achetées par des agents ayant une faible aversion pour le risque comme les hedge funds.

La titrisation donne lieu à une émission de titres sur les marchés de capitaux, adossés aux actifs sous-jacents (crédits hypothécaires, par exemple) et regroupés par « tranches ». Certaines de ces tranches incluaient des crédits touchés par des défaillances ou défauts de paiement de ménages. Les investisseurs se sont alors retirés de ces produits qu'ils considéraient comme trop risqués. Conséquence : certains fonds n'ont plus pu être cotés. L'absence de demande pour certains titres contenus dans ces fonds a en effet empêché de calculer la valeur liquidative de ceux-ci - la valeur liquidative résultant de la confrontation de l'offre et de la demande.

Arrivés à ce point, il faut mentionner le rôle joué dans la crise par les agences de notation. Ces sociétés ont pour rôle d'évaluer le risque des placements grâce à une note. Les agences sont accusées d'avoir donné de trop bonnes notes aux « subprimes » et sont soupçonnées de conflit d'intérêt du moment où elles sont payées par les entreprises qu'elles notent et non pas par celles qui utilisent leur système.

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[39] Hoffmeister, Paul. The Supply-Side Conundrum: Rising Gold and Higher Interest Rates. Realclearpolitics, 17/09/2007

[40] Source : Center for Responsible Lending/OFHEO/NAR

La crise de liquidité et l’intervention concertée des banques centrales

Plus grave, la crise des « subprimes » a atteint aussi le marché monétaire avec une forte crise de liquidité, car les banques, ne sachant quelles institutions sont réellement exposées à des pertes liées aux subprimes, ne se font plus confiance et ne se prêtent plus entre elles.

La défiance vis-à-vis des produits de titrisation s'est propagée à d'autres segments de marché, notamment celui des « commercial paper » - titres de créances négociables émis par les entreprises sur le marché monétaire donc de court terme -, qui représentent d'énormes montants. Les investisseurs n'ayant plus confiance dans ces actifs, ils s'en sont retirés - pour se reporter sur des instruments qu'ils jugeaient plus sûrs. Conséquence : cette chute de la demande a entraîné un assèchement de la liquidité sur les marchés. D'où une crise de liquidité, une flambée des taux interbancaires, et un risque de durcissement généralisé des conditions de crédit, qui a contraint les banques centrales, en particulier la Fed et la BCE, à injecter massivement des liquidités sur le marché monétaire. Au cours de la seule première semaine d'août 2007, par exemple, les instituts d'émission américain, européen et asiatiques ont mené des actions concertées au cours desquelles elles ont fourni plus de 330 milliards de dollars aux marchés. Les autorités monétaires n'avaient pas autant infléchi leur stratégie de concert depuis les attentats du 11 septembre 2001. Elles avaient alors baissé leurs taux très rapidement de façon coordonnée tout en inondant les banques de liquidités.

La réserve fédérale américaine a pris une série de mesures pour augmenter la liquidité sur les marchés du crédit. Entre septembre 2007 et mars 2008, le taux directeur de la Fed a baissé de 5,25% à 2,25%. La banque centrale américaine a annoncé la création d’une nouvelle procédure qui va lui permettre de prêter jusqu’à 200 milliards de dollars de titres du Trésor à un groupe restreint de grandes banques. Elle a également annoncé qu’elle ferait passer de 10 à 30 milliards de dollars la ligne de crédit ouverte à la BCE.

Certains observateurs jugent qu'en réagissant aussi fortement, les autorités monétaires jouent un rôle de « pompier pyromane », et récompensent les investisseurs ayant pris des risques excessifs, en préparant ainsi la crise suivante.

Des conséquences à l’échelle mondiale

Les grandes banques européennes subissent l’effet de la crise

Les premiers trois pays les plus touchés par la crise des subprimes relativement à leur taille sont la Suisse, les Etats-Unis et l’Allemagne. Les banques américaines paient dans l’absolu le plus lourd tribut à la crise avec 47% de l’ensemble des dépréciations, 17% pour les banques suisses et 15 % pour les allemandes ; mais comparativement à leur taille et à leur capitalisation, les banques suisses sont de loin les plus touchées avec près de 40% de leurs actifs dépréciés quand les banques américaines et allemandes n’ont du déprécier « que » 15 à 20% de leurs actifs.

Pour la première banque suisse, UBS, la crise s’est aggravée en 2008 avec une perte nette de 7,6 milliards d'euros pour le seul premier trimestre en raison de dépréciations d'actifs de 12 milliards d'euros. Les banques allemandes ont été particulièrement touchées avec la Deutsche Bank, qui a annoncé 2,5 milliards d’euros de dépréciation sur le premier trimestre 2008, soit plus que sur l’ensemble de l’année dernière. Les banques britanniques, sauf le cas particulier de Northern Rock, nationalisée provisoirement par le gouvernement, n’ont procédé qu’à moins de 5% de dépréciations de leurs actifs, mais la situation pourrait se renverser avec le retournement du marché immobilier anglais. Les banques françaises résistent mieux même si, d’après Citigroup, elles devraient passer 4,2 milliards d’euros de dépréciations sur l’année 2008.

L’impact sur l’économie américaine

Les dépenses des ménages américains ont été extrêmement soutenues ces dernières années grâce à plusieurs facteurs positifs. Toutefois, l’un après l’autre, ces facteurs disparaissent. Tout d’abord, l’importance des gains enregistrés par les marchés d’actions et du logement ont accru la richesse des ménages et ont été utilisés afin de financer leurs dépenses : plus de 5 % des dépenses des ménages aux Etats-Unis au cours des deux dernières années provenaient des extractions hypothécaires. Toutefois, suite à la baisse actuelle des prix des logements, cette source de revenu n’est plus aussi facilement disponible.

Deuxièmement, les consommateurs ont augmenté leur endettement à des niveaux sans précédent en raison de la faiblesse des taux d’intérêt et de la disponibilité du crédit. Il est déjà devenu plus difficile pour les ménages les moins solvables sur le marché subprime d'accéder au crédit et ce durcissement des conditions d'accès devrait se généraliser à tous les types de prêts.

Troisièmement, la vigueur du marché de l'emploi a soutenu la confiance des ménages à l'égard de la sécurité de l'emploi, de même qu'elle s'est traduite par de solides hausses des salaires. Ce dernier facteur à l'origine du boom des dépenses des ménages reste dynamique, mais il montre néanmoins des signes de détérioration avec la récente modeste progression du chômage (en dépit d'un niveau qui reste faible) et la décélération de la croissance des salaires.

L'économie américaine semble donc sur le point de connaître des difficultés du fait d'un consommateur plus réticent

L'impact sur l'économie mondiale

Les taux de croissance au niveau mondial vont probablement ralentir si les ménages américains capitulent, mais les Etats-Unis ne constituent cependant plus le moteur de la croissance mondiale qu'ils furent autrefois. Selon les dernières données du FMI, c'est la Chine qui devrait désormais le plus contribuer à la croissance mondiale en lieu et place des Etats-Unis.

Ailleurs, les « nouvelles économies » d'Asie affichent certains des taux de croissance les plus élevés et les plus robustes au monde, soutenues en grande partie par l'évolution de leurs modèles commerciaux. Ces marchés sont aujourd'hui moins dépendants de la demande américaine afin de pérenniser leur développement et trouvent dans le commerce intra-asiatique le principal facteur de contribution à leur croissance économique. Les consommateurs asiatiques sont, de plus, beaucoup moins endettés et connaissent une hausse de leur revenu disponible.

Conclusion

La crise est en grande partie la conséquence de la politique monétaire de la Fed : entre 2001 et 2004 elle a procédé à une baisse de ses taux directeurs et à une injection massive de liquidité dans le système monétaire globale (notamment suite aux événements de 2000 – chute des valeurs technologiques du Nasdaq – et 2001 – les attentats terroristes).

Les investisseurs ont profité des taux bas pour spéculer sur le marché immobilier, ce qui à mené à une hausse des prix de l'immobilier. Les banques, elles aussi, ont prêté généreusement en prenant un risque soutenu car les prêts étaient gagés sur la valeur de l'immobilier. Les ménages américains à risque, les « subprimes », ont bénéficié des conditions d'octroi de crédit favorables : taux bas les premières années, mais puis indexé sur les taux du marché.

Après 2004, suite à une inflation devenue galopante, la Fed a procédé à un durcissement de la politique monétaire et à la hausse des taux, qui ont passé de 1% à 5,25% en quelques années. Sur le marché immobilier, les prix commencent à chuter, à partir de 2006. Les prêts étant à taux variable et l'immobilier ayant baissé sous sa valeur de garantie, les ménages les plus fragiles font défaut. Les banques saisissent les biens des emprunteurs insolvables et les stocks de logement augmentent, avec un impact sur le prix de l'immobilier qui continue de baisser.

La contagion de la crise des subprimes aux marchés financiers, à l'économie américaine et à l'échelle mondiale s'est produite par le biais de la titrisation. Le marché monétaire et obligataire a été frappé par une grave crise de liquidité : les investisseur en quête de liquidité et ne pouvant revendre ses actifs titrisés se sont tournés vers le marché des Commercial Papers. D'ici la crainte que les emprunteurs sur le marché monétaire soient détenteurs d'actifs titrisés.

La baisse du moral des ménages, de l'activité du secteur financier et le resserrement des conditions de crédit en termes de prix et de qualité ont mené à une baisse de la consommation des ménages et de l'investissement des entreprises qui n'ont plus les financements nécessaires et, en suite, à la baisse de la croissance et ralentissement de l'économie américaine.

Les impacts les plus importants à l'échelle mondiale se sont fait ressentir dans les pays développés, notamment en Europe. Toutefois ils restent limités du fait que les moteurs de croissance de l'économie mondiale ne sont plus les Etats Unis, mais les pays émergents comme la Chine et l'Inde, qui ont joué un rôle d'amortisseur dans la crise.

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QUELLES SONT LES DEFIES DE LA PRESSION FISCALE EN ROUMANIE? APPROCHE QUANTITATIVE DANS LA PERSPECTIVE DE LA MODELISATION ECONOMETRIQUE DES VARIABLES FONDAMENTALES DU SYSTEME FISCALE

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Abstract: L'adoption du traite de Maastricht a determine une preoccupation aigue pour la cible de deficit budgetaire de 3%. Les finances publiques des etats membres se sont concentrees sur l'elaboration des politiques destinees a assurer un controle ferme du deficit budgetaire. La litterature de specialite inclut de nombreuses discussions contradictoires concernant les deux composants des finances publiques – budgetaire et fiscale- capables d'assurer une gestion performante du solde budgetaire. Le dilemme de la concentration soit sur l'instrument budgetaire, soit sur l'instrument fiscal pour toucher a la cible de deficit budgetaire a detremine l'adoptation des mesures qui ont vise soit la diminution des charges pubiques (France ou Allemagne), soit la croissance des revenus fiscaux (le cas des pays emergens est europeens).

Ce papier se propose de mettre en evidence quelles sont les variables determinantes de la pression fiscale en Roumanie, tout en se concentrant sur les deux categories de politiques. Le defi c'est de relever de la direction de determination des deux variables –charges et revenus publiques.

Key-words: pression fiscale, politique fiscale, politique budgetaire

JEL Classification Numbers: G21, G30, G33

Introduction

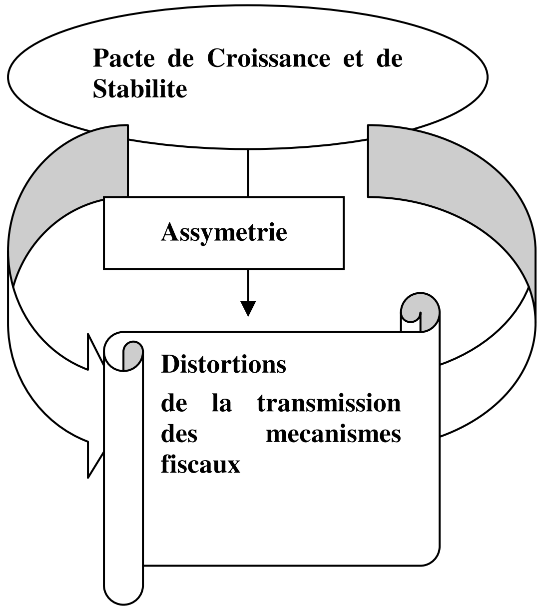
L'adoptation du Traite de Maastricht de 1992 et, ulterieurement, du Pacte de Stabilite et de Croissance, ont eu une influence importante sur les politiques fiscales europeennes dans la perspective des exigences etablies au niveau du deficit budgetaire et de la dette publique. Beaucoup de discussions contradictoires sont apparues autour des deux valeurs cle – 3% pour le deficit budgetaire et 60% pour la dette publique. On a demande frequemment des explications cocernant les principes qui par rapport auxquels on a mis le fondement numerique des deux criteres.

En fait, les deux valuers cible ont ete determinees par la moyenne enregistree au niveau des 15 etats membres. En1992, l'annee ou le traite de Maastricht a ete signe la moyenne du poids de la dette publique au PIB pour les 15 etats membres a ete 60,4%. Econometriquement, on a releve du fait qu'a un poids de la dette publique au PIB de 60%, c'est un deficit budgetaire 3% qui corresponde dans les conditions ou on enregistre un ecroissance economique nominale de 5%.

La validite de ces criteres a ete durement contestee ; la realite econimique a releve pour les etats membres, au niveau de l'annee 2006, une dette publique moyenne de 2 fois plus elevee que celle des etats qui se trouvaient en train d'etre integres (Blege, Grece Italie – 100%) tandis que ceux-la ont enregistre des deficits plus eleves (Pologne -20%).

C'est ainsi que l'assymetrie apparait et qui est determinee par les distortions enregistees au niveau de la transmission des mecanismes fiscaux.

Graphique no 1 – Assymetrie generee par les contraintes budgetaires

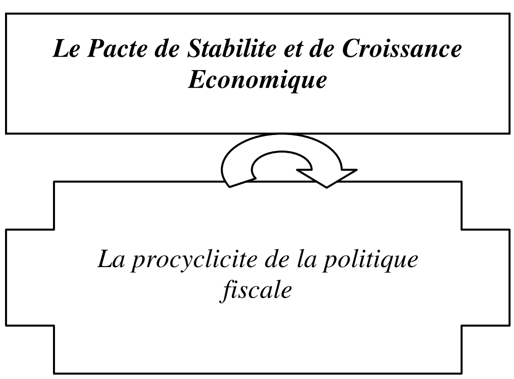


Source : traitement propre

On suppose qu'un pays enregistre des deficits eleves, non-soutenables a long terme. Dans ce cas, la prime de risque correspondante aux emissions obligataires gouvernamentales realisees par ce pays va augmenter. Si les deficits enregistrent des augmentations continuelles, le marche financiere interne et internationale va limiter les moyens de financement [1]. Ainsi, la prime de risque va devenir prohibitive et la perspective du blocage de l'acces au marche international de capital va diminuer les emissions obligataires, ce qui va determiner d'une maniere automatique la reduction de la dette publique, mais aussi du deficit budgetaire [2].

L'assymetrie impliquee par les prevoyances du Pacte de Stabilite et de Croissance se manifeste specialement dans le contexte des contredictions qui puissnet apparaitre entre la politique fiscale nationale et celle reglementee au niveau europeen[3]. Dans le cas d'une recession economique, les autorites fiscales ne peuvent pas operer des modifications sur les stablisateurs fiscaux. Ainsi, la politique fiscale devient prociclique pendant les periodes de recession parce le taux fiscale augmente et les charges publiques diminuent.

Graphique no 2 – La dimension restrictive du Pacte de Stabilite et de Croissance



Source : traitement propre

[1] M Hughes Hallett, Andrew, John Lewis and Jürgen von Hagen (2003), *Fiscal Policy in Europe*, 1991-2003: An Evidence-based Analysis, CEPR, London.

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[3] Meltze Calmfors, Lars (2005). *What Remains of the Stability Pact and What Next*? Swedish Institute for European Policy Studies, Stockholm

Dalsgaard et DeSerres (1999) ont pris en consideration la perspective d'une politique fiscale prudente justement pour eviter cette procyclicite. La prudence va devenir possible seulement dans le contexte de la cosnstitution d'un surplus budgetaire qui va conferer aux stabilisateurs fiscaux la capacite d'operer automatiquement pendant les periodes de recession justement pour eviter les deficits publics au dela des limites imposees par le Pacte de Stabilite et de Croissance.

Ce projet se propose de mettre en evidence les determinants du solde budgetaire ai niveau de la Roumanie.

2.3 La perspective quantitative sur la pression fiscale par la modelisation econometrique des relations entre les variables fondamentales du systeme fiscal

L'accentuation du phenomene inflationniste est certianement un des effets negatifs de l'apparition et de la persistence du deficit budgetaire. Au fur et a mesure que le niveua des des charges publiques va augmenter, la demande aggregee va etre inflammee, ce qui va generer automatiquement l'augmentation des prix [4] et la baisse du pouvoir d'achat.

Le deficit budgetaire appparait dans le contexte du phenomene d'eviction (crowding out) ; la croissance des charges publiques est une modalite par laquelle les periodes de recession economique peuvent etre surmontees[5]. Les adeptes du Keynes promouvaient la necessite de de l'intervention de l'etat par l'augmentationdes harges publiques pendant les periodes de crise economique pour assurere a l'economie les ressorts necessaires pour remettre l'equilibre. Mais c'est justement dans ce contexte de relache fiscale que le deficit budgetaire apparait.

La litterature de specialite inclut de nombreuses discussions contradictoires concernant les causes du deficit budgetaire [6]. Les discussions contradictoires sont apparues a l'egard des deux composants determinants du deficit budgetaire – les charges et les revenus publics.

[4] Cheng, Benjamin S. (1999), Causality between Taxes and Expenditures: Evidence from Latin American Countries, Vol. 23, No. 2, 184-192.

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Tableau no. 1 Regression charges publiques – solde budgetaire

Dependent Variable: SB

Method: Least Squares

Date: 09/25/07 Time: 01:23

Sample: 1990 2007

Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CHP	-0.126905	0.015285	-8.302780	0.0000
β	0.235476	0.012439	-6.34219	0.0000
R-squared	0.652697	Mean dependent var		-2302876.
Adjusted R-squared	0.652697	S.D. dependent var		2725989.

S.E. of regression	1606493.	Akaike info criterion	31.47096
Sum squared resid	4.39E+13	Schwarz criterion	31.52042
Log likelihood	-282.2386	Durbin-Watson stat	1.348634

Source : traitement propre

Theoriquement, le deficit budgetaire apparait dans le contexte des charges publiques excedentaires par rapport aux revenus pubics. Cependant, quelques theoriciens considerent que le deficit budgetaire est impacte d'une maniere plus forte par le composant fscal, c'est a dire un niveau reduit des revenus publics.

Pour surprendre d'une maniere plus viable le mecanisme qui a determine l'apparition du deficit budgetaire dans le contexte actuel de l'economie roumaine, on va tester quelques hypotheses par la construction des regressions entre le solde budgetaire (SB), comme variable dependante, et le niveau des charges publiques (CHP) et des revenus publics (VP) comme variables independentes.

La base de donnees valorisee appartient a l'Institut National de Statistiques et comprend les informations concernant les valuers enregistrees par le solde budgetaire et des charges au long de la periode 1990-2007.

Tout en prenant en consideration la periode de transition, marquee par de profondes restructurations d'ordre economique et social, on va emettre l'hypothese par rapport a laquelle le deficit budgetaire a ete determine sous l'impact des charges publiques, la dynamique des revenus publics n'ayant pas d'impact important dans cette perspective.

Ainsi, les hypotheses testees sont:

1. Les charges publiques ont un impact important sur le deficit budgetaire
2. La dynamique des revenus publics n'a pas eu d'impact important sur le deficit budgetaire

En faisant usage de la methode des moindres carres pour estimer la regression, on remarque le fait que le solde budgetaire peut etre modele de la perspective des charges publiques, mais aussi de la perspective des revenus publics :

Tableau no. 2 La regression Solde budgetaire – Revenus publics

Dependent Variable: SB

Method: Least Squares

Date: 09/25/07 Time: 01:24

Sample: 1990 2007

Included observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
VP	-0.139392	0.019941	-6.990076	0.0000
β	0.62412	0.002323		

R-squared	0.546836	Mean dependent var	-2302876.
Adjusted R-squared	0.546836	S.D. dependent var	2725989.
S.E. of regression	1835067.	Akaike info criterion	31.73701
Sum squared resid	5.72E+13	Schwarz criterion	31.78648
Log likelihood	-284.6331	Durbin-Watson stat	1.361468

Source : traitement propre

SB = -0,14*VP +0,62412

SB = -0.126905*CHP + 0.235476

ou

SB = solde budgetaire

VP = revenus publics

CHP = charges publiques

Tout en construisant les deux regressions, on remarque le fait que les statistiques correspondantes de la premiere equation de regression sont plus significatives que les statistiques de la deuxieme regression.

Dans ce cas, la premiere hypothese est acceptee tandis que la deuxieme est rejetee. Ainsi, du point de vue du coefficient R-squared, mais aussi de la somme des carres des residus et de la statistique Durbin Watson, on remarque le fait que la regression construite entre le niveau du solde budgetaire (deficit budgetaire) et le niveau des charges publiques exprime une relation beaucoup plus forte entre les deux variables que la regression construite entre le deficit budgetaire et les revenus publics [7].

Ainsi, tout en elargissant l'interpretation au niveau macroeconomique, on apprecie que le deficit budgetaire est apparu dans le contexte d'un niveau excedentaire des charges publiques par rapport aux revenus publics, plus precisement le composant budgetaire, de redistribution des finances publiques qui a ete plus fort que celui des prelevements.

Celle-ci est une particularite des economies emergentes ou l'etat s'implique par la croissance des charges publiques pour ameliorer les duretes du processus de transition de l'economie centralisee a l'economie de marche.

Mais a long terme, la persistence du defcit budgetaire a des influences negatives sur l'equilibre macroeconomique [8] .

C'est pourqoui les analystes se sont mis d'accord sur la necessite des options publiques equilibrees, qui impliquent l'interference equilibree du composant budgetaire et du composant fiscal.

On anticipe une augmentation du taux de la fiscalite en Roumanie a l'avenir, tout en prenant en consideration son integration a l'Union Europeenne et les pressions exercees par les taux de fiscalite beaucoup plus eleves des etats membres.

Dans ces conditions, il y a de nombreuses opinions par rapport auxquelles une potentielle croissance du taux de la fiscalite conduise d'une d'une maniere inevitable a l'uagmentation des pressions inflationnistes, ce qui representerait, en effet, un reel peril pour la stabilite macroeconomique[9].

[7] Schneider Friedrich, „Shadow Economies of 145 Countries all over the World: Estimation Rezults over the Period 1999 to 2003", 2005

[8] Voinescu Lucian, Ţigănescu Relu, „Fiscalitatea anului 2005- semnificativă", Revista „Finanțe Publice şi Contabilitate", nr. 7-8/2004

[9] Alexandru F., "*Eficiență-echitate în materie fiscală*", Tribuna Economică, nr.22/31 mai 2000

Pour mettre en evidence la correlation entre la fiscalite et le niveau de l'inflation en Roumanie, on a construit deux regressions entre inflation, comme variable dependente, et les impots indirects et deficit budgetaire comme variables independentes.

Tableau no 3 Regression inflation – impots indirects

Dependent Variable: INFL

Method: Least Squares

Date: 09/25/07 Time: 02:06

Sample(adjusted): 1991 2006

Included observations: 16 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IMPIND	6.75E-05	0.000215	0.313162	0.7585
β	5.34E -09	0.000452	0.213445	0.567
R-squared	-0.757417	Mean dependent var		66.81250
Adjusted R-squared	-0.757417	S.D. dependent var		78.69284
S.E. of regression	104.3212	Akaike info criterion		12.19329

Sum squared resid	163243.7	Schwarz criterion	12.24157
Log likelihood	-96.54630	Durbin-Watson stat	0.311692

Source : traitement propre

Les hypotheses formulees seront:

1. Le deficit budgetaire detrmine l'augmentation du phenomene inflationniste
2. Il y a une relation de proportionnalite entre le niveau des impots indirects et l'inflation

Les tests statistiques realises permettent la rejection des deux hypotheses. Ainsi, au niveau de la Roumanie on constate l'inexistence d'une correlation entre le deficit budgetaire et l'inflation, tout comme entre les impots indirects et l'inflation [10].

L'explication reside dans la cause de nature macroeconomique du processus inflationniste. La baisse du pouvoir d'achat, la reduction permanente des reserves en

devises de la Banque Centrale[11], la diminution de la capacite productive dans le

[10] Antonescu M., Buziernescu R., Ciora I.L., „*Tendințe actuale ale unor forme de evaziune fiscală pe plan internațional*", Revista „Finanțe Publice şi Contabilitate", nr.1/ianuarie 2004

[11] Friedman, M (1972), *An Economist's Protest*, Thomas Horton and Company, New Jersey

contexte des restructurations des grandes entreprises d'etat ont representes les causes principales de l'apparition et de l'accentuation du phenomene inflationniste.

La correlation faible manifestee entre les charges publiques et l'inflation a ete determine aussi par l'adoption de la Loi du Statut de la Banque Nationale qui interdit la monetisation des deficits budgetaires. Dans ce sens, les emissions inflationnistes de monnaie ont ete evitees.

Tableau no 4- Regression inflation-deficit budgetaire

Dependent Variable: INFL

Method: Least Squares

Date: 09/25/07 Time: 02:09

Sample(adjusted): 1990 2006

Included observations: 17 after adjusting endpoints

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SB	-4.56E-06	9.24E-06	-0.493947	0.6281
β	-2.345E-07	8.7E-05	-0.32156	0.341

R-squared	-0.849280	Mean dependent var	72.88235
Adjusted R-squared	-0.849280	S.D. dependent var	80.19888
S.E. of regression	109.0610	Akaike info criterion	12.27872
Sum squared resid	190309.0	Schwarz criterion	12.32773
Log likelihood	-103.3691	Durbin-Watson stat	0.278997

Source : traitement propre

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CHANGES IN FISCAL REGULATIONS REGARDING THE DIRECT TAXES, APPLICABLE IN 2008

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Brief: The paper aims to highlight the major changes in fiscal regulations regarding the direct taxes, applicable in 2008. We treat the main direct taxes separately:

The dividend tax regulations, regarding the application, the taxation quota, the anticipated dividend payments.

The tax on income from investments (legal aspects, taxable income from interests vs. gains from transfer of securities, reporting obligations).

The profit tax (advance payments, contracts for provision of services, taxable base of fixed assets, ellimination of the declaration of payments for non-residents).

Keywords: fiscal regulations, direct taxes, dividends, tax on income from investments, profit tax

Romania has launched a major reforming process regarding taxation, in order to elliminate the fiscal differences and exempts, which have contributed to fiscal evasion and deferred payments, in the past.

The new Fiscal Code, meant to harmonise the legislation with the EU acquis, brings changes in the fiscal regulations, which will generate higher income for the state budget.

The dividend tax

Application

The Fiscal Code, Title I, Chapter III, art. 7 defines the dividend as „a distribution in money or in kind made by a legal person to a participant in the legal person, as a consequence of the ownership of participation titles in such legal person, except for the following:

a) a distribution of additional participation titles which does not modify the percentage of ownership of the participation titles of any participant in the legal person;

b) […];

c) a distribution in money or in kind made in connection with the liquidation of a legal person;

d) a distribution in money or in kind made on the occasion of cutting down the registered capital actually constituted by participants.''

If the amount paid by a legal person for the goods or services supplied by a participant in the legal person exceeds the market price for such goods or services, then the difference shall be treated as a dividend. Likewise, if the amount paid by a legal person for the goods and services supplied to the advantage of a shareholder or associate of the legal person is carried out for the personal benefit of the latter, than that amount shall be treated as dividend.

The declaration and witholding of dividend tax owed by companies

The article 36 from the Fiscal Code treats the witholding of tax on dividends:

1. „A Romanian legal person which pays dividends to a Romanian legal person shall have the obligation to withhold and to pay in the withheld tax on dividends to the state budget, […].
2. The tax on dividends shall be determined by applying a taxation quota of 10% on the gross dividend paid to a Romanian legal person.
3. The tax which must be withheld shall be paid to the state budget until the 25th of the month following the month when the dividend is paid. In case the allocated dividends have not been paid by the end of the year in which the annual financial statements have been approved, the tax on dividends shall be paid by 31 December of that year.

4. The provisions of the present article shall not apply to the dividends paid by a Romanian legal person to another Romanian legal person, if the beneficiary of the dividends holds a minimum of 25% of the participation titles in such legal person on the date when the dividend is paid, for a period of two years ending on the date when the dividend is paid. […].
5. The quota regarding tax on dividends provided in paragraph (2) shall also apply to the amounts distributed to the open investment funds.''

The declaration and witholding of dividend tax owed by people

Art. 65 from the Fiscal Code says that dividends shall be taxed with a 16% quota of the amount of such incomes. The legal persons shall be obliged to calculate and to withold tax on incomes in the form of dividends at the same time with the payment of such dividends to shareholders or associates. The time limit for the payment of the tax shall be until the 25th day inclusive of the month following the month when the payment is made. In case of distributed dividends which were not paid to shareholders or associates by the end of the year when the balance sheet was approved, the time limit for the payment of dividend tax shall be until 31 December inclusive of that year.

The comparative fiscal treatment of the dividend

Companies:

- the net dividend received from another company is non-taxable income;
- the gross dividend is non-taxable at source, if the beneficiary owns at least 15% in the paying company, or 10%, since 2009.

Natural persons:

- the dividend received from a company is taxable with a 16% quota;
- the witheld tax is final.

The differences in fiscal treatment

Companies

- the dividend received by a company that owns less than 15% (10% since 2009) is taxed with 10% at source; this is not a fiscal credit for the natural persons who own interests in the company that benefits from the dividend;
- there is a double taxation of the dividend:
  - 10% at the payment to the company that holds interests in the company that pays dividends;
  - the net dividend of the beneficiary company is taxed the second time with 16% at the payment to the natural persons (share-holders or associates).

Natural persons:

- they receive the dividend in less than 6 months from the approuval of the annual financial statements;
- they can receive the dividends during the fiscal year, according to the law:
  - provided there is profit;
  - the dividend distribution is the result of the approuval of the share-holders or associates.

The anticipated dividend

There is a possibility to make anticipated payments of dividends, which results from art. 67 Law 31/1990, modified and harmonised with the UE acquis:

1. The share of the profits to be paid to each associate represents a dividend.
2. The dividends shall be paid to the associates in proportion with their participation quota in the registered and paid capital, provided the constitutive act does not provide otherwise.
3. Dividends can be distributed only out of real profits.
4. Dividends paid with the infringement of the above mentioned provisions shall be reimbursed.

5. The right to sue for the reimbursement of the dividends is limited to three years since the day of their distribution.
6. The dividends due after the shares changed the owner belong to the assignee provided the parties did not agree otherwise.

The payment deadline of tax for the anticipated dividend is 25 of the month following the month the dividend is received.

The tax on income from investments

The tax on income from investments owed by Romanian legal persons

The companies are subject to tax on taxable profit obtained from any source, either in Romania or from abroad, with a 16% quota; fiscal losses can be reported for the following five years.

The tax on income from investments owed by non-resident legal persons

The non-resident companies are subject to tax profit for the income obtained from selling interests in a company, if:

- the owned company is romanian;
- a minimum of 50% of the fixed assets of the transactioned company is, directly or indirectly, real estate located in Romania.

The Fiscal Code says that gains obtained from investments, other than interests, obtained by a non-resident company are not taxable in Romania.

The Norms of application of the Fiscal Code say that the application of the Conventions for avoiding the double taxation is extended to gains obtained by non-resident companies from transactions with all kinds of stocks.

The internal taxation quota is 16%; the fiscal loss can be deferred for the following five years. The gain or loss is determined with the following formula:

Gain/loss = (no. of shares * market price) – (no. of shares * acquisition cost) – commisions, taxes, direct transaction costs

The deadline for the payment and declaration of the tax is 25 of the next month of the termester when the gain is obtained. For the gains obtained during the year, a declaration of profit should be submitted , until 15 April next year.

Any foreign company that obtains income from selling interests in a Romanian company has to pay profit tax and also to submit a profit tax declaration. These companies may assign a fiscal representative for these matters.

Exceptionally, the non-resident company does not have these obligations if its income is paid by a Romanian company, or by a permanent head-office of a non-resident company; in which case, the income payer has the obligation to calculate, to withold, to declare and to pay the tax.

The Conventions for avoiding the double taxation apply, provided that the fiscal residence certificate is presented either to the income payer of the transaction gains (if this one is a Romanian company, or a permanent head-office in Romania of a non-resident company), or to the fiscal representative in Romania of the non-resident company.

Most of the Conventions for avoiding the double taxation, settled between Romania and other countries stipulate that these gains should be taxed only in the benficiary's country. Exceptionally, some Conventions (e.g. France, Germany) stipulate that these gains should be taxed in the source-state, if most of the fixed assets of the transactioned company represent, directly or indirectly, real estate located in Romania.

The Fiscal Procedure Code says that any entity/person who is subject of a fiscal transaction should be registered and have a fiscal identification code. The contributors who don't have a fiscal residence in Romania but who should submit fiscal declarations, need to assign a representative that has fiscal residence in Romania.

The tax on income from investments owed by Romanian natural persons

The Romanian natural persons are subjects of the investment income tax, for the gain obtained from selling titles.

The tax is calculated for every transaction; the net annual gain is calculated only for investments transactions, others than interests and shares in closed companies.

The calculation methods vary according to the investment type:

- gain/loss from investments transfer, other than interests = no. of shares * (sale price – acquisition price) – transaction costs
- gain/loss from interests transfer = no. of shares * (sale price – nominal value/acquisition price)
- gain/loss from the transfer of interests in open investment funds = no. of shares * (repurchase price – acquisition/subscription price)

The gain from transactions with investments in closed companies and interests is taxed with a 16% quota. The yearly fiscal loss is not recognised nor deduced or reported. The taxable person is the one who earns the gains. The deadline for the declaration and payment of the tax is 25 of the next month from the income realisation.

Except for investments in closed companies and interests, the gain from investment transactions is taxed with a 1% quota if the shares were owned more than 365 days, and 16% if they were owned for a shorter time. At the end of the fiscal year, only gains of the same nature are compensated, and annual loss is not reported. The intermediary is obliged to withhold, declare and pay the tax, until the 25 of the next month from the income realisation.

The tax on income from investments owed by non-resident persons

According to art. 115, alin. 2 from the Fiscal Code, the gains earned by non-resident natural persons from the transfer of investments in a Romanian company and from the transfer of titles, other than interests, are taxed according to the regulations applicable to Romanian natural persons.

If the beneficiary presents the fiscal residence certificate, the gains are taxed according to the Conventions for avoiding the double taxation.

Just like for the companies, most of the Conventions for avoiding the double taxation, settled between Romania and other countries stipulate that these gains should be taxed only in the benficiary's country. Exceptionally, some treaties (e.g. France, Germany) stipulate that these gains should be taxed in the source-state, if most of the fixed assets of the transactioned company represent, directly or indirectly, real estate located in Romania.

Penalties

For not submitting the fiscal declarations, including the fiscal registration, there are fees of 1.000 – 5.000 lei for companies and of 500 – 1.000 lei for persons. There are 0,1% per day penalties for not paying the tax.

The profit tax

Anticipated payments

The contributors (other than Romanian banks and non-resident bank branches) should have applied the termestrial anticipated payments of profit tax, starting 1 january 2008.

The application of this system has been delayed until 2010.

Formal requirements for service provision contracts

The fiscal regulations valid during 2007 required that the contracts for provision of services should include information on execution terms, prices, the way prices are allocated and the total value of the contract. These requirements were stipulated in order to sustain the deduction of the expenses generated by the contract.

Since 1 January 2008, these requirements are not valid any more, the mere existence of a contract being a sufficient reason for deduction.

The registration of contracts for provision of services with non-residents

Only the contracts between Romanian companies and non-residents (persons or companies who activate in Romania) that could generate a permanent head-office should be registered with the authorities.

The fiscal base of fixed assets

The fiscal value includes the reevaluations of fixed assets, made on a legal basis. The reduction of the fixed assets value below the acquisition cost should not be taken into consideration for fiscal reasons.

The reduction of fixed assets value, subsequent of reevaluation, can not be deduced when calculating the profit tax. The fixed assets reevaluation should be recognised in Accountancy starting 1 January of the year following the reevaluation. Reevaluations made when the company is reorganised should not be taken into consideration for fiscal reasons.

The ellimination of the declaration regarding payments to non-residents. The Romanian contributors had to submit a declaration regarding payments to non-residents (both affiliates and others). This declaration is not required any more.

A similar, but not identical declaration should be submitted though, before the last day of February, in the year next to the one that payments were made (according to the regulations regarding the taxation of incomes earned by non-residents).

Accomodation and transport expenses

Accomodation and transport expenses were deduced when calculating the profit tax, provided they were made by the employees and administrators of the company.

Starting from 2008, the Fiscal Code stipulates that these expenses may be deduced also if they are made by persons assimilated to the employees (non-resident persons for delegations or temporary secondment in Romania, for business purposes, training, consultancy etc.).

The expenses made by the employees to and from their workplace are specifically mentioned as expenses that are made in order to obtain taxable income.

Technological loss

The technological loss included in the consumption norms of goods/services are expenses that are made in order to obtain taxable income.

Legal reserve

The Norms for the application of the Fiscal Code have been adjusted to the stipulations of the Fiscal Code regarding non-taxable income excempt from the calculation basis of the legal reserve, for fiscal purposes (the Fiscal Code, art. 20, lit.c).

If, subsequent to reorganisation, the legal reserve exceeds 20% of the social capital, the diminishing of the reserve is not mandatory.

Stock option plan

The difference between the market value and the preferential price of shares in stock option plan programs is defined as an expense in favour of the stock-holders (with an impact on profit tax and potentially on the dividend tax).

Sale and lease-back

The sale and leas-back operations should be considered a financing operation if the leasing operation qualifies as a financial leasing operation.

A coherent legislation on direct taxes is necessary, because there are more non-resident companies which make transactions on the Romanian capital market, and also, Romanian investors have access to titles issued on european markets.

Thus, we believe the permanent updating of the fiscal regulations will improuve the income collection for the state budget and will help create a healthy economical environment.

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ANALYZING THE RELATIONSHIP BETWEEN PUBLIC AND EXTERNAL DEBT SUSTAINABILITY: CASE STUDY ROMANIA

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Abstract: The external vulnerability became an important issue as a result of recent financial crises. The debates focused on the external and public debt sustainability in order to identify the relationship between these two variables in order to investigate the degree of vulnerability of a country from the point of view of its international financial position and internal stability. So, the recent increase of external debt in Romania conduct to the necessity to analyze the debt sustainability for the external position and for the domestic debt. The aim of this paper is to investigate the relationship between public and external debt sustainability in Romania. Using monthly data from 1992 to 2007 we find evidence for weak form of Romanian debt sustainability.

Key words: public debt, external debt, sustainability.

1. Introduction

The external vulnerability became an important issue as a result of recent financial crises. The debates focused on the external and public debt sustainability in order to identify the relationship between these two variables and to investigate the degree of vulnerability of a country from the point of view of its international financial position and internal stability. So, external debt is sustainable if a country "is expected to meet its current and future external debt-service obligations in full, without recourse to debt relief, rescheduling of debts, or the accumulation of arrears, and without unduly compromising growth"[41]. This definition reveals the complexity of this concept which is analyzed using different variables and techniques in order to ensure long term debt sustainability without affecting the country's capacity to service external debt on long run. These variables that are taken into the consideration are economic growth, export, import and fiscal revenue.

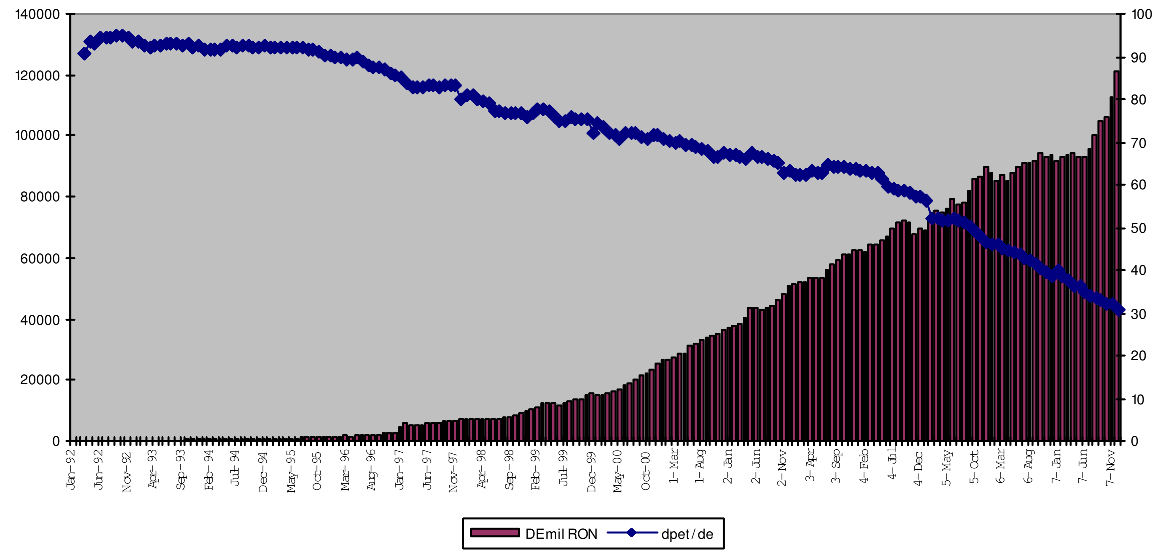
So, considering the relevance of external debt sustainability in relation with public debt sustainability, we find useful the investigation of this issue for Romanian case.

The study is structured as follow. After a brief presentation of the Romanian public and external debt (Section II) we investigate the literature on debt sustainability (Section III). Section IV highlights the results of the empirical tests to analyze the relationship between Romanian public and external debt sustainability. Section V discusses the policy implications of these findings.

2. Romanian external and public debt

External debt is the result of the country financial liabilities that is owed to creditors outside the country. In Romania, external debt has an increasing trend over the period 1992-2007 as a result to external indebtedness of public authorities and private entities. But public external debt has a decreasing trend starting with 2004, when the ratio of public debt to external debt became less then 50 percent. This ratio varies between 94.9 percent in October 1992 and 30.9 percent in December 2007, and shows the external vulnerability caused by private debtors (figure 1).

[41]IMF, 1997, pp. 17.



Source: data are from National Bank of Romania.

Figure 1 External debt and external public debt, 1992-2007

3. Review of selected literature

Sustainability of external debt is based on the intertemporal budget constraint which expresses aggregate income of the economy as a function of total expenditure, as follows:

$$Y_t + \Delta B_t + TR_t = A_t + rB_{t-1} + [N_t - (1+i_t)N_{t-1}] \text{ or } TB_t + \Delta B_t + TR_t = rB_{t-1} + [N_t - (1+i_t)N_{t-1}] \quad (1^{42})$$

where: Y- GDP during t period; ΔB- change of gross external debt; TR- net transfer receipts; A-total expenditure of domestic residents on goods and services; r- nominal interest rate; N- foreign currency reserves of central bank; i- interest rate in these reserves; TB- trade balance. These variables can be expressed as ratio of GDP or in real term.

If it is considered the expectation operator, the intertemporal budget identity became:

$$B_t = E_t \sum_{j=t+1}^{\infty} \frac{S_j}{\prod_{t=1}^{j-t}(1+r_{t+i})} \quad (2^{43})$$

So, the external debt at time t is equal to the present value of future net surpluses which is equivalent with external debt sustainability if: $E_t \lim_{N\to\infty} \frac{B_N}{\prod_{j=1}^{N-1}(1+r_{t+j})} = 0$ (3^{44})

Investigation of external debt sustainability may also take into the consideration: (i) current account sustainability focused on the composition of CA and on the methods used to finance the CA deficit through foreign direct investments or other. In this context it is useful the net external position (NEP) of a country (Lane and Milesi - Ferretti, 2005); (ii) domestic public debt underlined how it undermines the sustainability target for external debt (Abbas, 2005). Presbitero and Arnone (2006) analyze the external sustainability using domestic public debt because it became an important part of the indebtedness level and interest rates

[42] Gülcan and Utku, 2006, pp.671.
[43] Gülcan and Utku, 2006, pp.672.
[44] Gülcan and Utku, 2006, pp.672.

on domestic debt constrained the government spending and investment; (iii) economic growth (Bhattacharya, Clements, 2004; Presbitero, 2005); (iv) fiscal deficits and economy (such as consumption, investment) (Agenor, 2004).

External debt sustainability and it's incidence on other variables are investigated using different techniques and variables. The procedures are: (i) unit root test for external debt and trade balance or current account; (ii) cointegration regressions among external debt and trade balance or current account, or exports, imports, GDP, and interest rates (Hamilton, Flavin, 1986; Sawada, 1994); (iii) reaction function for external debt expressed by other explanatory variables. Unit root and cointegration tests are useful to analyze the implication of the intertemporal constraint on long run in order to identify if a government can sustain its domestic and external deficits without major adjustments imposed by intertemporal budget identity. Such empirical investigation begin with the study of Hamilton and Flavin (1986), and extended by Wilcox (1989), Trahan and Walsh (1991), Hakkio and Rush (1991), Buiter and Patel (1992), Tanner and Liu (1994), Liu and Tanner (1995), Tanner (1995), Wu (1998).

As a result of the empirical studies, investigation of external debt sustainability can be done by using accounting approach (Cuddington, 1997; Agenor, 2004; Burnside, 2005) and present value constraint approach. According to this last method the debt is sustainable when "NPV of debt (public and publicly guaranteed) to exports ratio and the debt service to export ratio are below certain country specific target levels within ranges of 200-250 percent and 20-25 percent respectively" [45]. These standard levels for different debt ratio are: (i) public external debt is 50 percent of GDP, 200 percent of exports and 250 percent of consolidated general budget revenue; (ii) public external debt service is 20 percent of exports, 25 percent of consolidated general budget revenue; (iii) interest on public external debt is 10 percent of exports and 15 percent of consolidated general budget revenue.

4. Relationship between public and external debt sustainability: evidence for Romania

In order to investigate the relationship between public and external debt sustainability in Romania we use unit root, cointegration and OLS regression for external debt and public external debt. The variables used are external debt (*ED*), public external debt (*PED*), export (*EX*), import (*IM*), trade deficit (*TB*) and current account deficit (*CA*) from January 1992 to December 2007. Unit root tests show that these variables are I(1) according to Phillips-Perron (table 1). As a result we may say that sustainability of external debt and external public debt is weak as a result of the equilibrium relationship on long run between external debt or public external debt and trade or current account deficit over the entire sample.

ariable	*t -Statistic*	*Test critical values*		
		1 % level	*5 % level*	*1 0% level*
Phillips-Perron				
(PED)	*-12.09523*	*-3.464827*	*-2.876595*	*-2.574874*
(ED)	*-8.919266*	*-3.464827*	*-2.876595*	*-2.574874*
(EX)	*-18.25251*	*-3.464827*	*-2.876595*	*-2.574874*
(IM)	*-17.76182*	*-3.464827*	*-2.876595*	*-2.574874*
(TB)	*-15.75528*	*-3.464827*	*-2.876595*	*-2.574874*
(CA)	*-15.55951*	*-3.464827*	*-2.876595*	*-2.574874*

Table 1 Results of unit root tests

[45]IMF, 1997, pp. 28.

The results of our tests are: (i) external debt determines import and export but there is a weak relationship between them; (ii) public external debt causes import and export and it is influenced by export. So, the regressions results are:

$ED_t = 286.8678 + 1.013162 ED_{t-1} - 0.130557 EX_{t-2} + 0.097598 IM_{t-2} + \varepsilon_t$, with R-squared = 0.998789

$PED_t = 180.7910 + 1.009919 PED_{t-1} - 0.024882 EX_{t-2} + 0.012117 IM_{t-2} + \varsigma_t$, with R-squared =0.998240

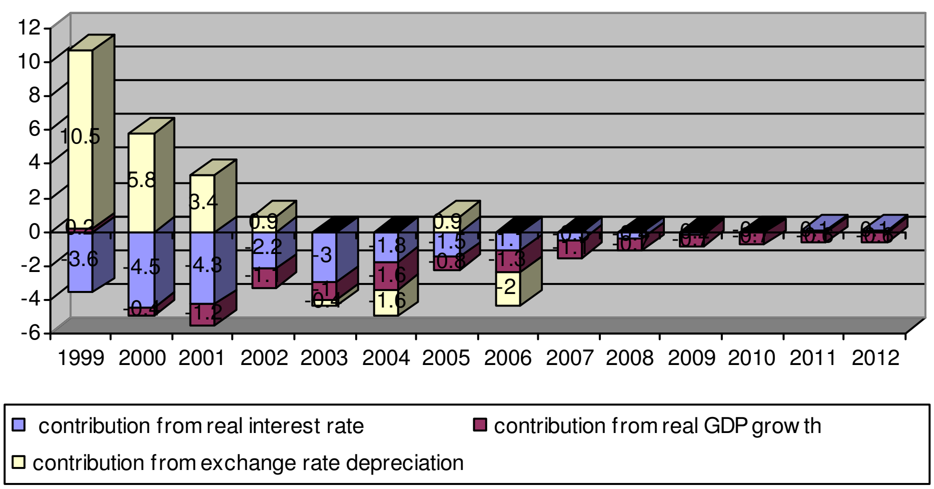
Investigation of public external debt and external debt using the standard level recommended by World Bank and International Monetary Fund shows that Romanian public external debt is sustainable because these ratios are below targets. For example we present these results, for 2005-2006, in table 2.

	2005	*2006*	*Standard level*
Public external debt (% of GDP)	14.4	10.4	50
Public external debt service (% of GDP)	2.5	1.8	
Public external debt (% of export)	43.9	39.4	200
Public external debt service (% of export)	7.7	6.5	20
Interest of public external debt (% of export)	2		10
Public external debt (% of consolidated general budget revenue)	50.1	34.2	250
Public external debt service (% of consolidated general budget revenue)	8.6	5.9	25
Interest of public external debt (% of consolidated general budget revenue)	2.3		15

Source: Romanian Ministry of Economy and Finance

Table 2 Public external debt indicators

Another way to investigate debt sustainability is to use the IMF methodology using sensitivity tests for different macroeconomic perspective such as economic growth, GDP deflator, real interest rate on public debt, primary deficit and gross financing need. The results of these investigations for automatic debt dynamics[46] are presented in figure 2 and 3.



[46] Relations and data are from IMF, Romanian Country Report No. 04/221 and No. 07/219.

Automatic public debt dynamics is determinate using equation [(r-p(1+g)-g+ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

Automatic external debt dynamics is derived as [r-g- r(1+g)+ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

Figure 2 Automatic public debt dynamics

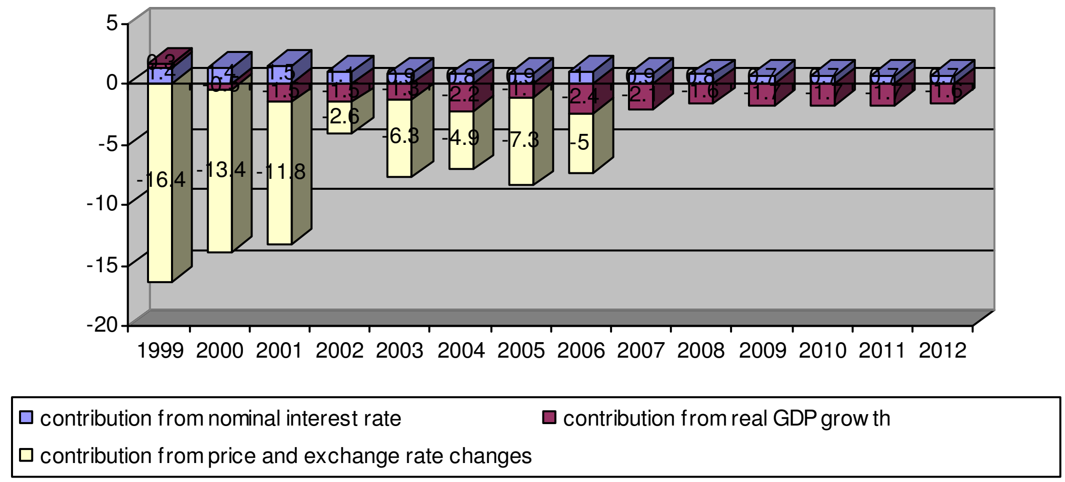


Figure 3Automatic external debt dynamics

Automatic public debt dynamics had positive value in 1999 and 2000 as a result of the contribution from exchange rate depreciation, and negative for 2001-2012. These negative value express al so the decreasing path of public debt at 11.6 percent of GDP in 2012 according to the IMF projections. For external debt, the automatic dynamics is negative for the entire sample especially as the result of price and exchange rate changes which will conduct to a level of external debt of 32.3 percent of GDP in 2012.

5. Conclusions

The external vulnerability became an important issue as a result of recent financial crises. The debates focused on the external and public debt sustainability in order to identify the relationship between these two variables in order to investigate the degree of vulnerability of a country from the point of view of its international financial position and internal stability. So, the recent increase of external debt in Romania conduct to the necessity to investigate the debt sustainability for the external position and for the domestic debt. In theoretical and empirical studies on this issue are developed many techniques in order to analyze the debt sustainability regarding the existence and the type of sustainability, and the incidence of economic variables on debt sustainability. These variables can be used to influence the dynamics of public and external debt in order to ensure the intertemporal budget constraint. Starting with these methods we find that Romanian debt sustainability is weak and there are evidences for long term equilibrium between debt and current account.

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INVESTIGATING THE GAP OF PUBLIC DEBT SUSTAINABILITY IN EMU MEMBER STATES

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Abstract: The issues of assuring public debt sustainability and the impact of tax and budgetary policies on it were the subject of numerous studies both at national and international level, with complex approaches in the specific literature. Debt sustainability is al so important because of the need to ensure long term sustainability of public finances in the context of risk factors represented by rising longevity, falling fertility rates and the retirement of the baby boom generation (European Commission, 2006). In this context we find important to investigate the sustainable gap of public debt over 1990-2005 and the public indebtedness path over 2050 in EMU member states.

Key words: public debt, fiscal balance, primary balance, sustainability.

Introduction

The issues of assuring public debt sustainability and the impact of tax and budgetary policies on it were the subject of numerous studies both at national and international level, with complex approaches in the specific literature. They start with defining the sustainability and its the factors of influence, continue with identifying the type of sustainability and ending with the determination of the impact of public policies on the sustainability and the impact of sustainability on other macroeconomic variables (e.g. economic growth, inflation).

Debt sustainability is al so important because of the need to ensure long term sustainability of public finances in the context of risk factors represented by rising longevity, falling fertility rates and the retirement of the baby boom generation. These risks were identify by the European Commission (2006) based on the projections until 2050 taking into the consideration the incidence of population ageing on economic growth and public expenditure in order to avoid an excessive burden on future generations.

The purpose of this paper is to analyze the gap sustainability in EMU member states. This paper is structured as follows. Starting with empirical evidence on public debt sustainability in section 2 and sustainability model in section 3, section 4 presents the gap of public debt sustainability and risk factors (rising longevity, falling fertility rates and the retirement of the baby boom generation) effects on public debt path. Section V discusses the conclusions of our study.

2. Empirical evidence on public debt sustainability

In the studies that focused on the analysis of public debt, sustainability at country level there were used different methods (Blanchard, 1990; Buiter, 1995; Bohn, 1998, 2005), which lead sometimes to contradictory results. Thus, in the case of US economy, tests on the stationarity of deficit and public debt allowed to identify the existence of public debt sustainability, although data series differed among the studies, as follows: Hamilton and Flavin (1986), annual data series for 1962-1984; Trehan and Walsh (1988, 1991), annual data series for 1890-1983, 1960-1984; Kremers (1988), annual data series for 1920-1985; Bohn (2005), annual data series for 1792-2003. Wilcox (1989) used annual data series for 1960-1984 and stationarity tests on the public debt of USA. He concluded that there is a lack of sustainability, result confirmed Hakkio and Rush (1991), who used quarterly data series or the period 1950-1988 and cointegration tests between the budgetary revenues and expenses. These cointegration tests between the budgetary revenues and expenses of the USA were used for testing the sustainability in the works that followed. This time, the result was positive, although the data series were both annual and quarterly: annual for 1950-1989 in Tanner and Liu (1994) (except the year of 1982); quarterly for 1947-1992 in Quintos (1995) (sustainability until 1980); quarterly for 1950-1990 in Haug (1995); quarterly for 1950-1994 in Crowder (1997) (sustainability until 1982); quarterly for 1947-1992 in Cunado, Gil-Alana and Perez de Gracia (2003), who observed that public debt had a weak sustainability which meant that the adjusting processes are long lasting.

The studies developed on other countries had led to different results: (i) public debt is sustainable in Australia (Elliot and Kearney, 1988); Greece (Visaggio, 2004); Germany (Payne, 1997; Greiner, Koeller and Semmler, 2005); France (Monnier and Tinel, 2006); Japan (Doi, Ihori and Mitsui, 2006); (ii) public debt is not sustainable in Canada (Smith and Zin, 1991); India (Buiter and Patel, 1992); Greece (Makrydakis, Tzavalis and Balfoussias, 1999), Italy (Baglioni and Cherubini, 1993; Athanasios and Sidiropoulos, 1999; Galli and Padovano, 2005); Brazil (Issler and Lima, 1998; Giambiagi and Ronci, 2004; de Mello, 2005).

The determinants of the budgetary deficit and public debt were the subject of many papers meant to explain how the public policies can explain them. Analyzing the OCDE countries Tujula and Wolswijk (2004) have identified a series of factors, as the macroeconomic environment, interest rates, electoral cycles, integration in the Economic and Monetary Union. Some works are in favor of the importance of public debt management (maturity, instruments etc) in stabilizing of public debt to GDP ratio (Bacchiocchi si Missale, 2005).

The studies on the relation between the fiscal sustainability and the external sustainability show a strong correlation between the budgetary and current account deficits that lead to the concept of twin deficits. (Enders,1990; Raybaudi, Sola and Spagnolo, 2003; Ley, 2005).

The recent studies analyze the issues of assuring public debt sustainability through tax and budgetary policies on emergent economies. They use simulations for medium term projections of the impact of excess dept. Gupta, Baldacci, Clements and Tiongson (2003) study on 25 emergent economies the factors that influence the fiscal adjustment periods quantified by the variation of the ratio of fiscal deficits to GDP. Thus, based on the variables used (number of periods when the fiscal consolidation failed; the ratio of budgetary expenses to GDP; the ratio of budgetary revenues to GDP; the initial level of debt to GDP ratio; the exchange rate; the unemployment rate; corruption etc) they draw up a model of fiscal consolidation that emphasizes the importance of both budgetary deficits and public debt. They obtained results that concluded that the risk of fiscal adjustment decreases as the economy heads to a sustainable level of public debt (link between the dimension of fiscal adjustment and sustainability).

Through their study, Hostland and Karam (2005) show that tax and budgetary policies can prevent the excessive debt on medium term of the emergent economies only if they are flexible. Therefore, the governments of emergent economies have to make a trade-off between the management of the risks induced by the unsustainable debt and other fiscal and budgetary goals. These findings were confirmed also by Celasun, Debrun and Ostry (2006), Jeanne and Guscina (2006). Celasun, Debrun and Ostry (2006) demonstrate the role of tax and budgetary policies, and of the noise that they induce in economy on the risk of unsustainable public debt using the example of Argentina, Brazil, Mexic, South Africa and Turkey. Jeanne and Guscina (2006), analyzing the determinants of public debt sustainability on 19 emergent economies conclude that the sustainability of public debt can be assured by a mix of fiscal-budgetary policies, that have goals like reducing the budgetary deficit and increasing the primary surplus, and the monetary policy, that aims at monetary stability. Michel, von Thadden and Vidal (2006) give an answer to the question of the possibility of establishing the sustainable public debt level as a rule in drawing up all the instruments of tax and budgetary policies. They use a model of a closed economy with several generations and conclude that the answer to the above question depends on the long-term level of public debt at which the economy is stable

In Romania, the interest for the study of public debt sustainability and incidence of tax and budgetary policies has grown as these are among the objectives of the governmental policies needed to fulfill the five criteria for convergence to the European Union. Such studies were performed by Albu and Pelinescu (1999, 2002), Campeanu, (2007, 2006, 2005, 2003, 2002), Stoian (2007, 2006, 2005, 2004), Mosteanu, Catarama and Campeanu (2005), Obreja and Brasoveanu, (2005), Roman and Marin (2005).

3. Public debt sustainability according to the intertemporal budget constraint

Public debt sustainability is investigated especially by using intertemporal budget constraint which implies that public debt at the moment *t* (b_t) depends on primary deficit at the moment *t* (pd_t) and public debt at the moment *t-1* (b_{t-1}). Equation 1 indicates the budget constraint presented in many studies such as Blanchard (1990), Buiter (1995), Bohn (1998,2005):

$$b_t = pd_t + \frac{1+r}{1+g} \cdot b_{t-1} \qquad (1)$$

where: b_t is public debt to GDP ratio at the moment *t*; pd_t is primary deficit at the moment *t*; *r* is real interest rate of public debt; *g* = real growth rate.

Considering the expectations at moment *t* on equation (1), sustainability is achieved when present discounted value of public debt converges to zero, as follow:

$$\lim_{k \to \infty} E_t \left(\frac{1+r}{1+g} \right)^{-(1+k)} b_{t+k+1} = 0 \qquad (2)$$

The variables used in the model are in real terms and as GDP ratio, but real interest rate of public debt and real growth rate are considered constant in order to simplify the equation.

4. Public debt sustainability in European Monetary Union member states

The aim of our study is to investigate the public debt sustainability level using the equation 1 in order to see if fiscal policy is or nor on a sustainable path. The results of our study are presented in table 1, when we evidence the sustainability gap according to fiscal criteria established by Maastricht Treaty and to intertemporal budget constraint, and the effects of risk factors (European Commission, 2006) on public debt.

	Public debt according to limit imposed by Maastricht Treaty		**Sustainable public debt according to intertemporal budget constraint**		**Effects of risk factors on public debt**
	below 60% of GDP	**above 60% of GDP**	**indebtedness below the sustainable level**	**indebtedness above the sustainable level**	
EMU	1990-1994 (gda 51.1%)	1995-2005 (gda 76.2 %)	1998-2002 (sga - 2.6 p.p.)	1992-1997 (sga 4.1 p.p.), 2003-2005 (sga 2 p.p.),	Positive effect on public debt during 2010-2030, when gda will be 47.04%, except 2050, when indebtedness will reach 126.9%.
Belgium		1990-2005 (gda 118.5%	1990-2005 (sga - 9.9.p.p.)		Public indebtedness will decrease over 2010-2030 (gda 62%), so we may consider that these factors will have no effect on public debt
Finland	1990-2005 (gda 44.7 %)		1996-2005 (sga - 6.5p.p.)	1990-1995 (sga 8.5p.p.)	Positive effect on public debt which will be 18% in 2010, and - 39.5%, on average, during 2030-2050
Slovenia	1990-2005		1994 (sg -	1995 (sg 2.1.p.p.),	Major effects because

	(gda 24.9 %)		1.7p.p.),1996 (sg -1.2p.p.), 1998 (sg -0.2p.p.), 2005 (sg -0.9p.p.)	1997 (sg 1.1.p.p.), 1999-2004 (sga 1.7p.p.)	the public debt will increase from 67% in 2030 to 274% in 2050
Austria	1990-1992 (gda 56%)	1993-2005 (gda 65%)	1991-1992 (sga -2.3.p.p.), 1996-1998 (sga -3.8p.p.) , 2000-2005 (sga -3.3.p.p.)	1993-1995 (sga 3.5p.p.), 1999 (sg 0.6p.p.)	Public debt will decrease over 2010-2030 from 63.4 in 2005 to 42% in 2030. But in the next two decades there will be a return to 63%.
Netherlands	2000-2005 (gda 52.5%)	1990-1999 (gda 74%)	1991-1994 (sga -5.1p.p.), 1996-2002 (sga -6.8p.p.), 2004-2005 (sga -1.5 p.p.)	1995 (sg 3.1p.p.), 2003 (sg 1.3p.p.)	Positive effect because the public indebtedness will be, on average, 31% over 2010-2050
Luxembourg	1990-2005 (gda 6.2%)		1991 (sg -2 p.p.), 1993-2003 (sga -3.1 p.p.)	1992 (sg 0.5 p.p.), 2004-2005 (sga 0.9)	A major negative impact because public debt will increase from 10% in 2010 to 268% in 2050
Italy		1990-2005 (gda 112 %)	1992-2004 (sga -6.5 p.p.)	2005 (sg 0.9 p.p.)	There will be an influence on public debt which will be 261% in 2050, from 110% in 2010
France	1990-2002 (gda 51.2 %)	2003-2005 (gda 64.5%)	1991 (sg -1.2p.p.), 1998-2001 (sga -2.2 p.p.)	1992-1997 (sga 3.5 p.p.), 2002-2005 (sga 2.7 p.p.)	Yes, public debt will increase with 258.9%, in 2050 from 2005
Spain	1990-1993 (gda 48.3%), 2001-2005 (gda 49.4%)	1994-2000 (gda 64.1%)	1991-1992 (sga -0.03p.p.), 1997-2005 (sga -3.5 p.p.)	1993-1996 (sga 4.3p.p.)	Public debt will decrease in 2010-2030 (dga 4.5%), except 2050, when public indebtedness will reach 72%
Greece		1990-2005 (gda 104.4%)	1994-1999 (sga -7.3 p.p.), 2001-2002 (sga -0.9 p.p.)	1992-1993 (sga 8.5 p.p.), 2000 (sg 8.9 p.p.), 2003-2005 (sga 4.2 p.p.)	Yes, public debt will increase with 137.2% in 2050 from 2005
Ireland	1998-2005 (gda 37.1%)	1990-1997 (gda 85.8%)	1991-2005 (sga -6.4 p.p.)		Positive influence (gda 7.7%)
Germany	1990-1996 (gda 49.4%) , 2001 (gda	1997-2000 (gda 60.8%) 2002-	1996-2002 (sga -2.4 p.p.)	1992-1995 (sga 4.2 p.p.) , 2003-2005 (sga 1.9 p.p.)	Influence the public debt path which will increase during 2010-2050 (gda 152.7%)

	59.6%)	2005 gda 64.5%			
Denmark	1999-2005 (gda 46.8%)	1990-1998 (gda 69.4%)	1992 (sg -4.4 p.p.), 1994-2005 (sga -8.2 p.p.)	1993 (sg 4.1 p.p.)	Positive influence because public debt will decrease (gda - 84%)

Source: data presented in this table are determined by authors, as percentage of GDP, using official data from EUROSTAT for 1990-2005 and projected debt developments for 2010, 2030 and 2050 (European Commission, 2006).

Note: *gda* is gross public debt average expressed as percentage of GDP; *sg* is sustainability gap that expresses the difference between gross public debt and sustainable public debt; *sga* is sustainability gap average.

Table 1 Sustainability gap and effects of risk factors on public debt

Investigating the results of our research we may identify the period of sustainable public debt in EMU member states and the effect on risk factors on public debt. The findings are presented in the next section.

5. Conclusions

The risk factors (rising longevity, falling fertility rates and the retirement of the baby boom generation) identified by European Commission (2006) express the need to realize policy adjustments in order to ensure long term sustainability of public finances. In this context, we consider important to investigate the debt sustainability and the sustainability gap in EMU member states taking into the consideration the Maastricht Treaty limit for public debt and the intertemporal budget constraint. We use these techniques because of the short series data which not allows us to run econometric tests.

As results of our researches we find: (i) evidences on sustainability using Maastricht Treaty criteria and intertemporal budget constraint in: EMU, 1990-1991; Finland, 1996-2005; Slovenia, 1994, 1996, 1998, 2005; Austria, 1990-1992; Netherlands, 2000-2002, 2004-2005; Luxembourg, 1991, 1993-2003; France, 1991-2001; Spain, 1991-1992, 2001-2005; Ireland, 1998-2005; Germany, 1996, 2001; Denmark, 1999-2005; (ii) positive influences of risk factors on public debt path in Belgium, Finland, Netherlands, Spain, Ireland, Denmark; (iii) major influence of risk factors on public debt in Slovenia, Luxembourg, Italy, France, Greece, Germany.

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IS TAXATION A DETERMINANT OF CAPITAL STRUCTURE? AN ANALYSIS OF THE IMPACT OF INTEREST SYSTEMS ON TAX LAWS

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This paper is an analysis of how the companies in building and constructions use tax liabilities in order to finance their assets. We start from the assumption that tax liabilities are an important source of financing their assets and, thus, the introduction of the new mechanism of "reverse charge" in the field of value added tax generated difficulties in their financing, difficulties that forced the companies to change their capital structure. Then we investigate whether or not they constituted in an interest system that determined the change of the law back to its initial state

Keywords: taxation, interest systems, capital structure, corporate governance

1. Introduction

This paper is trying to add a page to the answer to a fundamental question in financial economics: "What are the determinants of the firm's capital structure?" Among these determinants the most frequently mentioned are taxes, the cost of financial distress, agency costs, and the firm's product and input market strategies[47]. The relation between capital structure and taxes has been the subject of extensive theoretical analysis[48]. These analysis specify particular relations among the optimal capital structure, corporate tax rates, nondebt tax shields, and personal tax rates.

The first element that was considered by the theory was the corporate tax rate. Thus, Modigliani and Miller (1963) stated that the corporate income tax makes debt more attractive than equity in financing a company due to the deductibility of the interests, which will generate a decrease in the cost of capital.

Then, it was considered the effect of nondebt tax shields on leverage. DeAngelo and Masulis (1980) suggest that there is substitution between debt and other deductions in shielding corporate income from taxes

The effect of personal tax rates is viewed through the taxation of debt income or equity income (Miller (1977)). If debt income is taxed more favorable that equity income, than individuals will have more incentives in investing in debt instruments than in equity instruments.

We will investigate the possibility that an increase in tax accruals, due to VAT legislation changes may have an impact on the capital structure.

[47] Givoly D., Hayn C., Ofer A. R., Sarig O., (1992), "Tax and Capital Structure", The Review of Financial Studies, Vol. 5, No. 2, pp. 331-355

[48] For an extended list of these studies see Givoly D., Hayn C., Ofer A. R., Sarig O., (1992)

2. A short review on the financing sources of a company

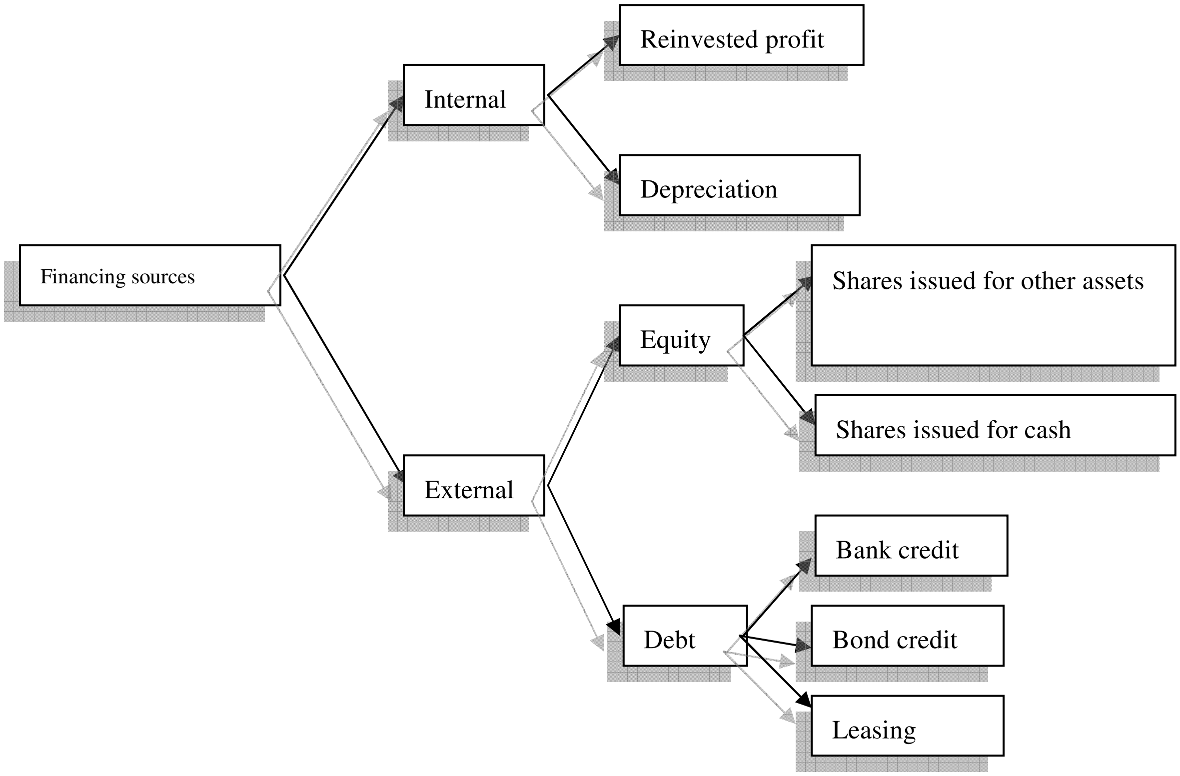

Fig. 1. The financing sources of a company

Source: Dragota V., Ciobanu A., Obreja L., Dragota M., (2003) "Management financiar", Editura Economica, Vol. 2, pag. 120

In order to analyze the capital structure of a company is necessary to identify the financing sources that a company may use in financing its asset. The theory identifies two main types of sources:

So, where do tax liabilities interfere? It is true that they can not be seen in this figure, as they are a part of the current liabilities of the company which are used to finance the current assets of the company.

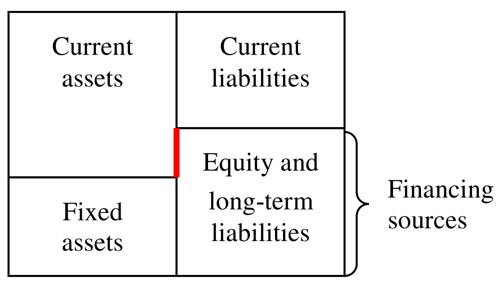

Fig. 2. The classical financial equilibrium of a company

In figure 2 it is shown how the financing sources are used in order to finance the fixed assets of a company and the net-working capital of a company.

3. The reverse charge system

The reverse charge system in the field of VAT was introduced in 2005 and means that the tax-payers that will apply it will no longer collect VAT at the sale of the product under this system but will have the right to deduct it. In order to apply this system both the seller and the buyer must be registered for VAT purposes. At the beginning of 2005 this was applicable to the sale of metal scraps, lands, buildings, wooden materials and live animals. After some changes in the list of goods for which this system shall apply in January 2007 the reverse-charge system was introduced for the selling of construction works[49]. This affected a large market that was estimated in 2006 to 10 bln. euros[50], and for which had a growth rate in 2006 of 23,5%[51].

So what happens when there is an increase in tax assets due to the increase of input value added tax (VAT) to be deducted, which does not turn into cash as there is no output VAT and the amount must be recovered from the state? So the question is what happens when a company is affected by a change in the taxation policy of the state by not collecting VAT anymore, but accumulating deductible VAT, as it happens in the case of the reverse charge system?

We illustrate this situation in the following two-stage example:

Company A is a company working in the building field. Before the introduction of the reverse charge system a typical transaction would have been:

- buy raw materials: 1.000 lei + VAT 190 lei
- sell building works: 2.000 lei + VAT 380 lei
- cash-in clients and pay suppliers

After paying the VAT liability, the company will remain with a profit of 1.000 lei turned into cash.

Cash 1.190 lei	Profit 1.000 lei
	VAT liability 190 lei

After the introduction of the reverse charge system, a typical transaction becomes.

- buy raw materials: 1.000 lei + VAT 190 lei
- sell building works: 2.000 lei + No VAT
- cash-in clients and pay suppliers

Cash 810 lei	Profit 1.000 lei
VAT accrual 190 lei	

After paying the VAT liability, the company will remain with a profit of 1.000 lei which is turned into cash only for 810 lei, and for the remaining 190 lei there is a tax accrual that should be cashed in from the state.

Normally, this tax accrual should not have a very important impact on the company's financing policy. It should require, at most, a short-term bank credit in order to finance the short-term cash gap until the VAT is recovered from the state.

In order to recover for this VAT a company must make an option on its VAT return. After making this option, according to the current tax laws[52] the taxpayer will be included in a risk category. There are three risk categories:

a) taxpayers with a low risk, for which the decision of VAT reimburse will be issued;
b) taxpayers with a medium risk, for which a documentary analysis is needed prior to VAT reimburse;
c) taxpayers with high risk, for which a tax inspection is needed prior to VAT reimburse.

In all cases the procedure should not exceed 45 days from the date of the VAT reimburse request. This is in theory, because if the Tax Administration needs any additional information, the period shall be prolonged with the time needed to provide the additional information[53].

Thus, in practice, the period in which a company may recover the input VAT may be more than 6 months. Taking into account that during this period new input VAT is accumulated we may conclude that this

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[49] Law No. 571/2003 the Tax Code, published in the Official Journal No. 927/2003, with the subsequent changes
[50] Stoica G. – "Piata constructiilor a depasit pragul de 10 miliarde euro", Săptămâna financiară, No. 106, April 16th 2007
[51] Buletin statistic lunar, Nr. 2/2007, Institutul National de Statistica, pag. 59
[52] Law No. 571/2003 the Tax Code, published in the Official Journal No. 927/2003, with the subsequent changes, OMFP No. 967/2005 regarding the Methodology for solving the VAT returns with negative VAT sums with an option for return, published in the Official Journal No. 698/2005 with the subsequent changes, and OMEF No. 1857/2007 regarding the Methodology for solving the VAT returns with negative VAT sums with an option for return, published in the Official Journal No. 785/2007 with the subsequent changes
[53] According to the Tax Procedure Code, art. 70

system generates a level of the tax accrual that can be considered as a long term asset and not a short-term asset, for which the company must find financing resources.

4. The impact of the reverse charge system on the capital structure

For analyzing the impact of the reverse charge system on the capital structure we studied the case of a company working in the field of construction works.

Our company buys raw materials and sales construction works to other registered for VAT companies. Thus, in 2007 all its aquisitions will incur input VAT, but its sales will be made with the reverse charge system.

In the following table we present the situation of VAT in 2006 and then consider that in 2007 the value of VAT taxable aquisitions and supplies remains constant, in order to see the impact of VAT reverse charge system:

RON

	2006	**2007**
Aqusitions (VAT taxable)	13.158.000	13.158.000
Input VAT	2.500.020	2.500.020
Supplies (VAT taxable)	17.520.000	17.520.000
Output VAT	3.328.800	0
Tax liability	828.780	-
Tax accrual	-	2.500.020

Thus, in 2007, the company needs additional financing sources of 2.500.020 RON. Considering a short-term bank credit to finance this loan, at an interest rate of 15% p.a. this will generate additional interest expenses a a higher cost of capital. The cost of capital will increase with exactly 15% x (1-16%) x q, where q is the percent represented by the new short-term loan into total financing sources.

Of course that the company should analyze the posibility of not paying VAT to the supplier. In this case, if the penalty required by the supplier will be lower than the interest paid for the new loan, probably the company will have some incentives in not paying this VAT. Yet, this type of behaviour can generate serious commercial difficulties, so the company must thoroughly analyze wether or not to take this decision.

5. The interest system in the construction works field

An interest system may be defined as a „set of individuals or groups with common interests on the long term, which have the potential of generating pressure groups with methods specific to the goal persued and the force they have”[54]

We may say thet the antreprenours in the construction field may constitute an interest system which made pressures in order to change the reverse charge system. So this system was change with the begining of 2008. We fail to bring documented evidence on whether or not this interest system influenced tis decision. Taking into account the substantiation note of the Finance Ministry on the change of the reverse charge system for the construction works, the reason was „an unfavourable delay of receipts from VAT to the state budget", „the diffculties of the taxpayers to apply correctly this sytem” and „the increased number of requests for VAT reimburse”[55]

6. Conclusions

This paper tried to reveal the impact of a new system of tax rule in the field of VAT may influence the capital structure of a company. We gave evidence that this new system had an important impact and that this negative impact generated the change of the law back to its initial state. Thus, a sentiment of uncertainty in the tax field was created and we believe that the possible effects of such a system should have been more thoroughly analyzed before their implementation in order to avoid an uncertain situation.

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[54] Moşteanu T., Stoian A., Catarama D., Campeanu E., Gyorgy A., Miricescu E., (2006), pp. 25
[55] The substantiation note on the draft Ordinance to modify the Tax Code on January 1st 2008, http://discutii.mfinante.ro/static/10/Mfp/legislatie/Transparenta/notafundam_proiectmodif_codfiscal.pdf

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ANALYSE OF THE LIQUIDITY TIDE (CASH-FLOW), A MODERN FINANCIAL CONCEPT

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For any manager, cash-flow must to represent a permanently science in order to adopt a financial strategy which can mentain the firm in dealings. If the balance sheet illustrates the company's wealth, the profit and loss inventory account illustrates it's the efficiency, the treasury flows demonstrate the modifications in financial situation of the firm.

Inside and outside enterprise's medium are formed a lot of tides, but the ones expressed in currency form detain an important role and place, due the fact that is related to capital formating, increasing, and paying. An economic society could be lucrative,could achieve profit, but could not be solvent, due the liquidity's lack, thanks to differences between incomes and payments made inside the frame of financial cycle.

firm's strategy, absorb of liquidity, cashing, payments

The liquidity tide's analysis (cash-flow) allows to firm's management and to affair partners(the banks, the investment persons) to check if the money-goods-money channnel of circulation are developing normaly, respectively if the firm has the money possibilities needed in order to support the payments, representing same time a real support/plinth in ordering the treasury forecasts(available currency).

By cash-flow analyse are gathering relevant informations regarding the cash inputs and outputs(payments) (inclusively their equivalents concentrated in treasury inventory accounts predicament/category).

In financial practice is useful that cash-flow method must be applied both to current situation analysis and to firm's strategy.The cash movements are grouping on three different activities:

- proceeding/operational activities (of exploiting);
- investment activities;
- financial activities;

In all these activity types, the liquidity analysis serves to:

- connection of profit (losses) with the cash;
- spliting of activities which imply cash versus the activities which don't imply cash;
- valuation of firm's capacity to fulfill the cash payment obligation;
- valuation of cash flows for future activities (strategical cash-flow).

In exploiting activities (A) is necessary that cash-flow method to illustrate the transaction effects/results which have measured the profit or losses and modify (addition or minus) of working balance.

In investment activities (B) by cash-flow analysis will illustrate the cashing or payments made for acquisition or sales of fixed assets, thus beeing the variation of fixed/capital assets.

In financial activity (C) are illustrated the modification of debts and own capital.

Exploiting treasury cash-flows (operational cash-flow)

The firm's legal competence to produce cash from exploiting activity illustrates the manner of firm's function. The exploiting cash-flow is considered a major indicator of real financial „health ” of the firm. The exploiting cash flow is focusing on finance and not on profit measurement and, in consequence is adequate for valuation and shot-term liquidity forecast. Are known two methods in order to measure the exploiting cash flow:

- the direct method;
- the indirect method.

The direct method assumes to record all gross cash inputs and outputs regarding the exploiting activity. In this way is offering the cash measurements for both sides (inputs and outputs) and is offering details regarding the cash movements, also is taking notices concerning the places(posts) to which is possible to supervene a cash need.

The direct method illustrates the net profit as well as it has been computed on cash bases. In this sense could mention the following computation pattern :

Exploiting activity cash – Payments for expenses cash = Cash income before tax – Cash payments for tax = Cash derived from exploiting activity;

It could be reach to cash income before tax through the following pattern (which could be considered an replacing element for direct method):

Sales – Increasing in receivables inventory accounts – (Sales goods cost + Costs increasing + Decreasing of suppliers inventory accounts balance – Paid Interests, Exploiting expenses (which from are decreasing the fixed assets amortisation and the debts etc = Cash income before tax .

The indirect methods starts from net profit and depreciation considered as flow resources and are making increasing and decreasing based on variations which intervene in positions from final balance sheets versus the initiate ones and influence the money availabilities(cash). Is the most used method in firm's practice, due the possibilities to apply it both in execution phase and in liquidity flow forecast, by estimating first the level of future incomes..

A major place is engaged by the analysis of working balance from asset elements point of view (stocks,receivables and other operational assets), also from the passive elements point of view (suppliers, advance payments from customers, and other current debts).

Increasing of stocks, receivables etc. illustrates an absorb of liquidity,whereas a decrease of these active elements conducts to a liberation of available money.

From evolution of pasive elements point of view –suppliers, advance payments to suppliers and other current debt-is obvious that an increase illustrates a resources atractiing which influence favourable the liquidities, whereas a decrease of these conduct to a liquidity decrease.

The liquidities exploiting flow pattern by indirect method is as follow: Net result of the period [profit (+) or loss (-)] + Depreciation and costs included provisions, suppliance miscellaneous, customers – Creditors and other current operational pasive (+/-) – Stocks evolution (+/-), claims and other effective operational assets (+/-) = Net liquidity from exploiting activity.

The investment activity assumes both the sums from sales and capitalize of fixed assets, and the expenses made for acquisition or own resources/funds execution of the assets.

In a syntetic manner, the investments influence on the treasury flows could be illustrate through the variation of fixed assets (comparison of situation from the period's end to situation from the period's start).

Regarding the finance activities is necessary to pay attention to:

- variations of loans and assimilated debts;
- variation of other debts;
- variation of registred capital.

By algebraic add of all three flows categories flows (A, B and C) we obtain the total treasury flow(cash flow), which will be the same as the difference between available (treasury) from the period's end and the treasury from the period's start illustrate in balance accounts.

In cash flow analysis based on these three types of activities, the results evaluation takes into account the following demands:

A>0 means that the cash-flow derived from exploiting activities must be positive with an important value , due the fact that illustrates the expeditious informations of the firm;

B>0 means that the cash-flow from investment activities is positive. Such a situation could illustrate the intention of reorganization the firm's activity, which makes available fixed assets or has major commercial credits, given by the fixed assets suppliers;

B<0 means that the cash flow from investment activity is negative and conduct to investment achievements with value compensate partially from fixed assets capitalization ;

C>0 situation when the cash flow derived from finance activities is positive and it's made from extra financed sources in order to complete those derived from exploiting activity;

C<0 situation when the cash-flow from finance activity is negative and means that were made payments concerning capital decrease, repayment of loans, payment of financial leasing obligations, interests payment etc.

The algebraic sum of those three flows categories is normal to be positive, illustrates the liquidity's result of exploiting activity , that means a normal evolution of economic channel of circulation (money-goods-production-money) and allows the current needs cover , the cover of long terms needs and a financial equilibrium.

The total calculate flow must to be identically with the cash and cash equivalents from period's end minus the one from the period's start.

Using cash-flow method in firm's management are conditions to achieve the various goals related to good admnistration, thus we could mention:

- illustrate firm's capacity to generate liqudity(treasury), which demonstrates the efficiency of firm's activity;
- follow the variables which influence the cashing and payments, also taking/adopting the adequate measures;
- settlement of compulsory drawing sizes which affect the treasury and settlement of tresury flows which remains to firm's disposal;
- using the available liquidity in order to investments proceedings, following firm's development policy(otherwise, the un-investment policy);
- attracting of foreign sources (loans or credits) in case that the available liquidity is not enough for development;
- analyse of potential risk in manner how the firm achieves and uses the liquidities (cash) taking into account the influence upon firm's rewardings.

The cash-flow method is used in firm's financial strategy elaboration. In strategy elaboration intervenes a serie of various features, first beeing the forecasts, so it is working with probably variables and no sure variables. Too, an errors serie which had been made in a previous period are not forecast(deviations from proper proccedings of money- goods-money cycle).

The liquidity flows table are framing in an ensemble of methods and forecast financial methods. Thus, we mention: incomes and expenses budget, prevision balance and designed progress of efficiency and administration indicators. The starting point in financial strategy elaboration is the sails figure/turnover, which is based on market studies.

As a conclusion, the cash-flow is a continous investment process of money in an affair, which has as goal to obtain a money surpluss, beeing a firm's financial estate, which illustrates both the money funds formation and it's using, estimating the financial gains which can be obtained by an enterprising/business man from an affair.

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METHODS TO DETERMINE THE ENTERPRISE'S RESULT MEASURE/SIZE

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The enterprise's performances measurement is related first by profit measure. From practice activity point of view, the most important calculation pattern is the accounting/book-keeping pattern, due the fact that it has an official compulsory character.On these bases, profit has become known under the name of benefit and it is determined as difference between the incomes and expenses produced by commercial activity of one economic agent.

self-finance, cost, efficiency, amortization

The profit made from difference between total income minus production cost (total, option or opportuneness) is named economic profit and it is, as a rule, lower then legal obtained profit.

There is many methods to determine the enterprise's result size,such as:

a) Patrimonial method: by comparison the value of one enterprise, made at two different moments in time, using the same valuation methods.
b) Economical method: by substract the total expenses from total incomes, related to same period.
c) Financial method : by substract the depreciation from treasury net flows (this last measurement method is derived from the economic method).

From patrimonial point of view, enterprise method measurement proceed from the legal equation of balance sheet:

$$\text{ASSETS - LIABILITIE S} = \text{EQUITY}$$

Afterwards, by comparison of own resources of two successive periods, are determined the result :

EQUITY	-	EQUITY	=	RESULT
AFFERENT TO EXERCISE		AFFERENT TO EXERCISE		EXERCISE
N		N-1		N

Due the fact that this equation don't takes into account the possible changes of registered capital (basic element of equity) intervened during the exercise/period (capital increasing by cash contribution and by nature items contributions or due to debts exchange, decreasing of registered capital) also the fact that a part from profit could be distributed to associates as dividends, the equation which allows to determine the period' s result is :

$$\mathrm{Re} = Vcp - Ccs + Dd \qquad (1)$$

which:

Re = period's result;

Vcp = evolution of owner's equity between 2 successive periods (N şi N-1);

Ccs = Increasing of registered capital afferent to exercise/period N;

Dd = Distribute of dividends and, eventually, decreasing of registred capital afferent to exercise/period N.

Determined the result through the patrimonial method is criticazable in period of prices increasing, due the fact that adjustments brought to patrimonial elements, as a consequence of prices variation could be achieved by different methods, fact that conducts to supply of many measures/sizes for the result.

The economic method recognizes the period's result as difference between total incomes and total expenses :

TOTAL INCOME – TOTAL EXPENSES = EXERCISE/PERIOD RESULT

The result could be a positive measure, named profit or benefit, when the incomes are higher then the expenses, or a negative value, named losses, in oposite situation.

From financial point of view the exercise result appears as varition of enterprise treasury during a period by comparison of incomes flows and payment flows.

Due the fact that enterprise self-financed is ensured by exercise result (profit) and increase of amortization and provisions calculated expenses, un-generate payments, the equation which illustrates the result's size in this approach is :

$$\mathrm{Re}\,p = Ca - Cha$$

where:

$\mathrm{Rep} =$ Exercise/Period result;

$\mathrm{Ca} =$ Self Finance Capacity ;

$\mathrm{Cha} =$ Depreciation Expenses, provisions.

Theory and financial practice from our country take in account many methods to profit forecast, the most used beeing:

1. Syntetic method, which starts from taking into account of many syntetic indicators, with levels designed for future period, following the underneath methods :

a) Exploiting expenses measurement, as beeing the value of production for sales which from are deducted the value added tax, multiply by maximum level of expenses made to 1000 ron production, thus:

$$\mathrm{Ce} = (\mathrm{Qpv} - \mathrm{TVA})\,\mathrm{x}\,\frac{\sum \mathrm{Ce}}{Q}\,\mathrm{x}\,1000 \qquad (2)$$

which:

Ce =total exploiting expenses ;

$\mathrm{Qpv} =$ volume of production for sale, illustrated in sale prices:

$\frac{\sum Ce}{Q} \cdot 1000$ = maximum expenses made to 1000 ron production;

b) Profit establishment from sail of manufactured production, as difference relationship between gross sales which from has deducted the value added tax and exploiting activity :

$$\mathrm{Pi} = (\mathrm{Qpv}\quad \mathrm{TVA}) - \mathrm{Ce} \qquad (3)$$

which from:

$\mathrm{Pi} =$ the initiate profit from current exploiting activity;

c) Determine the stocks influence and the influence of invoices issued and unpaid from start and end of year over profit volume :

$$\mathrm{DP} = \mathrm{Pi} + \mathrm{Pf} \qquad (4)$$

Which from:

DP – difference ± of profit;

Pi – profit to year's beginig;

Pf – profit to year's end;

d) The volume of obtained gross profit :

$$\mathrm{PB} = \mathrm{Pi} \pm \mathrm{DP}$$

2. The direct method could be applied to enterprises with small number of products, due the fact that is necessary a large volume of calculus.In fact, is determined the profit on each product, and the profit/benefit calculation on every product are achieved by proceeding the following phases:

a) product profit, as difference between the value od production for sale less TVSA and exploiting expenses necessary to product's manufacture:

$$PQ = (Qpv - TVA) - qce \qquad (5)$$

Which from:

PQ – product profit;

Qpv – product value in selling price;

TVA – value added tax ;

qce – the exploiting expenses afferent to manufactured product dedicated to sell

b) The profit afferent to stocks and factors measured from the year's start and year's end for the respective product:

$$Dpq = pqi \pm pqf \qquad (6)$$

Which from:

Dpq –profit difference;

pqi – profit to year's start;

pqf – profit to year's end;

c) The total profit, obtaining as sum relation of profit for manufactured products and profit difference related to stock and unpaid invoices:

$$PB = PQ \pm Dpd \qquad (7)$$

În extended form, the profit calculate by direct method presents the following relation:

$$PQ = [(Q_{pv} - TVA) + (S_{iqpv} - S_{fqpv})] - [(Q_{ce} + S_{iqce}) - S_{fqce}] \qquad (8)$$

Which from:

Qpv – product express in sell price;

TVA – value added tax;

S_{iqpv} si S_{fqpv} – stock value to begin (i) and end period (f) of product, express in sell price without TVA;

Qce – product value express in exploiting cost;

S_{iqce} si S_{fqce} – stock from product express in exploiting cost, to period begin (i), respectively to period end (f).

3. The method reference to bases period is proceeding in enterprises with a large assortment of products, to which the direct method becomes useles/ inoperative through the large number of analytic calculations which imposed.

The succession of working phases in the frame of this method is as follow :

a) Establish of efficiency rate afferent to the previous year, as division between the total profit sum and the sum of exploiting costs for the goods selled:

$$\frac{\sum P_0}{\sum Ce_0} \cdot 100 \qquad (9)$$

consisting of :

$\sum P_0$ – the profit volume from the base period ;

$\sum Ceo$ – the sum of exploiting expenses from base period .

b) Determined of profit afferent to production of goods prognosed to be sell or cash in future year, accordingly to the efficiency rate from the previous year:

$$P_1 = \frac{Q_{pv1} \cdot R_{r0}}{100} \qquad (10)$$

Which from:

Q_{pv1} – value of goods production dedicated to sell in forecast period, expressed to sell price;

R_{r0} – the efficiency rate from the base period.

c) The measurement of increasing (decreasing) profit as effect of decreasing (increasing) of exploiting cost :

$$P_2 = Q_{pv1} \text{ x } I_{cel/0} \qquad (11)$$

which from:

$I_{ce1/0} = \dfrac{Q_{ce1} - Q_{ceo}}{Q_{ceo}} \cdot 100$ -value production index, express in exploiting cost

Q_{ceo}– production value, express in exploiting cost from base period ;

Q_{ce1}– production value, express in exploiting cost afferent to the presented period.

d) Modification of profit mass due to change of production assortment, calculated as deviation of prognosis efficiency rate versus the one from the base year, accordingly to product structure share in total goods production:

$$R_0 = \frac{(a_0 \cdot x) + (b_0 \cdot y) + (c_o \cdot z)}{100} \qquad (12)$$

Consisting of :

a, b, c – share of products (assortments)

$$R_{ri} = \frac{(a_i \cdot x) + (b_i \cdot y) + (c_i \cdot z)}{100} \qquad (13)$$

Which from:

x, y, z – the efficiency rate from the previous year to the assortments taken into account

from year:

$$DP_3 = \frac{Q_{ice0} \cdot (\pm DRr)}{100} \qquad (14)$$

Which from :

Q_{ice0} = the forecast goods production value express in exploting cost from the base year ;

$\pm$ DRr $=$ difference between the average rate of efficiency rate from the base year and the rate afferent to programmed structure of production from the next year.

e) Establishment of profit afferent to products which have not made in previous year (no comparable production) which are proceed accordingly to direct method:

$$P_4 = (Q_{ipv} - Q_{ice}) - (Sf_{pv} - Sf_{ce}) \qquad (15)$$

Consisting of :

$Q_{ipv} =$ the value of goods production express in sell prices;

$Q_{ice} =$ the value of goods production express in exploiting costs from the designed year;

$Sf =$ haunch of factors and stocks from year's end express in sell price, respectively the exploiting costs.

f) Establishment of total gross profit from current activity by adding the following elements:

$Pt = P_1 + P_2 + P_3 + P_4$, respectively: $Pt = P_{Rr0} \pm D_{Pce} \pm D_{PSp} + P_{pn} \pm D_{Ps}$ (16)

$P_{Rr0} =$ profit afferent to forecast goods production, calculated accordingly to efficiency rate from the base year ;

$\pm D_{Pce} =$ profit result from decreasing (increasing) of exploiting cost;

$\pm D_{PSp} =$ profit result from modification of assortment structure of production in conditions of mainteining the efficiency rate from the base period;

$P_{pn} =$ profit which will be obtained from manufacture, sell and cash of no comparison production;

$\pm D_{Ps} =$ profit which will be obtained from stocks and uncash invoices revaluate.

4. Other methods to forecast the profit mass : a) the method of direct costs and b) method of linear programme/schedule

a) Method of direct costs takes into account to determine the variable expenses on each product unit, and the constant expenses are taken under the form of a global sums, independently by production volume and marketing variation, that's mean in a simple relation : Pb = (P – Cv) x D, consisting of Pb = gross profit ; P = production price ; Cv = the various costs on product unit; D = sellings volume from the period considered.

b) Method of linear programme/schedule, the mathematical method, processes the economic-financial evidences included in a simple tabel related to costs, the maximum use of production capacities, the specific consumption, the assortments, the production quantities which could be manufacture and other elements.

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"THE CLUSTER", THE WAY OF INCRESING THE COMPETITIVITY AND FINANCIAL CAPACITY OF THE ROMANIAN COMPANIES

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The certification for the professional qualification of the construction companies represents an official recognition of their competency based on a scientific criteria and assurance of their specialization in different fields of activities.

Creating a certification system would put at the disposal of the investors an official list of the companies for which is operating the presumption of being capable for realizing good quality works. The presentation of a certification is being compulsory in order to participate in biddings for public works.

Adoption of an adequate legal framework in the field of professional certification combined with formation of clusters will allow enhancing of the technical and financial competitiveness of the Romanian companies.

Key words – clusters- free association of juridical and financial independent companies, which through conventions are establishing the conditions for participating in common at the actions of adjudicating public works

The certification for the professional qualification of the construction companies represents an official recognition of their competency by the bodies recognized by the legal authority from the construction sector.

This certification is realized based on scientific criteria that classify the companies on fields, types of constructions, technical classes and competitiveness in design, execution, general consultancy, technical assistance, specialized services in construction, including technological services with specialized equipments etc.

The certification of all the categories of participants at the construction process ensures the presumption that the investments, the constructions, shall be realized according to the provisions of the Law 10/1995 regarding the quality in constructions.

There are 14 states in Europe that apply their own certification system of the companies: England, Belgium, Switzerland, France, Finland, Greece, Germany, Italy, Norway, Holland, Portugal, Poland, Spain and Sweden. In 5 of the 14 states, the presentation of a certification is compulsory in order to participate at biddings for public works: Belgium, Greece, Italy, Portugal and Spain.

All the states that have introduced a certification system for the professional qualification of the construction companies run these activities through certification bodies of private law, recognized by the coordinating authority in the sector of constructions from the respective country since they ensure the observance of the European norms regarding the independence, the impartiality, the non representation of individual or group interests, the implementation of non discriminating procedures, the transparency as well as the possibility of the applicants to access its services without imposing conditions about the size of the company or its affiliation to a certain group.

The process of certification for the professional qualification of the construction companies is controlled by the EU states, under the supervision of the central authority that coordinates the sector of constructions or at the level of the ministries of economy and finances, according to the European procedures, standards and norms regarding the criteria that must be fulfilled by the certification bodies as well as the imposed exigencies regarding the certification activities.

The certification system for the professional qualification of the construction companies ends with a correct scientific evaluation, with the publication and /or placing the official lists with the certified companies at the disposal of the investors/beneficiaries, with the compulsory presentation of a qualification certificate at biddings for public works (in Belgium, Greece, Italy, Portugal and Spain) and, in the near future, with obtaining mutual recognition of the certification papers among states.

In Romania, the first steps for implementing a certification system for the professional qualification of the construction companies started in 1992, when the first aspects regarding this action were presented to the MDPWH.

In 2003 the SR 13476-1 “General demands for the certification bodies” and the SR 13476-2 “Certification criteria”, the Romanian standards for certification for the professional qualification of the construction companies were elaborated and approved.

The last variants from the European standards EN 45000, EN 17000, ISO 9001 were adopted in the interval 2001-2006. The Emergency Ordinance regarding the assignment of contracts of public acquisitions, ensuring the alignment to the 2004/18/CEE Directive regarding the coordination of the actions of assigning the contracts of public works and services was also promoted.

In 2006 the Ownership of the Romanian Contractors promoted the law project regarding the certification for the professional qualification of the construction companies that is presently debated by the institutions that are involved or that coordinate the activities at national level in order to set up some points of view that can promote a legal act that meets the demands imposed to ensure the protection of human life and national wealth.

The main criteria established by the Romanian normative acts that correspond to the European ones are the following:

- Juridical and administrative criteria that establish the compulsory criteria regarding: registration at the Trade Register Office, providing documents regarding the professional morality, payment of taxes/duties, non affiliation to criminal organizations, corruption deeds, fraud, money laundry etc.;
- Economic and financial criteria that establish the proofs regarding the financial situation (excerpt of the last balance), declarations regarding the turnover, financial reports or any documentation that can probe the economic and financial capacity;
- Technical criteria regarding the evaluation of the technical capacity based on the information and on the performed evaluations that refer to satisfying the conditions of the ISO 9000 standards, to the experience in the sector that is to be certificated, to the qualification and competence of the personnel, to the technical endowment, to the endowment with measuring devices, to the implementation of a system of quality management, to the experience (performed works, execution certificates), to the information on the technical staff, equipments, installations and on the applied quality management.

Depending on the supplied and verified information, the certification body releases a certificate that permits the classification of the company on: sector of activity, types of performance, technical capacity, size of contract.

The classification of the construction companies presents several favourable implications, such as:

- providing eligibility conditions for the public biddings;
- reducing the volume of documents requested for biddings;
- allowing the association of several companies certified for the same sector or for adjacent sectors as well as for ensuring the norms regarding the size of the contracts (by sum of competences);
- allowing the competitive micro-enterprises and the SMEs to obtain a qualification that entitles them, by direct participation or in collaboration with other companies, to take over works according to their performances;
- eliminating the subjectivity of the bidding commissions in evaluating the performances and in assigning the work contracts;
- publication of the official list of the certified companies, thus facilitating the options of the investors or natural/juridical persons, who intend to build, by choosing a competitive company;
- allowing the certified companies to take over works in other countries by presenting a certificate that represents a guarantee and a competence acknowledgement.

Adopting a proper legislation in the field of professional certification of the construction companies, combined with the formation of clusters, shall ensure the construction companies a better participation in the competition for accessing structural funds.

The clusters represent free associations among legally and financially independent enterprises that, due to the acknowledged conventions, establish the conditions of common participation to the actions of assigning public works or from other funds. So, by summing up the held conditions regarding the equipment, personnel, experience, financial capacity, size of the past contracts, clusters can be assigned to perform works that single enterprises could not accede.

Clusters can be formed in all the economic sectors, at national or regional level. Called "poles of competitivity" in France and sustained by the European Commission, clusters play a key role in the European cohesion policy and in the absorbance of the structural funds.

In 2007, at EUROPA INNOVA, the European Cluster Observatory was set up. Its role is to collect all the statistic data, to set up indicators of quantifying the dynamism of the European clusters and to evaluate the impact of the national and regional cluster policy.

Within the cohesion policy, clusters represent one of the planning pillars for 2007-2013, promoting innovation as the main component of investments and sustainable development.

The cluster represents a territorial agglomeration of specialized and highly competitive companies. It represents a concentration or a special, territorial agglomeration of the SMEs specialized within the same or adjacent sectors that can become a leader on the market (even global market) of that specialized sector.

It can be located in any type of territorial community, from small ones (towns, communes, groups of communes) to state regions, state or cross-border regions.

The experience of the developed countries has shown that clustering processes serve as fundament for a constructive dialogue between the representatives of the entrepreneurial sector and the state, educational environments. The cluster has lead to an efficient growth of the mutual relationships within the innovation processes from the private and state sector, commercial associations, educational and research institutions.

Peculiarities of a cluster:

1. it is a form of regional economic activity limitted from the interior of the adjacent sectors, linked by certain scientific institutions (universities, research and innovation centres etc.);
2. it represents vertical production links (value chain); narrow specialized sectors where the common production stages constitute the core of the cluster (the chain "supplier – producer – dealer – customer");
3. there are industrial branches formed at a high level of aggregation (e.g. "the chemical cluster", "the agro industrial cluster").

Specific features:

- identical or adjacent sectors of activity;
- sectors may differ, the economic activity becomes dominant and highly performant;
- even if there is a competition between the companies and they are specialized on types, there appears a parallel phenomenon of cooperation, association in sectors, thus ensuring a plus of competitivity to all of them;
- rapid phenomena of innovation and of common innovation infrastructure appear among companies, where universities and technological centres play an essential role;
- association capacity of the companies and relations based on trust maintained by a proper supporting cultural environment that reduce the transaction costs and increase the competitive advantages;
- the cooperation sectors can be prepared professionally, management and marketing techniques, research and development and everything connected to enhancing the innovative capacity.

Functional strategies in choosing and elaborating a cluster:

1. spatial initiation of the economic activities clustered at local level (e.g. fruit growing in Holland);

2. horizontal: certain branches/sectors can enter larger clusters (e.g. the mega cluster from the Dutch economy);
3. vertical: within a cluster there can exist stages of common production process;
4. lateral: within the cluster various sectors can merge in order to ensure a global impact on the economy;
5. technological: the compatibility of the branches that use the same technology (e.g. the biotechnological cluster);
6. focus: cluster of companies that are concentrated around an enterprise-centre, a technological centre or around a teaching establishment.

General strategies within the cluster:

1. strategies oriented towards the increase of the level and applicability of the knowledge in the existent clusters;
2. strategies oriented towards setting up/ starting new cooperation systems within the cluster.

Figure 1 presents the functioning model of the clusters of construction units.

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THE STATE OF FAILURE AND ESTABLISHING THE FINANCIAL DECISION IN CASE OF BANKRUPTCY

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Abstract: The bankruptcy represents an absolutely normal market phenomenon, in our country it didn't reached yet to be part of "game's rule"; any investor wishes to know not only the manner of entering within a business, but also of going out of it, the business being carried out with a society which is at bankruptcy. The number of bankruptcy is an essential indicator on evaluating the functionality level of an economy. "The economists show that it is normally within a market economy with percent of 2-6% for all companies to suffer bankruptcy within a year".

keywords: financial decision, judicial reorganization, the insolvency, the bankruptcy, the creditors

1. Generaly terms

Within a company's economic life, certain recessive and of failure moments can appear, which lead to putting under financial supervision, reorganization/restructuring and finally to liquidation. The failure can be interpreted in more ways, depending of problems involved or not by the collapse and dissolving that company, associated with a loss in total investment of creditors. In this way, clarifying the following terms becomes necessary56:

- the economic failure signifies the fact that a company's incomes do not cover the total costs, including the capital's cost;
- the company's failure refers to any company which stop its activity, having as result a loss for creditors;
- technical insolvency. A company will be considered technically insolvable if it cannot respect the current observations on their becoming payable. A company being in this situation is considered in technical stopping of paying the obligations. The technical insolvability denotes the lack of financial difficulties to customers;
- the insolvency in bankruptcy appears when within an enterprise, the total of duties exceeds the real value of assets. This situation is much more severe than the technical insolvency, because it generated the company's liquidation.

Within the Romanian regulations for the judicial reorganization and bankruptcy procedure, distinction is made between the insolvency and insolvability. The insolvency (inability of payment) comes when the debtor do not have necessary liquidities for paying his real, liquid and due debts. The insolvency or debtor's stopping of payment has to be delimitated of so that called "financial constraint", which consists on just being lack of necessary liquidities for duties acquit. It is possible that, in short time, the debtor to cash the debts from his own debtors and to financially redress.

The insolvency doesn't mean insolvability, for as long as the debtors maintains in his patrimony goods which can be enforced executed, in the view of paying the duties towards the creditors. The insolvability consists on debtor's impossibility of respecting his obligations towards the creditors, both from liquidities' lack and other goods among which the creditors' debts have to be satisfied. Practically, the passive (duties) is bigger that the active (rights) of patrimony. In this way, the insolvability state regulated by the Romanian legislation is the same as the bankruptcy insolvability, while the insolvency is the same with technical insolvability, previously approached.

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The economic failure of a company is caused by more factors, among which the following can be presented:

- incompetence and managing failure (60%);
- the unfavorable evolution of the market (about 20%);
- the natural phenomenon, fire, calamities, Earth quakes (10%);
- other causes (10%).

It can be observed that the main cause has in view the failures of managing processes and of knowing the market. Therefore, the managers have to identify in time the signals of deteriorating the financial situation of enterprise, such as:

- achieving the negative net financial results;
- existence of a negative working capital;
- the impossibility of reimbursement the credits to their normal date of payment;
- the bankruptcy of some providers or main customers for the enterprise;
- the reduced impossibility or non-availability of a manager;
- persistence of strikes.

2. The legal frame

The legal frame as concerns the commercial companies functioning, as well as the Law of enterprises' insolvability foresee the impossibility of declaring the bankruptcy state for the company, which is carried out, firstly by supervising activities, of reorganizing and restructuring-readjustment.

The bankruptcy is a judicial procedure in the view of reorganizing or liquidation of a company, when reorganizing or liquidation is organized by special courts. The bankruptcy can be of two types:

voluntary, when the bankrupted company presents to judicial instance a request and no order of supervising exists, and the manager of real patrimony/syndics is directly named;

involuntary, when the company's creditors presents to judicial instance a request and prove that the debtor do not respect the duties on date of payment. In this case, the instance institutes the order of supervision over the debtor and names the patrimony managers.

The creditors can anticipate the incapacity of debtor for respecting the obligations to date of payments, upon the basis of bankruptcy deeds, which this committed, being the following:

- the false pretences transfer represents a transfer of properties towards a third party, on inadequate conditions, with intention of prejudicing the creditors;
- the preferential transfer represents the money or assets transfer by a insolvable debtor towards a creditor, giving to creditor a bigger part of duties unto other creditors will receive to liquidation. The preferential transfer is also called "false pretences preference";
- hiding or removal. Hiding refers to hiding certain properties on intention of prejudicing the creditors; removing the properties also has in view the creditors' prejudicing;
- assignation. If a debtor makes a general assignation on creditors' benefit, there will be an act of bankruptcy. This will allow to creditors that do not trust within the assignation process to transform this transaction into an involuntary bankruptcy;
- sudden leaving. If the debtor disappears in the view of cheating or delaying towards the creditors, then a request of bankruptcy can be submitted;
- admittance to a creditors' meeting. The debtor will commit a bankruptcy act if at a meeting of creditors, he presents a declaration of assets and duties which show that he is insolvable or admits in write that is unable of paying the duties;
- communication towards the creditors. If the debtor communicates to any creditor that he suspended or will suspend the duties' payment, a bankruptcy act will take place;
- order of officer of the court. If the debtor do not redeem the goods that were sequestered by an execution order issued against him, there will be a bankruptcy act;

- the technical insolvability is the most commonly act of bankruptcy and takes place when the debtor is unable of respecting, in generally, the conditions of indebted contracts to date of payment.

At this moment, the creditors will have to take the decision of they dissolve the company by the liquidation procedure or will maintain it alive by reorganization. This decision depends upon determining the company's value in conditions of its rehabilitation towards its assets values, if these are separately sold. As a result, the creditors choosing will depend upon their financial pain severity, by the existing financial structure's complexity and of company's dimension.

The creditors will have three available options:

- the creditors, by negotiations with the company, either length the time duration for paying the interest and/or the load, either will reduce the interest rate to overdue duties. Both procedures will decrease the financial heaviness over the company and allow it to continue the exploiting; moreover, the creditors contract minimal costs of transaction and payment of lawyers. This option is chosen when the financial sufferance is temporary, the company having a good economic situation, and the managerial team will present trust towards the creditors. This option is used for the companies with simple structures of capital, which have a reduced number of creditors and which has as result voluntary reorganization of duties payment;
- establishing the supervising regime. This is a procedure more expensive towards the first option and is practiced in cases of more severe financial sufferance. In this way, after setting the syndic, the creditors have to decide if the company "values more dead than alive". If the value of market for the company which would continue the activity is less than the value of liquidation, the company has to be liquidated and encashment distributed in accordance to a n algorithm previously established. Contrarily, if the value estimated of the market maintained alive is greater than the value of liquidation, an economical restructuring plan has to be applied. It is also had in view the reorganization of financial arrangements, for reducing the company's duties, event if each class of creditors can loose a part of the initial investments. In many cases, the conditions of a successful commitment involves the replace of existing managing, liquidation of certain assets and emission towards the creditors of new immovable values, of whom efficiencies to be dependant of company's success.
- using the legal remedy offered by the bankruptcy law, by which the company is declared to be broke and liquidated, finally by applying the rules specified within this law.

If the creditors choose this option, it will be possible for the company's owners to make a last effort of saving the company. In this way, they can present to creditors a reorganization proposal. If they reach to conclusion that the company values more dead than alive, the proposal will be rejected and the company liquidated. That respective option is used especially to small companies.

As concerns the big companies, the owners have a certain influence within this process. Having at disposal financial resources, they can make appeal to accountancy and juridical consultancy; they can ask to judicial court a certain protection in the view of elaborating a new plan of reorganization, for presenting it both to creditors and justice. Concretely, the owners of great companies appeal to all kind of measures for stopping any activity of the creditors, which cannot enterprise anything in this duration. If the proposal is rejected, the company will be broke and liquidation will be carried out.

For establishing a financial decision in case of bankruptcy, the financial service proceeds on determining the most of financial information. At the beginning, by the legislation research as concerns the companies, the bankruptcy law and other judicial provisions, the methodological information is established. Upon their basis, the information as regards the financial expenses and financial incomes are determined. The information as concerns the financial expenses refers to expenditure made in the view of process managing of bankruptcy and to eventual organizations and restructuring, being thus determined by the procedure of quotation. The payment obligations refer to amounts payment towards creditors and their proportion, the payment of wages for the staff and to the level foreseen by the law of bankruptcy, the payment of taxes remained towards the central and local budget.

The information as concerns the financial incomes are determine by the market value of the asset sold by public auction by the bankruptcy process managing. The financial decision as concerns the bankruptcy makes part of the documentation that attaches the company's bankruptcy, being the last financial distribution in the name of economic agent in discussion.

Using the changing strategies represents a practice often met, both in countries with economy on functional market and those being in transition. Adopting these strategies is imposed both in crisis situations and also in those being favorable, when the enterprise is adapted to exigencies of business environment, but also wishing to consolidate the position, thus essentially changing the financing manner. Mostly, the changing strategies are regarded as avoiding solutions for affecting the financial situation and implicitly, of bankruptcy.

With all these advantages, within the mechanism of changing, both elements which determine the changing act, as well as elements that stop it. From the first category, the following take part: changing the conditions of work, changing the structure of work force; these elements offer tensions for changing. At their turn, the elements that stop the changing and form the resistance to changing is: the old mentalities, the fear of new, the fear of failure, the reduced level of professionalism and the mental blocking.

Mainly, an enterprise being in difficulty can apply the following strategies11 of changing, with great impact over the payment capacity of it and of its evolution on market:

- strategies of changing in conditions of temporary inadaptability;
- strategies of transforming and reorientation;
- strategies of recovering or of making efficient.

The first type of strategies is adopted by those enterprises being temporarily in an unfavorable situation thanks to certain unfavorable conjuncture phenomenon, but which can be surpass in the future, by adopting some objectives and concrete measures of activity. Adopting such a strategy is based upon issuing an adequate diagnosis, which is able to support certain vanguardist manifestations, of launching in business that can reward the courage by adopting certain decisions in risk and uncertainty conditions thus assuring the economic recovery.

At their turn, the strategies of transforming and reorientation can be adopted by those enterprises which achieve in present the adequate economic performances and are well adapted to existing economic context. But, upon basis of diagnosis strategically done, the enterprise observes that it should activate in the future to an environment totally different from that existing in present, under all views, reason for which it will perform to transformations to business organizing forms, of the property's structure, of the technical potential, strategies of supplying and sale, etc.

Finally, the recovering or making efficient strategies can be adopted when the enterprise achieves weak or unfavorable results, thus recording loss or it is not well adapted to the existing economic context, being absolutely necessary for the enterprises being on bankruptcy start; it needs a high spirit of responsibility form the managers, the future of enterprise having to be taken into consideration. Within the process, two strategic directions which have to be thought are aimed, meaning:

the strategy of business activity, where what, how and how much is supervised;

financial strategy, where how much is cached and what is the profit is taken into consideration. Therefore, the financial restructure is observed in Table:

Strategy of changing by business restructuring	Strategy of changing by financial restructuring
Organizational and dimensional restructuring	Liquidities management
Issuing of sector's and territorial strategies on short and mean term	Reducing of duties
Segmenting of business	Adequate using of economic – financial lever

Table : Strategy of enterprise restructuring

Successfully applying of changing strategies needs the following steps respecting:

- understanding the need of adopting the strategy and changing the mentality frame of enterprise. The mental frame represents a particular form of thinking which characterizes individuals that lived and worked in the same environment for long time, thus representing the result of a culture and specific structure. He has to become receptive to changing and to impose the steps necessary to changing;
- defining the objective of changing strategy, depending the nature and structure wished to enterprise's level;
- choosing the type of strategy, which is adapted the best to enterprise's problems;
- execution of strategy and evaluating the achieved results.

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THE EVOLUTION OF INSURANCE MARKET IN 2006

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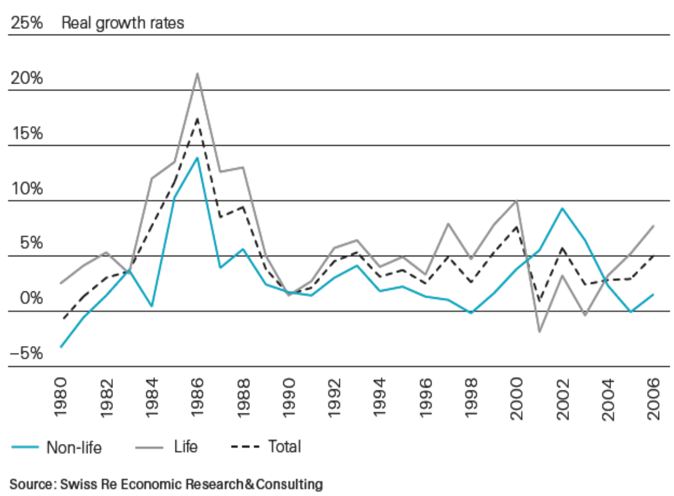
Abstract: Insurance and reinsurance act is a catalyst for economic growth. A dynamic insurance sector is at the heart of a strong economy. Which explains why the regulatory gaze is increasingly focused on our industry. Worldwide insurance premiums amounted to USD 3 723bn in 2006. This was split into USD 2 209bn in life and USD 1 514bn in non-life insurance. Total premium volume grew by 5%, in real terms,1 with life premiums increasing by 7.7% and non-life premiums by 1.5%. Profitability improved in both life and non-life insurance in 2006 compared to 2005. The macroeconomic environment during 2006 was characterised by solid economic growth and, in most geographical areas, moderate inflation, rising but still low interest rates and booming stock markets.

Key words: insurance, life insurance, Non-life insurance

The insurance manifests itself as one of the economy and business areas and is used as a possibility of compensating the damages incurred in case of occurrence of the insured case for all the production stages, thus providing for the growers' economic freedom and reducing their dependence on the influence of negative factors. The insurance is a factor of reducing the economic uncertainty and a means of resuming production after a temporary interruption or in the case of goods loss. The analysis of the insurance market highlighted the necessity of applying measures of improving the insurers' activity. Currently, one of the most efficient means of perfecting the insurance activity is the implementation of the marketing methods into the insurer's practice. Such concrete measures can be: the improvement of the company's image, the improvement of the service quality, granting additional services to the insurance holders, (including the insurance agreements into the general insurance policies, depending on the commercial operations), stimulating the conclusion of insurance contracts (including advertisements), adapting the insurance products to the market requirements.

In the developed countries the insurance has an important place in the national economy. The income of the insurance organizations coming from their activity contributes to the gross national product increase. Mention must be mad of the fact that in the developed countries of the Western Europe, USA and Japan the insurance rate in the volume of the GDP is 12-15%.

In 2006, total world premium volume grew by 5% in real terms, up from 2.9% a year before. Both life and non-life markets grew in real terms, although at 7.7% and 1.5%, respectively, the pace of development was somewhat divergent. Figure 1 shows the performance of the markets over the longer term.



Real growth rates

In 2006, global premium income amounted to USD 3 723 billion. Life business made up 59% (or USD 2 209bn), up slightly from its 58% share in 2005. The upgrade of Hong Kong, Singapore, Taiwan and South Korea added 5 points to the industrialised countries' share of business, bringing it up to 92%. Growth both in Western, Central and Eastern European life insurance helped Europe gain 1% of market share, while America and Asia lost 0.5% and 0.7%, respectively, on the back of comparatively lower growth in the US life sector and slipping premiums in Japan. However, the South and East Asia region alone gained 0.5%, and Latin America and the Caribbean 0.2%.

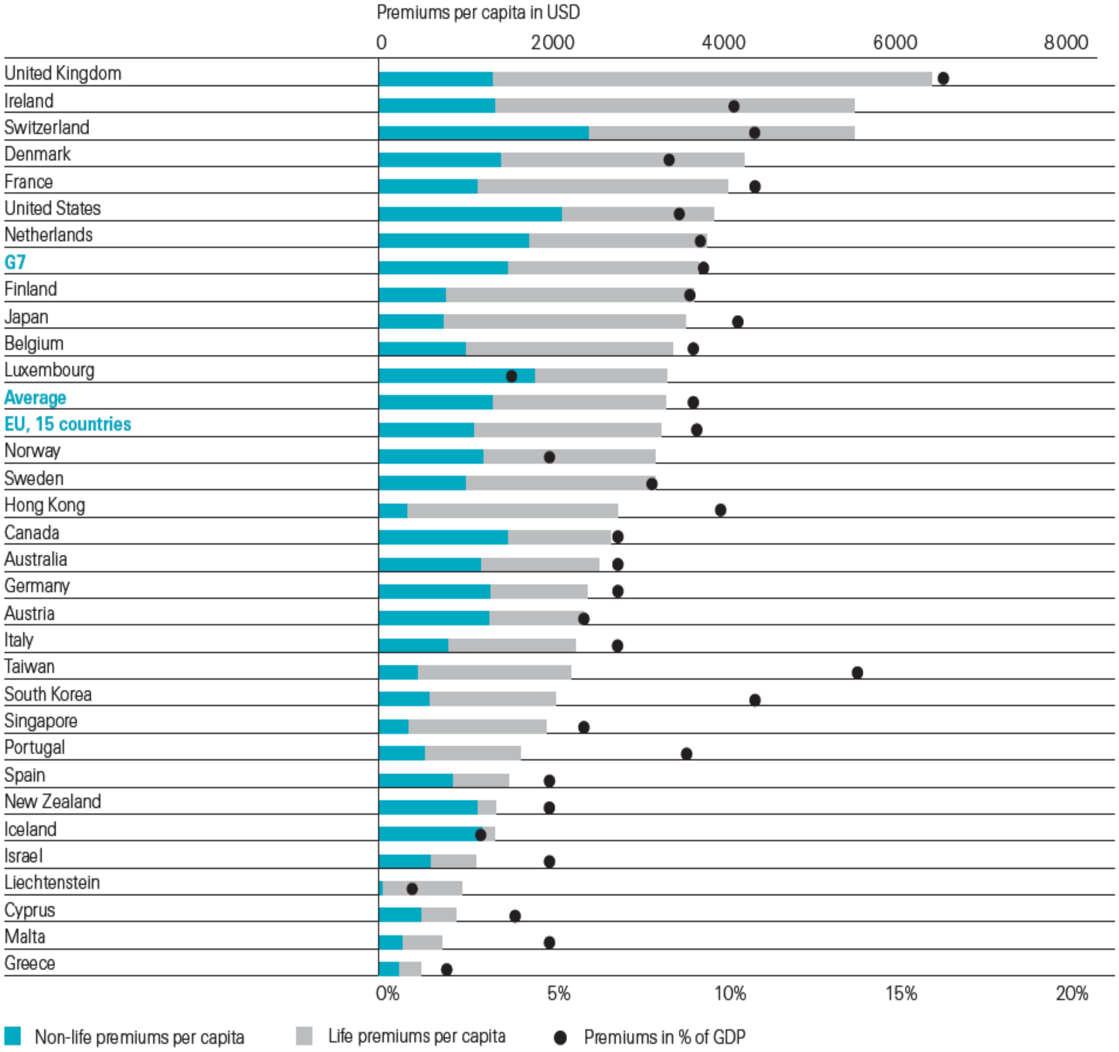
The industrialised countries, which generate 92% of world premiums, saw growth of 4% in real terms, to USD 3 390bn. This is more than 2005's 2.6% and above the 10-year average of 3.4%. Life premium growth drove overall premium level increases in the industrialised world.

In 2006, life insurance premiums in industrialised countries grew by 6.6%, up from 5.1% in 2005 and almost twice the long-term 3.8% growth rate. However, divergent performance was observed from country to country. While positive developments in the largest markets contributed significantly to overall growth, Japan actually saw premiums decline by 2%. Regulatory and fiscal changes drove increases in some industrial countries. The strongest growth was observed in the UK, up 30%, where changes in the pension regulations allowed increased contributions to funds. In contrast, life premiums in Belgium decreased by 21% as a result of the introduction of a new 1.1% tax on individual policies.

Non-life insurance premiums in industrialised countries rose slightly by 0.6% in 2006, having declined by 0.8% in 2005. However, 2006's performance lagged behind the 2.7% 10-year average. After substantial price rises in recent years, good profits have boosted insurance capacity, which in turn has heated up price competition, leading to lower prices and subsequently lower premium growth. Favourable economic conditions resulted in the strongest growth of 8.2% being posted by South Korea, which has only recently joined the category of industrialised countries.

The strongest decline was observed in the Netherlands, down 3.2%, where price competition in the largest lines of business, and in particular in the accident and health business following healthcare reforms, pushed the market down. On a per capita basis, an average of USD 3 362 was spent on insurance in industrialised countries in 2006 (see Figure 11); split into USD 2 026 in life and USD 1 336 in non-life insurance. Insurance penetration, measured as a percentage of GDP, remained unchanged at 9.2%. Life penetration averaged 5.5% and non-life business 3.7%.

Insurance density and penetration in the industrialised countries in 2006.



Source: Swiss Re Economic Research&Consulting

In the context of sustainable economic growth and of the expectations regarding the benefits of Romania's integration into the European Union, the insurance market in Romania showed significant growth of gross written premiums in 2006. Thus, the volume of written premiums reached approximately 1.7 billion euros in 2006, which accounted for an insurance penetration ratio 1.67% compared with 1.54 in the previous year, calculated as a percentage of the Gross Domestic Product, also on the increase. Most written premiums were accounted for by non-life insurance premiums (approximately 80%), especially by auto insurance, which shows that at least in the medium-term life insurance premiums are highly unlikely to account for an increased percentage of total premiums.

The forecasts for 2007 show that gross written premiums for the two categories of insurance business shall increase to approximately 8 billion lei (more than 2.4 billion euros), of which approximately 6.7 billion lei (2 billion euros) shall be accounted for by non-life insurance.

Credit insurance, guarantee insurance, property insurance as well as motor vehicle insurance and travel insurance are forecasted to account for a significant percentage of this amount.

With respect to life insurance, gross written premiums are expected to amount to more than 1.3 billion lei (400 million euros), accounting for 10% real growth compared with 2005, mainly as a result of the development of health insurance.

An insurance penetration ratio higher than 2% was estimated by comparing the estimated volume of gross written premiums for the two categories of insurance business to the estimated GDP for 2007 (390.3 billion lei, according to the Main macroeconomic indicator projections for 2007-2013 calculated by the National Commission of Prognosis in the spring of 2007).

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FROM CATASTROPHE RISK TO CAPITAL MARKETS. CONSIDERING THE CAT BONDS AS A SOLUTION FOR MANAGING FLOOD RISK IN ROMANIA

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There is multitude of factors that must be taken into consideration when trying to determine social and economic development. In recent years, one of these factors that had a growing impact was represented by natural catastrophes. Lately floods increased in intensity, frequency and were responsible for more losses than any other natural phenomena in Romania. At international level, managing the risk of floods became a top priority for insurance companies and governments alike. There are however a series of factors which make catastrophe risk unsuitable to be covered by traditional insurance. Within this article, we try to address a more suitable approach on the matter represented by catastrophe bonds.

Key words: catastrophe bonds, floods risk, securitization, financial innovation, ART

Catastrophe bonds – Rationale

In recent years, in Romania, the severity and frequency of floods have increased considerably due mainly to heavy precipitations and snowmelt during springtime. In 2005, as stated within the Guy Carpenter & Company Ltd's *European Flood Report 2005 –Central and Eastern Europe*, our country experienced the most terrible flooding in over 30 years with over 30 counties and 500 towns reported to have been affected, 69 people killed and over 13000 people constrained to abandon their homes. From a financial perspective, the Romanian government estimated that losses attained more than 1.5 billion euros, while only 10% of the households in the affected areas had flood coverage policies. In addition, as one can notice from the table-displayed bellow, for the period 1999 to 2008, the economic damage costs from the top ten natural disasters were determined mostly by the occurrence of floods.

Disaster	Date	Damage US Dollars (000's)
Flood	July-2005	800000
Drought	June-2000	500000
Flood	August-2005	313000
Flood	April-2005	200000
Flood	June-2001	120000
Flood	April-2000	100000
Flood	July-1999	50000
Flood	March-2001	15000
Flood	June-1999	10000
Flood	March-2000	500

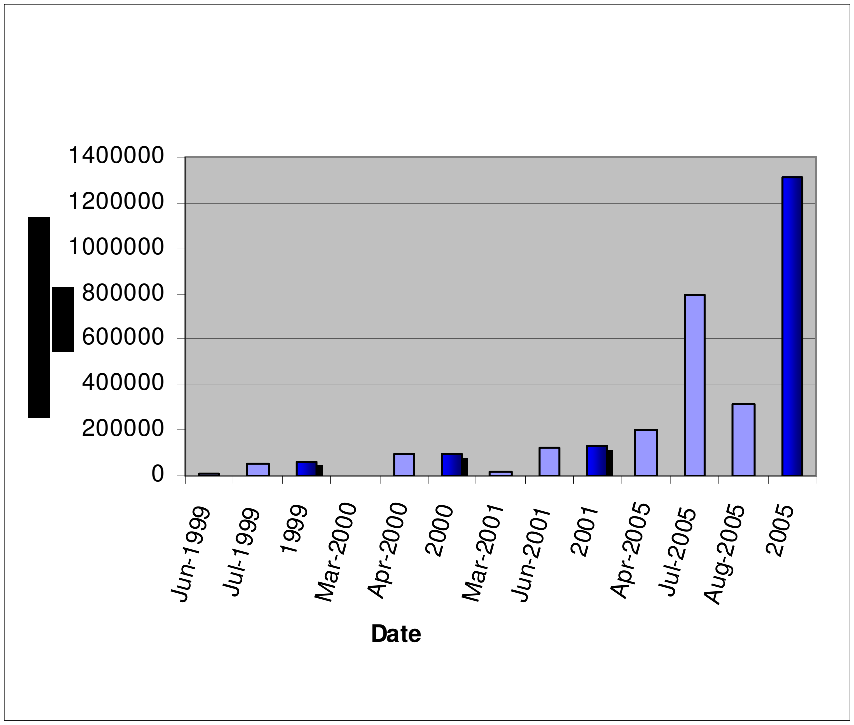
Natural disasters in Romania for the period 1999 to 2008

Source: "EM-DAT: The OFDA/CRED International Disaster Database

www.em-dat.net - Université Catholique de Louvain - Brussels - Belgium"

Besides the immediate losses caused by floods, such as damage to buildings, motor vehicles, infrastructure and persons, costs of clearing up and disposal, one can identify several indirect losses like the damage from business interruption and power failure, costs of transportation, assistance, accommodation, communications and storage as well as intangible losses like parting of the area at risk psychological impairments or losses of intangible values.[57]

Furthermore, in the end, all these damages transpose themselves into losses for the entire economy in the form of a decline regarding the economic growth. As we can observe from the following table, in Romania, the financial costs regarding the floods exhibited a growing trend in the last years. Al these facts lead to the conclusion that flood stand for one of the most important catastrophe risk factors in our country with a huge impact on the determinants of social development and economic growth.



Economic damage costs from flood (1999-2005)

While insurance companies cover the pure risks using the law of large numbers by holding a large portfolio of independent risks, in the case of catastrophes, in general, and floods, in particular, one can consider the location an impediment as, at the same time, the entire insured pool could be affected. Therefore, the incidence of these events is characterized by high correlations among the losses within one insurance company's pool. Furthermore, one should mention the frequency of these events: they do not occur quite often with respect to other events (such as a fire), making almost impossible the design of scenarios based on historical statistic data. In addition to all these, the occurrence of one catastrophe can lead to the emergence of other unfavorable events, like epidemics or fires.

At international level, as a consequence of the reduced financial capacity of the insurance companies with regard to the losses from natural catastrophes, the financial innovation phenomenon induced the emergence of market – oriented contracts. These ones are meant to `transfer and scatter the catastrophe risk (from natural catastrophes like earthquakes, hurricanes or floods or man-made catastrophes) towards the investors within the capital markets through well-defined mechanisms – *alternative risk transfer (ART)* solutions. In addition to all said, from a financial perspective, one can notice within this contracts the solving of the

[57] Hausmann, P. (1998), *Floods – an insurable risk?*, Cat Perils, Reinsurance & Risk division, Swiss Reinsurance Company

issue regarding the incomplete market through accessing the capital market resources. Therefore, the limits of insurability can be mitigated by designing innovative financial contracts such as those represented by the catastrophe bonds (*CAT bonds; Insurance-linked bonds; Act of God bonds*).

Basically, the contracts mentioned above are characterized by the fact that both the coupons and the principal can be modified or no longer paid in the case of occurrence of a natural catastrophe within a well-specified area. One could say that these contracts are financially indexed to natural catastrophes. Another aspect that should be mentioned relates to the fact that, in order to issue these bonds, there is used a very popular financial process, known as *securitization*. Through this technique, financial assets characterized by a low degree of liquidity (such as mortgages, commercial loans, credit cards) are transformed into new financial contracts, traded on the international capital markets. More thoroughly, the securitization technique consists in packaging financial promises and transforming them into a form whereby they can be freely transferred among a multitude of investors.[58]

Several aspects regarding the securitization of catastrophe risk

As far as the catastrophe risks are concerned, the securitization technique involves the presence of several economic actors, among which the following three ones are the most important:

- **The sponsor –** is the company that selects, pools together the catastrophe risks and cedes them to the special purpose vehicle. The CAT bonds could be seen as options or supplements of the reinsurance. The sponsor can be an insurance or reinsurance company.
- **The special purpose vehicle (SPV) –** acts as a "reinsurance company" in relation with the ceding company and finances the operation by covering the risks through issuance of securities (bonds) towards the capital markets. The payment relative to the coupons and / or the principal will occur only if one or more conditions related to the catastrophe event will or not are fulfilled, mainly if there are not registered damages over a certain trigger point, established within the contract. Therefore, the cash flows due to the investors will be transferred to the ceding company to pay policy claims in the case of surfacing of a catastrophic event. In addition, the loan funds are invested in a collateral account with. The main role of the SPV is represented by the fact that it insulates the investors and the sponsor / ceding company.
- **The investors –** stand for the last important participant of this market. They are those who invest in the CAT bonds issued by the special purpose vehicle. One can notice the importance of the SPV for the latter ones – if they were to buy the bonds directly from the ceding company, they would have had to face a double risk: first, the catastrophe risk and second, the default risk of the ceding company. As far as the motivations are concerned, for the investors they consist in the fact that there is no correlation between the catastrophe events and the risks connected to the financial securities. Therefore, for investors there is the opportunity to diversify their portfolios and to invest exclusively in the catastrophe risk when the presence of the SPV. In addition, one can think at the possibility of investing in a new asset class with al the advantages resulting, such as diversification within a portfolio formed by correlated corporate bonds that could be characterized by losses while qualms within the fixed income markets are present. Furthermore, taking into account the fact that this is relatively a new asset, this type of bond could offer a significant premium of novelty.

A very important aspect regarding the catastrophe bond contracts resides from the determination of the losses and the specific mechanism of trigger (mainly, when the coupons and / or the principal of the bonds should be paid partially or at all to the investors). Among the most known mechanisms are the following ones:

- **Indemnity trigger –** in this case, the trigger point is a function of the actual suffered losses of the ceding company and resembles a lot the reinsurance principle. The coverage offered by the CAT bonds is triggered when the sponsor company suffers losses above a certain level, known as *trigger point* and the latter one is indemnified for the registered damages due to the catastrophic events specified within the contract. For this type of mechanism, the financial

[58] Davidson, A., Sanders, A., Wolff, L-L., Ching A.; (2003); *Securitization Structuring and Investment Analysis*, John Wiley&Sons, Inc., Hoboken, New Jersey

literature has identified the presence of information asymmetry, through adverse selection and moral hazard phenomena. The former one can be detected when the insurance or reinsurance company (the sponsor within the securitization process) holds within his portfolio the appealing positions and cedes the risky ones. The latter one consists mainly in a reduction of policies regarding the indemnities, since the risks have been transferred to the investors.

- **Industry index trigger –** the trigger mechanism consists in the fact that the ceding company retrieves only a part of the total industry losses, above a level previously established. One can notice that the investment operation has a more transparent character as far as the investors are concerned as there is a third party to measure the trigger parameters of the industry losses. Through this mechanism, the sponsor faces the basis risk defined by the difference between the actual suffered losses and the indemnity received from the CAT bonds. Therefore, if the discrepancy is positive (and large) the sponsor finds itself in the position of being exposed to the catastrophe events. Contrary, if the difference is negative, the sponsor benefits from the transaction.
- **Pure parametric trigger –** while the last mechanism presented some transparency characteristics, this one, as the name says, is based only on the parameters of the catastrophe event, such as location or magnitude in case of an earthquake or flood depths in case of the floods. The main disadvantage is represented, as in the case of the industry index trigger, by the basis risk.
- **Modeled loss trigger –** for this trigger mechanism, after the occurrence of a catastrophe event, the values of its parameters are introduced within a well-defined model in order to generate the expected losses for the ceding company's portfolio. The result of the model will be compared with a certain level in order to determine the triggering of the bond.
- **Parametric index trigger –** this one differs from the pure parametric one through the employment of different categories and through the weighting of each category in order to reflect the exposure of the ceding company within a certain area.

With respect to the market of catastrophe bonds, this one has grown rapidly since its inception in 1997 regarding both the number of contracts, the perils covered and regarding the contracts designed. As far as the flood risk is concerned, the first catastrophe bond ever to be known was introduced with reference to river flood in Great Britain, by Allianz Global Corporate & Specialty through a Cayman Island-based company (Blue Wings Ltd.), fronted by Swiss Re. Besides the flood risk, the catastrophe bond is designed to cover earthquakes in Canada and the US excluding California. It is interesting to notice the fact that the mechanism used is a parametric index trigger, while the index is determined using the flood levels registered at over fifty locations from Great Britain As far as the earthquake risk is concerned, the bond uses a modeled loss trigger.

Further research

As one can notice the challenge of catastrophe events represent a significant part of the research studies and pragmatic solutions. Furthermore, for our country, the study of these events and their implications from a financial perspective, with reference to their management by shifting towards the capital markets through alternative risk transfer instruments (such as CAT bonds) could stand for an important field of research.

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THE HEALTH SECTOR IN EASTERN EUROPE AND PROPOSALS FOR REFORM

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This article describes the current state of the health sector in Eastern European countries. We have focused on similarities, although the health sectors, just as the political and economic systems, differ in many aspects not highlighted here. The first part of the paper presents considerations regarding the current state of the health sector, its financing, delivery, doctors' incomes and the widespread phenomenon of under-the-table payments. Furthermore, we have presented some guiding principles for reform in this sector, mainly focusing on the health system reform in our country.

Key words: health expenditure, health system financing, health system reform

The Current State of the Health Sector in Eastern Europe

In the Eastern Europe of the 1990s, the spending on social services, including health spending, generally decreased less than GDP. The majority of Eastern European countries spent less than 6.5 percent of GDP on health in 2007 (Albania 3.5%, Bulgaria 4.8%, Hungary 5.3%, Macedonia 6.1%, Poland 6.2%, and Romania 4.1%). Although population health depends on the combined effects of several factors, certainly if health sector performance improved, it would help to improve population health, ideally in conjunction with other favorable changes.

Financing

Compulsory social-insurance contributions finance the majority of health services in Eastern Europe. The contribution rates as a percentage of earnings vary significantly across countries, from the modest 3.4% in Albania to the alarming 23.5% in Hungary and the nominal distribution of the contributions between employers and employees ranges from 0 : 100 [%] in Poland to 100 : 0 [%] in Macedonia[59]. However, the central state budget continues to play an important role, through financing public health, specialized research and clinical institutions and, nevertheless, financing the deficits of the social insurance fund.

Private financing, through voluntary insurance and out-of-pocket (both legal and illegal) payments, plays a role in almost all countries in the region. Private medical insurance in Hungary, Poland, and other countries is increasing, but from a very small base. If proper account could be made of the extent of semi-legal "gratuity" payments to providers, the scope of private financing would most likely appear much larger than the official figures reveal.

Delivery

- Public Institutions

The legacy of socialistic planning is clearly evident in the region's health-care delivery system. Even though hospitals must mainly cover their expenditures out of their revenues, in practice, they repeatedly exceed their budgets. The outcome is usually a bailout by the central or local state budget. In Romania, the public hospitals' budget is strictly supervised by the Regional Health Insurance House that aliments them, together with local budget sources and own sources. The budget must not be overcome according to the frame-contract and the legal norms for applying it.

- Legal Private Activity

[59] The size of the health-care social insurance contributions and the nominal distribution of the contribution between employers and employees in Eastern Europe, at the beginning of the century.

The largest change has occurred among doctors practicing individually, in primary care and dental care. All the Eastern European countries legalized private practice in the early 1990s, and some undertook "privatization campaigns"[60]. Several—the Czech Republic, Hungary and Romania—"privatized" primary care, by converting doctors from state employees to self-employed professionals, working under contract with the insurer and the local (or regional) government, which provides the premises and equipment. Privatization of dental care is even more extensive, and pharmacies are overwhelmingly private nowadays.

The first nonpublic hospitals, clinics and other health-care providers have also appeared in the 1990s in most Eastern European countries. Some are nonprofit, owned and operated by churches and private foundations. Most are for-profit institutions. Still, in the Eastern European region as a whole, the nonpublic share in total service volume remains very small. Hungary also has a high private-sector proportion for certain special diagnostic and therapeutic treatments.

Purchasing and Payment

By the end of the 1990s, most countries had moved away from historical-cost budgeting—towards alternative payment methods (*see Table no.1*). Fee-for-service (FFS) predominated in some countries, such as the Czech Republic. In that case, real health care spending increased by almost 40 percent in two years, with health expenditures jumps as a percent of GDP, too. Private practice physicians paid on a FFS basis billed significantly more in every category of service than public (primarily salaried) providers did.

Country	Primary Care	Outpatient and Inpatient Care
Albania	Capitation	Global budget and salary Planned: FFS
Bulgaria	Global budget and salary	Global budget and salary
Czech Republic	FFS Planned: capitation	Global budget
Croatia	Capitation and FFS	FFS and salary
Hungary	Capitation	Case-based payment (DRG)
Macedonia	Capitation	Global budget and salary
Poland	Capitation and FFS	Capitation and FFS *and* case-based payment[61]
Romania	Capitation and FFS	Capitation and FFS *and* case-based payment[62]

Table no. 1 Payment systems in Eastern Europe, at the beginning of the century

Several countries have introduced supply-side cost sharing, such as capitation and case-based payment for hospitals. Capitation has already become the most common form of payment for primary care in Eastern Europe.

Doctors' Earnings and Gratuities

Another resemblance between the market-socialist period of the economy as a whole and the health sector is the tension apparent between legal and illegal (or semi-legal) earnings. One aspect of the phenomenon is the disproportionately low salaries of doctors, most of whom remain employed by public institutions. Although physicians are among the best paid professionals in the traditional market economies (3 to 4 times average earnings), in Eastern Europe, official medical earnings are only 1.3 to 2 times average. This relatively low proportion understandably embitters and annoys the medical profession in light of the widening differentiation of earnings in other fields.

[60] The Czech Republic in 1993 and Croatia in 1996
[61] According to the choice of the territorial fund
[62] Since 1999

The other side of the coin is the system of what are known as gratuities—under-the table payments made by a patient or relative to a doctor or other health-care provider for publicly-financed services. Experts on the subject consider that semi-legal payments to doctors are very widespread in Hungary, Romania, Poland and Bulgaria, and much less so in the Czech Republic and Croatia.

The two sides of the gratuity system—intolerably low official pay and the prevalence and astonishing size of the semi-legal gratuity payments—are inseparably linked. Certainly the majority of doctors accept gratuities; they have become part of their normal income, without which they could not balance their household budget.

Recommendations for Reform

Almost all the countries of the world are confronted with a discrepancy between medical services' demand and the available resources. This led to the research of different methods for upbringing the efficiency of resource usage, starting from the care process technology, up to perfecting the sanitary organization and the financing of health services. Changes within the health system, reached larger proportions at the end of the 1980s and the beginning of the present decade, their expansion embracing many countries from Europe and America. Changes focused to eliminate or reduce disturbances that turned up in democratic countries with a stable market economy, but also in countries that had an economy based on state monopoly and a centralized rigid planning system. An ideal perfect sanitary system doesn't exist anywhere.

Dissatisfactions that generated the process of health care system reform, appeared among tax payers, doctors, institutions, politic and administrative authorities. Discontents aimed increased costs of health, in an intolerable rhythm, without substantial improvement of health status, insufficiency coverage of population with services, the absence of an efficient insurance quality mechanism, exaggerated volume of daily work, inefficient management.

The need for a coherent politic, harmonized with European and internationals health objectives, assumes to complete the desideratum "health for everyone" established by the World Health Organization, based on:

- Universality, i.e. all community members must have access to health care, at a reasonable cost;
- Quality, i.e. the medical services administrated must fulfill legally standards;
- Existence of a complementary powerful and viable private sector;
- Possibility to choose;
- Efficient medical services, based on needs;
- Respect of privacy and personal dignity;
- Existence of a gathering data system used in programming, decision and reglementation;
- Facility of integration models and cooperation for the delivery of medical services;
- Initiatives of long term programs, to prevent sicknesses and to increase life quality.

Our recommendations are based on a proposed set of specific guiding principles for reform of social policies in economies undergoing post-socialist transition, further applied to the health sectors of Eastern Europe. Our main point is the ethical challenge of promoting individual choice and sovereignty while assuring social solidarity.

Guiding Principles	***Recommendations***
Sovereignty of the individual (choice)[63]	Sovereignty of the patient's choice of provider (at least for primary care); choice of insurer for individual supplementary and later for basic care; mechanisms for patient appeals and complaints; etc.
Solidarity[64]	Risk pooling at broadest level for basic care; risk

[63] The transformation promoted must increase the scope for the individual and reduce the scope for the government to decide in the sphere of social services.

	adjustment of payments to insurers and providers to assure risk solidarity, with complementary policies (mixed payment, high-risk pooling); etc.
Competition[65]	Evolutionary development of private sector in delivery and financing, including entry and some privatization; managed competition among insurers for supplementary care and later for integrated packages of basic and supplementary care; etc.
Transparency[66]	Public involvement in process for prioritizing public financing and defining and updating the basic benefit package; formal demand-side cost sharing rather than gratuity payments; etc.
A new government role[67]	A new role in order to finance government basic care for all citizens; develop institutions for prioritizing public financing and delineating basic benefit package; license providers; quality assurance, etc.

Table no. 2 Guiding Principles for Reform

Usually, the shaping of a system is realized in time, being both difficult and expensive. Health, as a determinant element of a democratic society, has to be ensured considering the following important facts:

- the recognition of the predominant role of health within the making of material production and services;
- the control and permanent balance of health costs, in order not to negatively affect the economic prosperity;
- in transition periods, specific indicators confirm an increased damage of health, i.e.:

1. increased lack of medicines and consumable sanitary materials;
2. preventive services are absent or inefficient;
3. the formation and allocation of the sanitary staff is inadequate.

- financing is inconsequentially supplied, on an inflationist ruling fund;
- the development of an uncontrolled private market.

The main objectives of reform for the health care system in Europe are: allocation balance of financial resources and cost control; the reduction in demand inequities and services' accessibility; the reduction of inadequate usage of modern technologies; the correction of inadequate stimulation of medical consuming; introducing the controlled competition, between the public and private suppliers, the insurance organizations, etc; separating the service suppliers (doctors, hospitals) from the service buyers; the payment of doctors and institutions based on performance criteria; introducing modern managerial methods in health services management and decentralization of the health care system through deconcentration and authorities' delegation.

Furthermore, priorities in health care system reforms for Central and East Europe are:

- to decentralize the health care system;
- to modify the administration and planning methods;

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[64] Help the suffering, the troubled and the disadvantaged.
[65] Competition among various ownership forms and coordination mechanisms.
[66] The link between social services provided by the government and the tax burden that finances them must become apparent to citizens
[67] The main functions of the government in the social services sector must be to supply legal frameworks, supervise private institutions, and provide 'ultimate,' last-resort insurance and aid. The government is responsible for ensuring that every citizen has access to basic education and basic health care.

- to maintain large accessibilities;
- the development of communitarian health services;
- the development of preventive services based on risks factors;
- Improvement of health staff's forming system.

Health System Reform in Romania

The health system reform in Romania depends on the economic system reform, on its transformation through property decentralization, the consolidation and the development of private property, as resource and spinning center.

The health reform strategy in Romania focused on the following domains :

- structural organization and system management;
- system financing;
- assuring the necessary health services for population;
- reasonable usage of human and physical resources.

The strategic objectives regarding the configuration and functionality of health services on a long term are:

- the creation of a hued and performing system (ambulatory integrated caring, day-hospitalization, diagnostics and treatment services improvement;
- the extension of primary assistance services (home care assistance, within ambulatory medicines, creating multifunctional health centers);
- suitable, sustainable and stimulating performance financing ,
- shutting down the low performing medical units;
- perfecting operational management systems;
- realizing a compatible normative frame with institutional and functional reforms;
- facilitating private financed systems of medical services
- setting up and improving the insurance for pensioners within specialized units of daily care.

By achieving the up-mentioned objectives, we foresee the perfecting redefinition of the medical units, the improved local access of the community to primary assistance integrated services, financial support, quality assurance, the development of investments, the decentralization and faster supply of health services.

To conclude, the following aspects have to be approached and solved:

- the set up of databases and the improvement of information flow and distribution within a local, regional and national system;
- the standardization of coding and implementation of the national data register;
- the development of primary and ambulatory care, through the lease of medical cabinets towards doctors;
- the finalization of the extern financing programs;
- the extension of the integrated ambulatory services;
- the operation of multifunctional health centers, the standardization of the finance methods, the hiring and usage of the medical staff;
- the implementation and improvement of regional resource allocation;
- the founding of a national organism for monitoring the health services' quality, by using a minimal set of unitary indicators;
- the implementation of improved information management systems, based on performance parameters;
- the providing of health services through stimulated public-private partnerships.

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A COMPARATIVE STUDY ON THE INCOME TAX FOR PHYSICAL PERSONS AND LEGAL ENTITIES

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Abstract: As per the Fiscal Code, the incomes obtained from independent activities are included in the category of incomes that are subject to the income tax. They include: trading income, income obtained from freelance activities, and income resulting from intellectual property rights, obtained individually and/or in some sort of association, including from related activities.

Key words: the income tax, the corporate tax, the income tax for physical persons, the income tax for micro-companies.

1. The taxation on the incomes obtained from independent activities

The income obtained from freelance activities is the kind of income resulting from professions such as: medical practitioner, lawyer, notary, financial auditor, fiscal advisor, expert accountant, chartered accountant, advisor for security placements, architect, or practitioner of any other profession established by law, carried out in an independent manner.

The practice of these professions is established through distinct laws, specific to each of them, and from a legal point of view these activities can be organized either in individual offices or in trading or civil companies, as is the case.

Thus, for instance, in the case of such professions as expert accountant and chartered accountant, the laws under effect in this field provide that these professions can be practiced either individually, within own offices, or the professionals can form trading companies, as per the applicable law.

When these professions are practiced individually, the income resulting is subject to taxation as per the legal regulations specific to the income obtained by physical persons; when these professions are practiced within civil or trading companies, the income obtained is subject to taxation as per the rules applicable to legal entities (either income tax, or income tax for micro-companies, as is the case).

In Romania, the taxation of these incomes obtained by physical persons in an individual manner was conducted, until the year 2004 inclusively, by applying on the net income, established in a real system, a set of tax quotas established by instalments of taxable income, according to the annual standards set forward in legal regulations; the tax quotas then varied between 18% and 40% for the income that exceeded the maximum limit.

Following the introduction of the flat income tax, beginning with January 1st 2005, this kind of income is taxed by applying a quota of 16% to the net income established in a real system.

The tax payers who obtain incomes by performing an independent activity (except for the incomes for which the tax is withdrawn at the source), must pay a tax, during the year, in the form of advance payments, on the account of the income tax, such tax being established based on the income estimated for the current year or based on the net income obtained from that activity in the previous year, by applying to it the legal tax quota. The advance payments are to be made in 4 equal instalments, until the 15th of each month of each trimester.

In the year subsequent to the year when these incomes were obtained, a final taxation is carried out, based on the data actually achieved, and the tax on the net annual income is calculated by the competent fiscal body, in basis of the income statement, by applying the legal tax quota to the net annual taxable income of that fiscal year.

The net income obtained from independent activities is calculated, in a real system, as a difference between the gross income and the expenses entailed by the process of obtaining the income, deductible, based on the data provided by the single-entry bookkeeping. The tax payers who establish the net income in a real system must keep a record of the operations through the single-entry bookkeeping system, to fill in the Check register, the Inventory-register, and other accounting documents, as provided by the law.

Since, as it was indicated before, these tax payers may choose to pay the income tax either as per the laws specific to physical persons, or as provided by the laws applicable to legal entities (corporate tax or income tax for micro-companies, depending on their option), my paper will conduct a **comparative study** between the three forms of taxation – **the income tax for physical persons – the corporate tax – the income tax for micro-companies**, as they were in 2004, respectively 2005, to emphasise the differences between them and the advantages of each of them. To this purpose, the paper analyzes a private consulting room where income is obtained by performing medical professions; the tax due for this income, in the three versions described above, was calculated based on the data provided by the accounting registers.

2. General presentation of the private consulting room

The general medicine consulting room of "Doctor Andru Dana" is a sanitary unit established as per the Government Order no. 124/1998, on the establishment and registering of private consulting rooms. This consulting room is working according to the provisions of the Government Order no. 153/2003 on the organization and functioning of private consulting rooms. This private consulting room has no legal personality, and it exists only in the form of "Consulting Room".

The scope of this consulting room includes:

- providing primary medical assistance (as treatment or prevention);
- providing emergency medical assistance;
- providing activities related to the medical profession.

A. The income of the consulting room is obtained from the following:

- medical services provided in basis of the contract signed with the District department of health insurance, or other physical persons or legal entities;
- medical services paid directly by the clients;
- donations, sponsorships;
- counselling and advising activities in the field of medicine;
- activities contracted with the units that coordinate the learning and research activities in the network of the Ministry of Health;
- other sources obtained in compliance with the legal provisions, including the ones obtained from selling the owned equipment that is worn out (either physically, or no longer up to date), as well as the exceeding equipment owned.

The income obtained from the activity of the consulting room is to be submitted to taxation according to the legal provisions on the taxation of the incomes resulting from activities carried out in basis of free initiative.

The bookkeeping of the private consulting room uses single entries, as per the Accountancy law, and is performed by qualified personnel, in basis of a service providing contract for performing bookkeeping activities.

B. Categories of deductible expenses for the private consulting room

The character of the activity carried out in the private consulting room entails deductible expenses which are common to other companies too, as well as specific expenses:

- expenses related to the personnel:
  - salary expenses;
  - compulsory contributions;
  - travels, assignments, transfers, related to the medical activity carried out;
- expenses related to materials and services – drugs and sanitary materials;
- expenses related to maintenance and administration;
- materials specific to the sanitary field;
- materials and services that have a functional character;
- taxes for professional organizations;

– taxes for continuous medical training;
– insurances;
– inventory items;
– current and capital repairs;
– books and published materials;
– protocol.

3. Calculation of the net income and due tax

The present study is based on the accounting documents of the private consulting room.

According to the accounting registers, in 2004 the Consulting Room of Doctor Andru recorded incomes amounting to 277.141.299 lei, as follows:

– income obtained from medical services provided in basis of the contract signed with the District department of health insurance 270.525.799 lei
– income obtained from medical services paid directly by the clients 1.320.000 lei
– income obtained from various taxes 5.295.500 lei

TOTAL INCOME 277.141.299 lei

According to the laws under effect concerning the deductible expenses for a private consulting room, as well as to the explanatory accounting documents, in 2004 the total expenses amounted to 261.251.220 lei, as follows:

– expenses related to salaries	69.805.200 lei
– expenses related to sanitary materials	35.138.939 lei
– expenses related to inventory items	23.261.164 lei
– expenses related to pharmaceutical products – drugs	18.187.800 lei
– expenses related to fuel	15.394.075 lei
– expenses related to the insurances	18.915.900 lei
– expenses related to the monthly car instalments	46.381.440 lei
– expenses related to taxes and contributions	9.389.000 lei
– expenses related to heating	7.480.918 lei
– expenses related to the phone bill	3.800.000 lei
– expenses related to services provided through third parties	3.372.081 lei
– expenses related to the power supply	2.425.396 lei
– expenses related to water supply, the sewage system, and cleaning	4.004.455 lei
– expenses related to the rent for the location	1.474.352 lei
– travelling expenses	2.220.000 lei
TOTAL EXPENSES	**261.251.220 lei**

A) The tax on the income obtained from independent activities

The net income obtained from independent activities is established in this case as the difference between the gross income achieved and the expenses entailed by the process of achieving this income – deductible, registered in the single-entry bookkeeping, as follows:

Gross income = 277.141.299 lei
Expenses = 261.251.220 lei
Net income = 15.890.079 lei

For the year 2004 the tax quota applied to this part of the income was of 18%, and for the year 2005 the quota applied was that of 16% (the flat income tax).

The due income tax is shown in **Table 1.:**

Table 1

The income tax due for the period 2004-2005

Year	Net income (lei)	Tax quota	Due Tax (lei)
2004	15.890.079	18 %	2.860.214
2005	15.890.079	16 %	2.542.413

B) The corporate tax

The taxable profit is calculated as the difference between the incomes obtained from any source and the expenses made in order to obtain income, during one fiscal year, out of which non-taxable incomes are subtracted, and to which non-deductible expenses are added.

Incomes = 277.141.299

Expenses = 261.251.220

Profit = 15.890.079

The corporate tax quota applicable to the taxable profit was of 25% until the 1st of January 2005; afterwards, the system changed to apply the flat income tax of 16%.

The due corporate tax is shown in **table 2.:**

Table 2.

The corporate tax due for the period 2004-2005

Year	Taxable profit (lei)	Tax quota	Due Tax (lei)
2004	15.890.079	25 %	3.972.250
2005	15.890.079	16 %	2.542.413

C) The income tax for micro-companies

The Romanian legal entities that meet the legal requirements for being established as micro-companies may choose between paying the tax either as corporate tax or income tax.

Total incomes = 277.141.299 lei

The tax quota for the year 2004 was of 1,5%, and beginning with the 1st of January 2005, it changed to 3%.

The income tax for the micro-company is shown in **table 3.:**

Table 3.

The income tax for the micro-company due for the period 2004-2005

Year	Total income (lei)	Tax quota	Due Tax (lei)
2004	277.141.299	1,5 %	4.157.119
2005	277.141.299	3 %	8.314.239

The comparative status of the three tax categories, for the years 2004 and 2005, applied to the study conducted on the private consulting room, is shown in **table 4.:**

Table 4.

Comparative status of the three tax categories, for the years 2004 and 2005

Year	Independent activities		Corporate tax		Income tax for a micro-company	
	Tax quota	Due tax (lei)	Tax quota	Due tax (lei)	Tax quota	Due tax (lei)
2004	18 %	2.860.214	25 %	3.972.250	1,5 %	4.157.119

2005	16 %	2.542.413	16 %	2.542.413	3 %	8.314.239

4. Conclusions

This comparative study of the situation of the three tax categories for the years 2004 and 2005, applied to the same income, to the Private Consulting Room of "Doctor Andru", leads to the following conclusions:

a) In **2004** the most disadvantageous situation from the point of view of tax obligations was that of the micro-company that paid an income tax, although the tax quota was the smallest of them all. This is due to the fact that the 1,5 % quota was applied to all the incomes. The most advantageous form of organization, taking into account the calculation of the tax for 2004, is that of freelance professional, which was also the form chosen by the Private Consulting Room of "Doctor Andru".

In conclusion, in 2004 the Private Consulting Room had the most advantageous form of organization.

b) For **2005** the comparative study leads to the same conclusion as for 2004, which is, that the micro-company paying an income tax has the most disadvantages. In return, there is an equality of status between the freelance professionals (physical persons) and those who pay the corporate tax, because the same quota of 16 % is applied in both cases.

c) **The comparative situation for the years 2004 and 2005,** in that which concerns the three tax categories, clearly shows that the tax quotas for physical persons and the corporate tax payers were down in 2005 to the flat income tax quota of 16 %, which puts the year 2005 in a more advantageous situation as 2004.

By contrast, for the micro-companies paying the income tax, the tax quota doubled from 1,5 % to 3 %, which is a disadvantage. Still, the new laws provide the micro-companies with the option of choosing to pay the corporate tax instead, which is an option that didn't exist in 2004.

In conclusion, in the case of the income tax for independent activities, and of the corporate tax, the introduction of the flat income tax quota of 16 % led to an obvious decrease of the due tax and, implicitly, is the most advantageous option from this point of view. In that which concerns the micro-companies that pay an income tax, although the tax quota doubled, many economic agents have chosen this form of organization most probably for other reasons related to fiscal control.

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THE ECONOMIC AND FINANCIAL ELEMENTS USED IN ASSESSING THE COMPANY ACTIVITY

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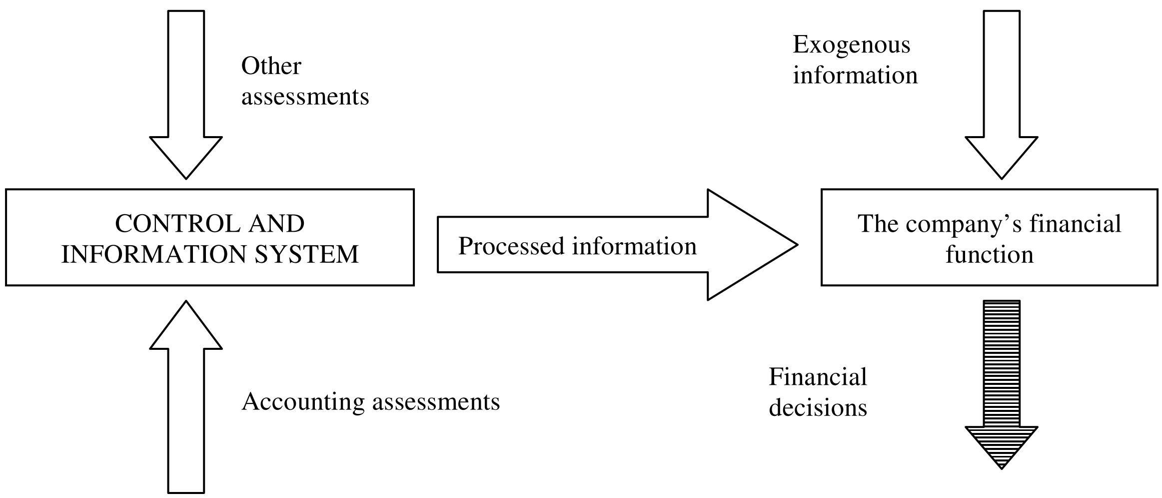
Abstract: The financial administration can be defined as an assembly of decisions and activities for regulating and adjusting financial flows and funds, at administrating the financial resources of the enterprise. The financial administration has as its aim the regular providing of the company with funds necessary to equipment and current exploitation, but also to control the good use of funds and profitability of the targeted operations. The financial administration has multiple aims subordinated to survival, to obtaining profit and economic growth of the company.

Key words: the economic elements, the financial elements, the financial resources, the enterprise

1. Indicators – concentrated expressions of the economic and financial data

According to modern conceptions with regards to the role and attributions of a company's financial function, the most common opinion is that the purpose for performing it is to make decisions concerning the cash flows that characterize the life of the company. The focus is not so much on the resource itself, but on the way it is used, which makes it necessary to emphasize the decisional aspect in performing this function.

The role of the financial function within the informational and decisional process can be illustrated through the figure below:



The data obtained and used with regards to the company performing its financial function takes the form of indicators. These become an essential tool for the financial activity and, through that, for the decision-making process at micro-economic levels.

To make it simpler, indicators may be considered to be concentrated expressions of the economic and financial data, used in the process of administrating the company. It follows from this that the first function attributed to an indicator or system of indicators, within the management process, is the function of reflecting and providing data on the phenomena involved. Because of this, indicators ensure a quantitative illustration of the structure, level, and dynamics of the phenomenon under observance. Indicators may be expressed either as absolute values at a given time or as average values over a given period, or as a secondary indicator in the form of a relative value connecting two absolute values.

Thus, in the practice of financial management these economic and financial indicators are formed as significant relations or, sometimes, as differences between two values or group of values in the income and expenditure budget, in the company's balance sheet and/or profit and loss account.

So why is it required to analyze the company's activity starting from this aspect – of the economic and financial indicators? The balance sheet of any economic agent or company, through its content, provides a static image of the capital existing at the end of the accounting period.

The calculation of these economic and financial indicators is made based on data collected from the balance sheet, the results account, as well as based on certain information that will be collected from the balance and turnover records for the completed accounting period.

I reckon that: to actually conduct this analysis based on economic and financial indicators (rate of return, financial autonomy rate, self-financing capacity, etc.), we must have access to a highly organized database of financial and accounting information, which would allow us to update the data provided by the accounting records, and access to this data must be ensured to applicants that process and draw-up documents with the financial information.

The path completed during the research represents the reverse of the phenomenon's actual evolution. The study or research starts from the results of the completed process and goes back to elements and factors from previous periods.

The content of the analysis may be described in several stages:

- Outlining the object of the analysis, which implies acknowledging certain facts, phenomena of economic and financial nature. Most often results are recorded both through absolute values and through indicators. The object is outlined in time, space, from a quantitative and qualitative point of view, utilizing certain assessment and calculation methods.
- Outlining the elements, factors, and causes of the phenomenon that is being studied. Breaking it into elements implies a structural analysis.
- Establishing the correlations between the factor and the phenomenon that is being analysed. It is required to outline the cause and effect relation.

In fact, the conclusions we will analyze must answer the following questions:

- What means are used to ensure the financial balance of the companies that are being analysed (self-financing, loans, etc.)?
- Does the company prove sufficient efficiency in utilizing its economic and financial resources?
- What are the appreciations on the structure, utility of the resources, assets, working capital?

It is answers to such questions, falling within the scope and limits of this work, that any user of the information will try to get, whether he is an insider of the company (the management of the company) or an outsider (banks, fiscal bodies, business partners).

2. An analysis on company profitability

It must be kept in mind that the financial purpose of any activity is to obtain profit, and the policy of self-financing is only a method for achieving it.

Profitability is defined as a relation between the result that was obtained and the means that were used. Most often the term of profitability refers to the result obtained from utilizing a capital.

The notion of profitability concerns a comparison between two or several values and requires the intervention of the time factor. From this point of view profitability is more than just a technical concept, as the technical concept alone cannot explain the various economic situations that we encounter in the actual life of an economic agent. At the same time profitability isn't only the result of a comparison between the technical, material, and human elements.

The essence of profitability is that it represents a monetary surplus, the balance between the total expenses and the total receipts. These elements will appear in the company's income and expenditure budget.

The income and expenditure budget is the concrete expression of the company's financial strategy, and through that it underlies the possibility to apply the development strategy over a longer period of time. The construction, and most importantly the motivation of the budgetary provisions require an in-depth horizontal analysis with the competitors in that branch, and a vertical – retrospective - analysis of the absolute values of the items included in the budget, which, taken separately, are not particularly relevant for the relation between the planned effort and the prospective results to be achieved.

This analysis involves utilising the appropriate system that would ensure clear but not imperative comparisons both vertically and horizontally. This system is formed of a group of economic and financial indicators. Five categories of indicators are known: liquidity ratios, financial balance indicators, profitability ratios, working capital indicators.

In my work I will place a special emphasis on the group of financial indicators pertaining o profitability and financial yield.

This group of indicators, which are particularly synthetic, is meant to provide the analyst with information concerning the level of economic and financial achievement obtained from the capital. They are built following the model of efficiency indicators, by calculating the relation between the effect and the effort.

I will also stress the role of these indicators starting from the significance assigned to profit in the market economy. Any entrepreneur aims to obtain sufficient profit to ensure the following:

a) convenient remuneration of the capital made available;
b) maintaining the technical and economic potential in compliance with the requirements imposed by technical and scientific progress in the company's field of activity;
c) ensuring a reasonable expansion on the market, taking into account its evolution and the conjectural tendencies it manifests.

This profit results from a group of activities and operations that work together for the achievement of the targets assumed by the enterprise, in compliance with its market strategy. It follows from this that the profit is a method, a signal (information), and a result of the concentrated actions that the company performs in basis of its functions.

As a consequence, the indicators for financial yield and profitability are meant to outline these very aspects and to serve the act of management precisely by providing the most relevant information with regards to profit and profitability.

There are two separate kinds of selective indicators within this group, and they are as follows:

a) financial yield indicators;
b) profitability indicators.

2.1. Financial yield indicators

The following are included in this type of indicators:

a1 – the gross profit coefficient (margin), established through the relation:

$$m_{pb} = \frac{P_b}{C_A}$$

a2 – the net profit coefficient (margin), established through the relation:

$$m_{pn} = \frac{P_n}{C_A}$$

Both values indicate to the analyst the proportion (margin) that it holds in the whole of the company's receipts. At the same time, these indicators reflect the financial yield for the company business, by indicating how many monetary units represent profit, per received monetary unit, following the sale of the products. Obviously, the purpose is to have this coefficient reach a level as high as possible, and to make its evolution an increasing one.

2.2. Profitability indicators

This group contains indicators obtained from the general relation "profit/capital assets".

Based on the calculation values that are taken into account, we may discriminate between several types of profitability ratios, and they are as follows:

b1 – profitability ratio of the share capital, calculated with the following formula:

$$r_{CS} = \frac{P_b}{K_S}$$

Profitability ratios are rather economic than financial in nature, that is why this appears more like a financial yield indicator for the share capital. In this framework, it may be argued that this indicator reflects the capacity of the share capital to produce profit.

b2 – profitability ratio of the share capital, calculated with the following formula:

$$r_{CS} = \frac{P_n}{K_S}$$

It may be argued that this indicator is purely financial in nature, and this is actually the one indicator that expresses the capital's profitability. It is extremely utilized in the practice of companies located in countries with well established market economies, and it is acknowledged as an indicator of the efficiency of the company's administrators in utilizing the plant assets made available to them.

3. Economic and financial aggregates

Financial analysis makes use of two types of aggregates: the first kind is derived from the financial balance sheet and they constitute the fundamental relation of the bank vault, the second kind originates in the profit and loss account and they form the intermediary balances of administration. The fundamental relation of the bank vault provides indications with regards to the company's financial structure, while the intermediary balances of administration provide information on the administration, as suggested by the name itself.

3.1. The fundamental relation of the bank vault

To establish the fundamental relation of the bank vault three aggregates must be taken out of the balance sheet:

a) The net working capital (F.R.N.)
b) Working capital requirement (N.F.R.)
c) Net bank vault (T.N.)

A) *The net working capital* is the essential element for appreciating the financial structure of a company. It is used for measuring the conditions of the financial balance that results from the confrontation between the liquidity of the assets and the payability of the resources.

The net working capital is the permanent capital surplus relative to the net fixed assets, that is the share of the permanent capitals that is used for financing the circulating assets.

F.R.N. = C.P. – A.I.N.

The attention paid to financial security and caution leads us to state a rule according to which sustainable utilization must be financed through sustainable sources, that is through permanent capitals. This implies the fact that the net working capitals must have positive values. A negative net working capital indicates that some of the fixed assets are financed through short-term resources. Such a situation is deemed to be an important factor of vulnerability. Still with the aim of ensuring financial security, a second problem that needs to be addressed is establishing whether the net working capital should finance the operating cycle and if yes, up to what point. As a general rule, the net working capital may be considered as indicating good financial health if it meets the following criteria:

– it is equal to half the stocks;
– it varies between 1 and 3 months of the average turnover, without taxes.

Thus, the net working capital allows us to draw the following conclusions:

– a positive net working capital is a favourable signal in that which concerns solvency;
– a zero-value net working capital indicates tension over the liquidity and is a sign of a certain vulnerability with regards to solvency;

– a negative net working capital indicates difficulties in that which concerns solvency, if no corrections are made to improve the stability of the financing.

B) *The working capital requirement* outlines the financing requirements created by the operating cycle. The difference between the financing requirements of the operating cycle (the circulating assets) and the operating debts is called the working capital requirement.

$$N.F.R. = A.C. - D.E.$$

That is to say:

WORKING CAPITAL REQUIREMENT = CYCLIC ALLOTMENTS – CYCLIC SOURCES

As a rule, companies must deal with a very high working capital requirement. If this difference is positive, it indicates a surplus of temporary (cyclic) requirements in relation to temporary (cyclic) sources that could be mobilized. Such a situation can be deemed as normal if it is the result of an investment policy with regards to the increase of the financing requirements for the operating cycle.

If the working capital requirement is negative it indicates a surplus of temporary requirements in relation to the corresponding requirements for circulating capitals. This can receive a positive appreciation if it results from an acceleration of the rotation of circulating assets and of taking up debts with more relaxed due dates.

The evolutionary character of the working capital requirement lies in the fact that this requirement depends on the activity volume, and its size may be inflected through administration measures (reducing the stocks, reducing the number of clients or increasing the credit of suppliers).

The whole of the resources that the company can self-procure, having as source the self-financing and the divestiture.

The self-financing is based on the forecasts for the gross operating output resulted from the operations. The gross operating output depends on the profitability of both the existing capital and the new added capital. Starting from the gross operating output, the calculation for self-financing requires mainly an establishment of the financial expenditure and income, as well as a calculation of the tax and of the participations to the profit.

Forecasting financial expenditure is a very delicate issue, since the financial expenses related to treasury credits (short-term credits) are treasury requirements themselves. But the very existence of the bank vault depends on the chosen financial policy. The chain procedure is advised. Also, another element that must be taken into account is the policy for distributing benefits, in the case of dividends received from subsidiaries.

Divestitures represent selling of certain asset elements to allow the procurement of significant capitals. One must discriminate though between the divestitures that are consequences of completing new investments, and divestitures caused by a deliberate choice with regards to the company's capital.

Conclusions

When a company chooses a financing source, whether it is short-term, medium-term or long-term, it must have certain criteria based on which it can make a selection. For this decision, as with other decisions made by the financial leader, the final criterion is maximizing the wealth of the shareholders. But this criterion has more than one dimension as several factors need to be taken into account when making a choice between debts, potential actions and common actions. Among these are the following: cost, fund availability, company control, changes in the structure of the capital, opportunity cost, taxes, etc.

From the management's point of view, the impact over the cash flow is one of the most important factors taken into account when making the financing decisions.

The company is left with money supplies that it may use either to complete the distribution of the dividends or to purchase subsidiaries or participations, thus becoming a "parent" company of a group or holding. Still, it is required to examine the nature and size of the balance (surplus). If it shows a tendency of keeping a high level (as a consequence of the unitary strategy), the company may also consider a policy of remunerating shares and external development. But if this balance shows a reverse tendency, there is a risk that the company may get in a negative situation.

This analysis (research) indicates that there is a strong connection between the company's strategic situation and its financial performances.

At the same time, a company's financial performances shouldn't be measured only in terms of profitability but also, using flows, in terms of capacity, generating liquidities, equally conducted at the level of strategic activities.

Without having exhausted all the aspects of business administration in the field of *self-financing,* we have tried to analyse and discuss some aspects that we found useful.

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AN ANALYSIS OF EQUITY IN INSURANCE. THE MATHEMATICAL APPROACH OF RISK OF RUIN FOR INSURERS

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Abstract: The goal of the present paper is a short analysis for the insurers' foreign equity in Romania and the development of a mathematical approach for the chronological evolution of the study regarding the insurers' equity from the point of view of assessing the insolvency probabilities and the risk provision so the estimating insolvency risk will not over overcome an accepted value.

Key words: Insurer, broker, adjusting coefficient, overcharging factor, probability of ruin, compound Poisson repartition.

Introduction

Since 1989, Romania faced a development of private property and a concentration of indigene capital, facts that determined continuous growth of the insurance market. In a first phase, the permissible legal framework (Law no. 47/1991) and the lack of the Romanian capital but also the attractiveness of the Romanian market were the main factors for the market penetration of the foreign capital on the Romanian insurance market. The same phenomenon took place in the insurance mediation sector.

The number of insurers reached a normal evolution, with a spectacular growth at the beginning of the insurance market, followed by a decrease according to the concentration and centralization of the capital, as shown below: (P is the percent of foreign capital to equity of the insurers).

Year	Number of insurers	P %
1997	47	-
1998	64	-
1999	72	62,11
2000	73	75,80
2001	47	61,70
2002	48	50,20
2003	44	59,21
2004	45	48,00
2005	43	50,00
2006	41	53,10

Source: - OSAAR Reports, Bucharest, years 1997-1999;

- ISC Reports, Bucharest, years 2000-2006;

As it can be seen, a significant share of equity is represented by the foreign capital, mainly Austrian or German. Since year 2007, it is evident a foreign capital domination due to the fact that the first 6 insurers have a market share of more than 70%. Since year 2000, there are changes in the sales management for the insurance products, so the insurance agent is replaced by the insurance broker. The law 32/2000 sets a clearer view on mediation sector, especially for brokers. This is supposed to be a legal person, to prove cash equity, to have valid third party liability insurance, and the only subject of activity – the insurance mediation, to have qualified human resources.

The evolution for the number of brokers is shown below:

Year	1999	2000	2001	2002	2003	2004	2005	2006
Number of brokers	749	817	198	150	204	266	317	344

Source: O.S.A.A.R. and ISC Reports, Bucharest, years 1999-2006.

It is important to assess the risk that an insurance company faces bankruptcy. In order to explain this, we shall provide a mathematical model regarding the insurer's capital and we shall determine the ruin probability, this means the probability that the insurer has no more resources to pay the indemnities (obviously this isn't a de facto ruin, but an attention for the financial management).

2. The modeling of risk of ruin

In order to study the variation of insurer's equity, we shall note with $U(t)$ the insurer's equity at moment t, with u the initial capital, with $S(t)$ the total claim demand (more precisely the amount of total claim demand) occurred till the moment t, with m the number of insurance policies, with $N_k(t)$ the number of individual claim demands till the moment t for a given policy type k, with Y_i^k the individual demand number i for the insurance type k and with $S_k(t)$ the claim demand occurred till the moment t for a given policy type k.

We have:

$$S(t)=\sum_{k=1}^{m} S_k(t) \text{ and } S_k(t)=\sum_{i=1}^{N_k(t)} Y_i^k \text{ .}$$

Additionally, we presume the following hypothesis to be fulfilled:

1. there are no other expenses than the paid indemnities and no other incomes than the cashed premiums.
2. the unit income is c.
3. the individual claim demands for every policy type are independent identically distributed random variables. The individual claim demands for every insurance type are independent and identically distributed variables
4. the stochastic processes $\left(N_k(t)\right)_t$, $k=\overline{1,m}$, for the number of demands are Poisson processes of parameter λ_k. It results that process $\{S(t)\}_t$ is a compound Poisson process composed of parameter $\lambda=\sum_{k=1}^{m}\lambda_k$, so we have $S(t)=\sum_{i=1}^{N(t)} X_i$, where random variables X_i are independent and identically distributed, having the moment of order k noted with m_k, $m_k=M\left(X^k\right)$. The variables X_i equalize mathematically the individual real claim demands Y_i^k, but there are not identically distributed. In these hypothesis, we have $M(S(t)) = \lambda \cdot t \cdot m_1$ and $D^2(S(t)) = \lambda \cdot t \cdot m_2$.
5. The insurance premiums are determined with respect to the medium value principle, with an overcharging relative confidence θ:

$$\text{k}\, c=(1+\theta)\cdot m_1 \cdot M(N(1)) \text{ .}$$

We have: $U(t) = u + c \cdot t - S(t)$ (1).

We shall name ruin the situation this capital is negative and we shall consider the moment of ruin at the moment this happen for the first time. So we are dealing with the problem of ruin for a given, undetermined period of time, called finite horizon. So:

$$T = \inf\{t > 0 \mid U(t) < 0\}$$ is the moment of ruin.

In this context, the ruin probability (noted with Ψ) is the probability that the moment of ruin is finite. From the point of view of initial capital u, the overcharging factor θ, the claim files rate λ and the medium individual claim demand m_1, the function is: $\Psi(u,\theta,\lambda,m_1) = P(T < \infty)$.

The equation (in r) strictly positive solution: $\lambda + c \cdot r = \lambda \cdot M\left(e^{r \cdot X}\right)$ is called adjustment coefficient. This coefficient (when does exist) shall be noted as R.

Considering an existing adjustment coefficient R, we have:

$$\psi = \frac{e^{-R \cdot u}}{M\left(e^{-R \cdot U(T)} \mid T < \infty\right)}.$$

If the adjustment coefficient R does exist, then $\Psi(u) \le e^{-R \cdot u}$ (this is known as the Cramer inequality).

This is determined by the fact that for a finite T ($T < \infty$), we have $U(T) < 0$, so $M(e^{-R \cdot U(T)} \mid T < \infty) > 1$.

Generally speaking, because the adjustment coefficient is difficult to compute, we seek for a convenient interval, whose margins are used in the Cramer inequality. Because $M\left(e^{R \cdot X}\right) > 1 + R \cdot m_1 + \frac{R^2}{2} \cdot m_2$ we obtain: $R < \frac{2 \cdot \theta \cdot m_1}{m_2}$. Considering the function $\omega(r) = \lambda \cdot (m_X(r) - 1) - c \cdot r$ which is strictly convex and due to the fact that net profit condition is fulfilled ($\omega'(0) = \lambda \cdot m_1 - c < 0$), the results are $\omega(R) = \omega(0) + \int_0^R \omega'(s) \cdot ds > \lambda \cdot m_1 \cdot R - c \cdot R + \lambda \cdot m_2 \cdot \frac{R^2}{2}$ and $R < \frac{2 \cdot c - 2 \cdot \lambda \cdot m_1}{\lambda \cdot m_2}$.

If the individual demands have an exponential repartition of parameter α (so $m_1 = \frac{1}{\alpha}$), because the medium income per unit time is $c = (1+\theta) \cdot \frac{\lambda}{\alpha}$, we find for the ruin probability the expression:

$$\psi(u,\theta,\lambda,\alpha) = \frac{\lambda}{\alpha \cdot c} \cdot e^{-\left(\alpha - \frac{\lambda}{c}\right) \cdot u} = \frac{1}{1+\theta} \cdot e^{-\frac{\alpha \cdot \theta \cdot u}{1+\theta}} \quad (2).$$

Considering the initial capital as a β number of medium individual claim demands, we obtain:

$$\psi(\beta,\theta) = \frac{1}{1+\theta} \cdot e^{-\frac{\theta \cdot \beta}{1+\theta}} \quad (3).$$

We could improve this model by setting the problem to compute a risk provision (V), in order to define the probability that paid indemnities should not overcome the incomes plus this provision, under an accepted value p. If the medium number of claim demands (in our case $n = \lambda \cdot t$) is big enough, we can use the central limit theorem (TLC) and approximate $S(t)$ with a normal variable of mean $\lambda \cdot t \cdot m_1$ and dispersion $\lambda \cdot t \cdot m_2$. So we want to determine *V* in order that $P(S(t) \geq u + c \cdot t + V) \leq p$. Using TLC we obtain $V \geq z_{1-p} \cdot \sqrt{\lambda \cdot t \cdot m_2} - u - \theta \cdot \lambda \cdot t \cdot m_1$, where z_{1-p} is the quartile of order $1-p$ of the normal repartition. If we choose the minimum risk reserve in order not to block higher financial resources, we have:

$$V = z_{1-p} \cdot \sqrt{\lambda \cdot t \cdot m_2} - u - \theta \cdot \lambda \cdot t \cdot m_1 \qquad (4)$$

In the hypothesis that individual claim demand follows an exponential repartition of parameter α, so $m_1 = \frac{1}{\alpha}$, $m_2 = \frac{1}{\alpha^2}$, we have:

$$V = z_{1-p} \cdot \frac{\sqrt{\lambda \cdot t}}{\alpha} - u - \frac{\theta \cdot \lambda \cdot t}{\alpha} \qquad (5)$$

Choosing an initial equity to represent a number of individual medium claim demands (β), we obtain:

$$V = \frac{z_{1-p} \cdot \sqrt{\lambda \cdot t} - \beta - \theta \cdot \lambda \cdot t}{\alpha} \qquad (6)$$

3. Numerical results

From relation (3) we have determined the values for ruin probabilities for a few values of premiums overcharging factor θ and parameter β, that provide the number of medium individual demands to cover the initial equity.

The results are listed in the table below:

$\theta \backslash \beta$	5	10	20	30	50	60	100
0.1	0.5770	0.3663	0.1476	0.05945	0.00965	0.00428	0.0001
0.2	0.3622	0.1574	0.0297	0.0056	0.0002	$4.5 \cdot 10^{-5}$	$4.8 \cdot 10^{-8}$
0.4	0.1712	0.0410	0.0024	0.00014	$4.5 \cdot 10^{-7}$	$3.6 \cdot 10^{-8}$	$2.8 \cdot 10^{-13}$
0.6	0.0958	0.0147	0.0003	$8.1 \cdot 10^{-6}$	$4.5 \cdot 10^{-9}$	$1.7 \cdot 10^{-10}$	$3.2 \cdot 10^{-17}$

Obviously, the higher the initial equity and the bigger the overcharging premiums are, the smaller the ruin probability is. The diminution of risk of ruin realizes exponentially compared to the growth of those two factors. The increasing overcharging factor is limited by the necessity to maintain an adequate premium level for the competitiveness of the insurance company on market. We also emphasize this model is correlating to strong the incomes and the indemnities, the medium income per unit time being proportional to the medium number of individual claim demands multiplied by the value of medium individual claim demand.

This is due to the principle of medium value for the premiums computation. We consider the use of medium annual claim index instead of claim demand in order to obtain a more realistic model.

Using relation (6) we obtained the following results:

- for $p = 0.005, \alpha = 0.001, \lambda = 1, \beta = 2$, values of *t* and β, the risk reserve *V* (u.m.) is provided in the following tabel:

$t \backslash \theta$	0.1	0.2	0.5

1	480	380	80
5	3269	2769	1269
10	5159	4159	1159

- for $p = 0.001, \alpha = 0.01, \lambda = 5, \ \theta = 0.1$, values of t and β, the risk reserve V (u.m.) is provided in the following tabel:

$t \setminus \beta$	5	10	20
100	1590	1090	90
400	1680	1180	180

We underline that the negative values for the relations (4)-(6) mean a risk reserve equal to zero. We also ascertain the risk reserve to be proportional to the claim medium individual demand, decreasing when the initial equity covers many claim individual demands and decreasing when the requested margin for the insolvency risk decreases.

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THE INFLUENCE OF TAXES ON FINANCIAL EQUILIBRIUM

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Abstract. *In this paper, the authors present the method of evaluating the effect of taxation on the financial equilibrium of the company.*

Key words: working capital, working capital requirement, net treasury, net standing.

1. Financial diagnosis- the evaluation method of the company's equilibrium

The financial diagnosis is a group of instruments and methods which enable the appreciation of the financial standing and the performances of a company.

The purpose of the financial diagnosis is of evaluating the financial standing of the company. Basing on this diagnosis, there takes place the creation of a new strategy of maintaining and developing in the local economic environment. In a general sense, the finality of the financial diagnosis consists of providing financial information both to those inside the company and to the interested ones from outside the company.

When the issue of the diagnosis occurs inside the company (internal financial diagnosis), the users may be the leaders, current shareholders or employees. The objective is, in this case, to detect the possible situations of financial instability and to adopt new decisions concerning the administration of the company. These decisions are based on the identification of the origins and causes of the lack of balance and, on the other hand, on the determination of the curative measures.

When the issue occurs outside the company (external financial diagnosis), the users may be financial analysts, potential shareholders, banking and financial institutions or even the state. The objective pursued is the company's financial capacity of generating profit, the company'c capacity of paying its short term or long term obligations (the liquidity nad solvability of the company), as well as the company's value.

External users usually require a financial diagnosis either for crediting the company (especially banks), or for making the decision of entering the capital of a company (potential shareholders or other companies).

Both the internal and the external analysis have the objective of appreciating the performances of the company and the risks it faces and they refer to: profitability analysis, risk analysis and company's value analysis.

Irrespective of the results obtained by the company or of the unfolding of the events, the making of a financial diagnosis has to take place on a periodical basis. The financial diagnosis identifies the favorable and unfavorable factors that will influence the future activity of the company.

The information resulting from the financial diagnosis often have to be completed with information referring to the external milieu of the company (standing of the economy, of the industry), information referring to the technical and human potential, commerical and juridical potential , the company's management (information depending on companies). All these elements influence the financial performances of the company and determine its competitive nature.

The information required for making the financial diagnosis are taken from the simplified financial statements that include: balance sheet, profit and loss account, annex to the balance sheet.

2. The double meaning of taxes in the case of the economic unit

From the definition there can be extracted the following characteristics of taxes:

1. the compulsory nature of paying taxes and, in relation to this, their legality and legitimacy;
2. tax is a take over without equivalent and, in relation to this, there occurs the issue of the reversibilty of taxes and their redistributive role;
3. taxes' fundament and measure is the contributive capacity of each tax payer;
4. the double quality of taxes: resources for covering public expenses and fiscal leverages used by the state.

Stating that tax has as main purpose the overing of public expenses and to sustain the primary nature of its financial purpose implies the explict determination of al least four things:

- tax has a financial purpose: obtaining the necessary resources for covering public expenses;
- tax also has other purposes, also referring to the fulfillment of certain economic or social objectives;
- its objectives may be contradictory, therefore they must be harmonized;
- among its different objectives, the most important is the financial one.

Taxes have a double quality as far as the financial equilibrium of the companies or tax payers is concerned. Under this hypothesis, taxes represent, on the one hand, an expense for the companies or tax payers and, on the other hand, they represent their debt or obligation.

The development of the company is related to the ensurng of the economic equilibrium expressed as a value. The financial equilibrium expreses the equality and correlations between the required financial resources and the possibility of collecting these resources. The financial equilibrium of the company implies the covering of all the operational expenses out of own or borrowed incomes, of the expenses not shown in costs, of the development and modernization expenses, of the expenses with personnel and shareholders incentives, as well as of the contractual and financial obligations towards banks and state budget.

The activity of a company has to be performed so that there is ensured an equality among financial resources (R) and their use (F), so that R=F.

The financial resources (R) of a company may be made up of incomes resulting from the basic activity and from other activities (V), financial incomes (Vf), extraordinary incomes (VE), liabilities of operation and those from the investment sector (Pe), bank and other financial institutions credits (C) and new cash contributions of shareholders and other resources (Ar), so that:

$$R = V + Vf + VE + Pe + C + A + Ar$$

The uses of resources can be represented by clients inventories and assimilates (S), expenses with personnel and other salarial rights (Ce), expenses with investments and modernization (Ci), research and development expenses (CE), non deductible expenses (Cn), payment of obligations to the state as taxes and the contributions to the social insurance budget (imp), payment of credits and corresponding interest (Rc) and other expenses (Ac), so that:

$$F = S + Cp + Ci + Ce + Cn + Imp + Rc + Ac.$$

Taking into account the financial resources and their use, the financial equilibrium of the company is presented through the following equality:

$$V + Vf + VE + Pe + C + A + Ar = S + Cp + Ci + Ce + Cn + Imp + Rc + Ac$$

Taxes may influence the financial equilibrium of the company. Taxes represent a factor of influence over the financial stability of a company as far as the two aspects analyzed – expense and debt- are concerned.

3. The effect of taxes on the net standing

The net standing calculted as difference among total assets and total debts provides a first (accounting) evaluation of the company at the end of the financial period. This fundametal equation of the balance sheet represents the net wealth of the shareholders, respectively the asset not engaged in debts.

Indicators	Period			
	S_1	S_2	S_3	S_4
Total assets	10.000	10.000	10.000	12.000
Debts	3.000	4.000	2.000	3.000
Out of which taxes	1.000	2.000	500	1.800

Net standing	7.000	6.000	8.000	3.000
Variation of net standing	x	6.000	- 2.000	1.000

NET STANDING = ASSET – DEBTS

The net standing presents an increase or decrease in timpe, a fact that signifies the increase or decrease of shareholders' equity.

Analyzing the due taxes, we may say that the increase, respectivley decrease, of the taxes included in total debts influences with a positive or negative effect the net standing of a company and, consequently, its financial equilibrium.

During the S_2 period with increased debts on the account of taxes, the net standing of the company decreases. Under these circumstances, the debts and expenses of the company increase and we may notice a fiscal pressure.

Net statement S_2 = 10.000 – 4.000 = 6.000

During S_3 period with the decrease of debts on the account of taxes, THE NET STATEMENT of the companies increases. Under these circumstances, the expenses and the debts of the companies decrease and we may notice a fiscal relaxation.

The net statement S_3 = 10.000 – 2.000 = 8.000

During the S_4 period, when the value of the asset is determined by other factors but from total debts we notice a increase of taxes. Under these circumstances, even if the net standing records an increase, we may say that the fiscal pressure is positive as compare to S_1.

Net statement S4 = 12.000 – 3.000 = 9.000

4. Working capital, measure of the financial equilibrium

In order to accomplish the financial equilibrium of the company, it is necessary to respect the principle of maturities parity according to which permanet allocations (intangibles) have to be financed on the account of permanent sources (shareholders' equity and long term credits) due to their slower rotation; cyclical allocation (non current assets) are financed on the account of the temporary sources (short term liabilities).

The higher permanent sources are as compared to permanent requirements of funds allocation, the more the company enjoys a security margin, which protects it from unforeseen events.

This surplus of permanent resources, resulting from the financing cycle of investments, may be rotated for renewing inventories and account receivable. This potential use is responsible for its name, which is working capital. It expresses the long term financial equilibrium and its contribution to the accomlishement of the equilibrium of short term financing.

WORKING CAPITAL = PERMENENT SOURCES – PERMANENT ALLOCATION

Working capital = (Shareholders' equity + Financial debts) – Net amortization non current assets.

INDICATORS	S1	S2	S3	S4
SHAREHOLDERS' EQUITY	790.000	802.000	925.000	1.123.000
FINANCIAL DEBTS	0	0	0	12.000
NET NON CURRENT ASSETS	800.000	839.000	972.000	1.160.000
WORKING CAPITAL	- 10.000	- 37.000	- 47.000	- 25.000
WORKING CAPITAL VARIATION		- 26.000	- 10.000	22.000

FR S1 = (790.000 + 0) – 800.000 = - 10.000

FR S2 = (802.000 + 0) – 839.000 = - 37.000

FR S3 = (925.000 +0) – 972.000 = - 47.000

FR S4 = (1.123.000 + 12.000) – 1.160.000 = - 25.000

FR VARIATION S2/S1 = - 37.000 - (-10.000) = - 26.000

FR VARIATION S3/S2 = - 47.000 - (-37.000) = - 10.000

FR VARIATION S4/S3 = - 25.000 - (-47.000) = 22.0000

The negative value of the working capital reflects the absorbtion of a part of the temporary resources for financing certain permanent needs, contrary to the principle of financial administration: to permenent needs there are allocated permanent sources, so that long term allocations are finances by short term resources. These situations may be less unfavorable if the company leads an investment policy – an orientation towards development. At any rate, a negative working capital has serious effects on treasury and payment capacity.

During the S_4 period, there may be noticed a tendency of improving this long term lack of balance, thw working capital, even if still negative, is half the value of that of the preceding year; the company better administers the resources attracted from shareholders or creditors.

5. The need of working capital – way of reflecting the financial equilibrium.

It is the expression of the short term financial equilibrium, of the equilibrium between the requirement and use of operational capital.

NFR = CYCLIC ALLOCATIONS – CYCLIC SOURCES

NFR = (INVENTORIES + ACCOUNTS RECEIVABLE) – OPERATIONAL DEBTS

INDICATORS	S1	S2	S3	S4
INVENTORIES	75.000	49.000	27.000	54.000
ACCOUNTS RECEIVABLE	88.000	820.000	71.000	61.000
DEBTS	330.000	653.000	1.053.000	963.000
NFR	- 167.000	- 522.000	- 955.000	- 848.000
NFR VARIATION		- 355.000	- 433.000	107.000

NFR S1 = (75.000 + 88.000) – 330.000 = - 167.000

NFR S2 = (49.000 + 82.000) - 653.000 = - 522.000

NFR S3 = (27.000 + 71.000) – 1.053.000 = - 655.000

NFR S4 = (54.000 + 61.000) – 963.000 = - 848.000

NFR VARIATION S2/S1 = - 522.000 - (-167.000) = -355.000

NFR VARIATION S3/S2 = -955.000 - (-522.000) = -433.000

NFR VARIATION S4/S3 = - 848.000 (-955.000) = 107.000

NFR is negative. There is a surplus of temporary resources, this standing is accepted only if it results from the increase of the rotation speed of current assets and the engagement of debts with more relaxed due times. Otherwise, it implies the inadequate administration of inventories.

6. Net treasury – form of reflecting the monetary resources of the company

Net treasury represents the difference between the working capital and the required working capital.

Net treasury is the most conclusive expression of the unfolding of a balanced and efficient activity. It indicates the quality of the general equilibrium of the company both for long and short term.

TN = WORKING CAPITAL – REQUIRED WORKING FUND

INDICATORS	S1	S2	S3	S4
WORKING CAPITAL	- 10.000	- 37.000	- 47.000	- 25.000
WORKING CAPITAL VARIATION		- 26.000	- 10.000	22.000
REQUIRED WORKING CAPITAL	- 167.000	- 522.000	- 955.000	- 848.000
REQUIRED WORKING CAPITAL VARIATION		- 355.000	- 433.000	107.000
NET TREASURY	157.000	458.000	908.000	823.000
NET TREASURY VARIATION		- 328.000	423.000	- 85.000

Net treasury is positive for all the years, showing that the financial periods ended with a monetray surplus, the real expression of net profit from balance account liability anf other monetary accumulations. The increase of net treasury in S_3 as compared to S_2 and, respectively, the decrease in S_4 as compared to S_3 represents the cash flow which goes to the shareholders as dividends to be cashed and/or profit to be reinvested.

7. Intermediary administration balance account – modalities for reflecting the company's efficient activity

TRADE MARGIN = GOODS SALE – COST OF THE SOLD MERCHANDISE

INDICATORS	S1	S2	S3	S4
GOODS SOLD	2.000.000	1.999.000	3.250.000	3.761.000
EX. WITH MERCHANDISE	1.300.000	1.200.000	1.695.000	1.642.000
TRADE MARGIN	700.000	799.000	1.555.000	2.119.000

PRODUCTION OF THE PERIOD = PRODUCTION SOLD +/- PRODUCTION RETAINED + INCOMES FROM PRODUCTION OF NON CURRENT ASSETS

INDICATORS	S1	S2	S3	S4
PRODUCTION SOLD	12.431.000	14.000.000	1.985.000	25.650.000
PRODUCTION RETAINED	0	27.000	116.000	117.000
INCOMES FROM PRODUCTION OF NON CURRENT ASSETS	2.195.000	3.286.000	3.700.000	3.546.000
PRODUCTION OF THE PERIOD	14.538.000	17.313.000	23.401.000	29.313.000

ADDED VALUE = TRADE MARGIN + PRODUCTION OF THE PERIOS – CONSUMPTION FROM THIRD PARTIES

The added value expresses the increase in the value resulted from the use of the production factors, especially work and capital, over the value of the materials, energy, services purchased from third parties.

This added value represents the source of monetary accumulations out of which there is made the remuneration of the direct and indirect participants to the economic activity of the company: personnel, state, creditors, shareholders and company through the capacity of financing itself.

INDICATORS	S1	S2	S3	S4
TRADE MARGIN	700.000	799.000	1.555.000	2.119.000
PRODUCTION FOR THE PERIOD	14.538.000	17.313.000	23.401.000	29.313.000
CONSUMPTION WITH THIRD PARTIES	6.989.000	7.555.000	8.617.000	9.834.000
ADDED VALUE	8.849.000	10.557.000	16.338.000	21.598.000

GROSS SURPLUS

FROM OPERATIONAL ACTIVITIES (EBE) = ADDED VALUE

+ SUBVENTIONS

- EXPENSES WITH THE PERSONNEL

- TAXES

INDICATORS	S1	S2	S3	S4
ADDED VALUE	8.849.000	10.557.000	16.338.000	21.598.000
INCOMES FROM SUBVENTION	0	0	0	0
EXPENSES WITH TAXES	79.000	237.000	992.000	1.342.000
EXPENSES WITH THE PERSONNEL	1.298.000	2.325.000	3.922.000	3.730.000
EBE	7.472.000	7.995.000	11.424.000	16.526.000

EBE expresses the gross accumulation from the operational activity, taking into account the fact that anortization and provisions are only expenses calculated, not paid. EBE expresses the potential capacity of self financing investments (from amortizations, provisions and profit), paying the debts to the state budget and remuneration of capital investors (shareholders and creditors).

The self financing capacity expresses a financial surplus resulting from the profitable activity of the company. It has only a potential character if not sustained by effective financial means. The monetary surplus resulting from the increase of net treasury during the most recent financial periods shows that the largest part of this self financing capacity is sustained by an available treasury.

8. Conclusions of the tax effects on the financial equilibium

The finances of the companies represent the main, basic link of the entire financial and credit system. This statement bases on the fact that most of the monetary funds formed on different levels result from the incomes created in the basic cells of the economy through taxes. The financial phenomenon emerges from the realtions that the company has with all the companies, the state and other institutions.

On a overstructural level, the finances of the company appear as a branch of financial science, which analyzes the mechanisms and processes of procuring and administering financial resources, their sources and destinations, in order to satisfy the different needs and to obtain profit.

In a company there may be created numerous funds, among which: fixed asset fund, working capital, reserve funds, scientific research funds, funds for training, rewarding and including employees in the profit disctribution. These funds that ensure the financial equilibrium of the company are conditioned by the total amount of taxes to be sustained.

The fiscal pressure may cause a state of financial lack of balance, respectively fiscal relaxation may generate financial equilibrium. Companies, through financial mechanisms and their specific methods may proceed to the formation and administration of capital.

The investment process implies, at a certain point, an amount of financial resources in a direction that might produce incomes during several successive periods of time.

Investments represent expenses that are made for obtainingfixed assets. For the financial manager, investment is, first of all, a decision of making capital intangible for the purpose of obtaining a future profitability. If the budgetary constraint of taxes is a strong one, the company cannot get the used funds.

The payment capacity expresses the possibility that a company should cope with due payments towards suppliers, employees, bansk, state budget, social insurances budget and social protection.

Payment capaicty refers to the report between a certain part of liquid assets – main liquidities - and due time payment obligations.

Under the circumstances of an exaggerated fiscal pressure, taxes have a negative influence over the financial stability of the companies, expressed as financial balance. NET STANDING, WORKING CAPITAL, REQUIRED WORKING CAPITAL, NET TREASURY and by intermediary administration balance accounts: TRADE MARGIN, PRODUCTION FOR THE PERIOD, ADDED VALUE, GROSS SURPLUS FROM OPERATIONAL ACTIVITIES, NET RESULT, SELF FINANCING CAPACITY, LIQUIDITY, SOLVABILITY.

Fiscal pressure via taxes negatively influences the administration rates. Under the circumstances of fiscal relaxation, taxes have a positive influence over the indicators of financial balance.

An effect of taxes is also held by the concordance between the measure of taxes and the paying capacity of the companies.

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THE PREREQUISITES OF PUBLIC SECTOR PERFORMANCE: GOVERNANCE AND EFFECTIVENESS

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Abstract: In modern economies, the public authority entrusted to manage the public affairs of the community is the state. In fulfilling their objectives the public decision makers assume a number of tasks according to the doctrines embraced by the government. The government results as an outcome of the election process and thus, faithful to its own doctrine is more or less invasive in the economy provides more or less protection and public goods therefore increasing or decreasing its spending according to its needs. The final outcome pursued by the state is the welfare of its citizens. Eventually, the way this goal is achieved as well as the perception the society has regarding the way the state performs is a matter of choice the state makes in order to fulfill its tasks. Traditionally, the main roles assumed by the state are: the distributive role, the regulation role, the stabilising and the assurance role.

Key words: public sector, governance, public spending, performance

JEL classification: H

1. Public sector performance

The intensive financial flows, migration and trade raise the question defining the public goods in the context of globalisation. Under these circumstances several issues must be addressed:

- firstly, the identification of fiscal authority enabled to collect taxes on income and wealth for individuals and firms residing abroad in order to prevent free riding;
- secondly, the provision of public goods to accommodate the new needs of the community.

Such questions become more acute for the European Union which faces new challenges in achieving sustainable development. Under the new economic environment, the global public goods become ever more important. Within the EU individual countries should make efforts to subordinate their local interests to the general welfare of the community. This approach requires a revision of public goods definition. Traditionally they are considered as the goods whose consumption by an individual does not diminish another individual consumption (meaning they are non-exclusive and non-rival). Under the new circumstances this definitions should be extended by considering as public goods *the advantages the society is taken from the provision of utilities meant to satisfy certain particular wants, eradication of poverty, disease, environment protection, and social protection.* Moreover, it should be clearly stated that whether they are referred to as goods or public services they should bring advantages to the society as a whole, as well as individually. Though public goods are traditionally supplied by government bodies, their provision can be delegated to private entities under certain conditions: the quality of goods and services, availability and price.

Moreover, public goods should be cost effective, should enhance productivity and diminish unemployment. All these aspects become more challenging because nowadays public goods become global, range beyond national borders, and once put in place the future generation can benefit of their advantage.

Given the high costs of public goods, either merchandise or services, and the limited funds available to finance them the question of expenditure effectiveness is raised. Therefore the public goods should complement private goods, and the intervention of the state should not trespass the line beyond which private incentives diminish. We consider that the provision of public goods and advantages to the society should support individual development, should sustain economic activity and tax benefits toward contributors should be maximized. Global sustainable development will require an unprecedented level of international co-operation in the field of public sector. And it must be a co-operation in which the developing countries are brought in as true partners and not underdogs. Key challenges for achieving this objective are the eradication of poverty and the protection of our environment from the damaging processes. Existing models of economic globalization are not delivering these results. More specifically, the European Union has to deal with problems it has not encountered before. The economies within its frontier have deep differences of structure, development, and face specific problems. Its peoples belong to different cultures, have different morals, and different points of view on the Union's problems. Therefore it is compulsory for the European Union to support poverty reduction, reduce the gap between the poor and the rich nations, to preserve the quality of the environment and harmonize the European economy as a whole. To achieve these goals, social measures that promote democracy and participation, expand education, improved access to medicine and healthcare and help the transfer of technology are to support economic growth. Countries need transportation and telecommunication infrastructure to sustain commerce and trade, the more so in a global competitive world. Fuel and energy services are necessary for agriculture and modern industrial functions. Water and sanitation services are essential to support population settlements in both urban and rural areas. Whether provided by the public or the private sector, the extent and quality of infrastructure services is critical for growth and development. If public goods fail to provide these services we may assist to a ever divided Europe, wide spreading migration, free riding, waste and exhaustion of financial resources and turmoil that will affect the stability of the economies. Performance may be achieved on many ways, none of them ensuring success: there are approaches relying on administrative procedure, others on political and/or professional techniques. Some approaches follow the traditional public administration while others are founded on the *new public management*. In search of better performance governments use formal and informal remedies but often neglect the principles of good governance. Performance also has both managerial and political dimensions. Therefore there is an interrelated connection between politicians and managers: political encouragement often helps managers focus on what their work and dedicated managers help politicians in implementing their visions. Because politicians and managers often speak different languages and have variant interests, it is hard to get the interface between them right. When breakdowns in performance occur, the culprit often is confusion or misunderstanding over the respective roles and responsibilities of elected leaders and senior managers. Getting the relationship right is a necessary condition for the performing state. The discussion on public sector measurement rests on the processing mechanisms (input, output, income, impact). For instance, in education services *inputs* are the resources assigned for this purpose: teachers, equipment, facilities, etc. and their social value is measured by their costs (i.e. the value the society tags to this task). The budgeting performance criterion corresponding to inputs is *compliance,* i.e., defined as close adherence to budgetary ceilings and *ex ante* allocation, as well as a proper but agile procurement process.

Output is the service itself, number of pupils and students. The social value of output is approximated by the market price for the same or the closest equivalent service (or, in its absence, by total unit cost). The performance criterion corresponding to outputs is *efficiency*, i.e. minimizing total input cost per unit of output (or maximizing the quantity of output in relation to a given total cost of inputs).

Outcome is the purpose that is achieved by producing the service—e.g., literacy vs. illiteracy, number of graduates and employment. The social value of outcomes is subjective and arbitrary, except as revealed by public reaction in the political arena. The performance criterion corresponding to outcomes is *effectiveness,* i.e., maximizing outcomes in relation to the outputs produced.

The i*mpact*, is defined as the *value added* from the activity. It can be explained by the positive externalities induced on the counterpart fields (transfer of productivity by hiring educated labour).

Processing management is the manner in which inputs are procured, outputs produced, or outcomes achieved. For inputs, good process consists of intelligent compliance with input acquisition and utilization rules and, of course, integrity. In some areas of public activity, such as law or politics, "due process" has its own independent validity and is a key element of good governance.

Building performance indicators is not an easy task. Nevertheless, measuring is of an utmost importance because what gets measured will presumably get done In order to have a valid measurement three rules should be considered: a correct and accurate definition of what must be measured; the goods and services must be measured correctly; consequences if tasks are not fulfilled. In the public sector, these rules are quite difficult to apply, because seldom, the least measurable activities may be the most important ones. Moreover, the rules should be adjustable, entailing behavioural changes. It is important to assess the long term outcomes of measurements because the benefits or dysfunctions depend on the ways and fairness of the performance assessment system. Because of the difficulties in measuring the public sector performance, a system of benchmarks is necessary. For this purpose, the best performances of similar countries are to be considered as benchmarks. Benchmarking and performance measurement are closely linked. Performance measurement can be the first step towards improving the performance of a public sector organization and, if backed by an appropriate incentive system, it can help shift organizational focus from inputs to outputs and outcomes and thus improve efficiency and effectiveness. However, the real benefits come from using the performance measures as the basis for internal or external comparisons with the objective of improving the performance of an organization. This is called Benchmarking, which can be defined as the technique of comparing *business practices* and *performance levels* between organizations to identify opportunities for making improvements in *economy, efficiency or effectiveness* of an organization's activities.

There is a long debate going on whether the public sector enhances economic performance. Nevertheless, economists agree that there are circumstances in which lower levels of government spending would enhance economic growth and other circumstances in which higher levels of government spending would be desirable. If government spending is zero, presumably there will be very little economic growth because enforcing contracts, protecting property, and developing an infrastructure would be very difficult if there were no government at all. In other words, some government spending is necessary for the successful operation of the rule of law. Economists generally agree that government spending becomes a burden at some point, either because government becomes too large or because outlays are misallocated. In such cases, the cost of government exceeds the benefit. Generally, the public sector is not (or should not be) profit seeking and public spending requires costly financing choices. Since public spending requires public funds collecting the necessary funds means that the public authorities are confronted with the taxpayers' reluctance to comply with the tax laws, especially if taxes discourage productive behaviour. Government spending displaces private-sector activity. This dampens growth since economic forces guide the allocation of resources in the private sector, whereas political forces dominate when politicians and bureaucrats decide how money is spent.

Some government spending, such as maintaining a well-functioning legal system can have a high "rate-of-return." In general, however, governments do not use resources efficiently, resulting in less economic output. Anyway, the impact of public spending on welfare and growth is not straightforward, and therefore the question that it is raised concerns whether the problem should be addressed in an aggregate manner, considering the public spending as a whole, or by judging each type of spending individually. Obviously, economic spending differs as nature and characteristics from the social and administrative public spending. While the first category is regarded as having a direct, positive impact on growth, the latter (i.e. the administrative spending) is regarded as GDP consuming with a negative influence on growth.

One of the biggest challenges of the extended European Union is to set up a harmonised financial policy in order to accommodate the needs of the older as well as the new member states. The challenges concern the collection of funds, the level of tax compliance, but foremost providing quality public goods under financial constraints. In addressing these issues, the main goal pursued should be the economic growth and the welfare of the citizens.

The framework to discuss these problems contains public sector governance, transparency and credibility as well as defining the public goods and their beneficiaries. In addressing these issues the EU must face cultural differences, customs and habits that define the financial behaviour of its citizens i.e. tax compliance and public funds spending. It further affects the efficiency and effectiveness of public expenditure. Of course, individuals and firms express their options for public goods according to the goods offered by the state. From the state's point of view, the individual preferences should be aggregated thus complying with the mutual interest of the community and stating an objective pursued by the community. The efficiency and effectiveness of public expenditure in the European Union are critical to outcomes, including growth. A country that spends resources in a way that does not complement private sector initiatives or in a cost-effective way will undermine its growth prospects. In the new member states, cost-overruns, poor project management, and poor maintenance of new assets result in inefficient creation and maintenance of infrastructure assets. Leakages and waste may imply that increases in health and education spending do not necessarily translate into better outcomes. Typically these reflect underlying problems of capacity for budget management and, in some cases, of governance. If institutional weaknesses and problems of governance that cause poor outcomes are not addressed, even spending on potentially high return programs will have little impact on growth. The net impact will be to erode the government's solvency and reduce its fiscal space.

Country specific conditions are therefore important in the design of fiscal policy for long-term growth. Creating fiscal space will depend on initial conditions in a country and the strengths of its public sector institutions and the likely trajectory of ongoing reforms to improve their performance. Fiscal policy design that emphasizes the deficit but ignores the composition of spending effectively ignores an important transmission channel for the growth impact of fiscal policy. There is a rich but not uncontroversial literature, for example, on the relationship between public investment and growth. The sustainability of a fiscal deficit itself depends on the productivity of the expenditure. By allowing a fuller consideration of the growth effects of fiscal decisions, an explicit focus on the composition of expenditure would allow both stabilization and growth objectives to be addressed in more sustainable ways.

Comparing public sector in EU countries, it could be easily stated that the dimension of this sector reaches different levels. There are several old member states that have a large public sector. Those countries are mainly Sweden, Netherlands, Denmark, and Austria. In opposition to those countries are situated Eastern European countries with a smaller public sector. This situation is due to several factors. Firstly it is worth mentioning the specific financial behaviour.

Scandinavian countries but also Austria and other western countries seem to assume a higher compliance to taxes and agree a larger public sector. Consequently, the protection offered by the state in those countries to the citizens is much more important. Eastern countries but also Ireland and other western countries tried to encourage private sector for growing their economies by reducing taxes. Anyway, this is also correlated to the lower trust which people show towards public institutions in eastern countries.

Another important issue would be the composition of public expenditure and the comparison of productive and not productive public expenditures. There are countries like Sweden, Denmark, Italy but also Poland that spend important percent of their GDP for social security while others like Romania, Czech and Hungary spend little money for social security. There is also very obvious evidence that eastern European countries have small budgets for sectors like health and education but do spend more money than western countries on economical activities. The authors will present in the final paper through suggestive figures the composition of the expenditure for different countries, the differences and an analysis of the resulting effects.

The issue of the impact of public spending on welfare and growth is even more acute for the emerging economies, since the authorities, in these countries, need as many a tool as possible in order to ensure a sustainable growth. It is well known that beside the taxation tool, public spending may be an important channel to boost the economy. Since these countries are en route to harmonise their economies and living standard with the more developed countries in Europe a well proportioned mixture of private and public spending may be of valuable help. Above all, spending in education and health may be rewarding on medium and long term due to their positive impact induced on productivity.

2. The Romanian state performance beyond rhetoric

The structure of the Romanian state budget for 2008 foresees 10% of expenditures for the state administration, 19% for law and order, 7% for defence, 12% for education, 3% for health, 19% for social security, 20%for economic activities, etc.

At first sight, such a budget, structured by book, resembling a developing country, stresses non productive expenditures and economic ones. Given the decentralisation of education and health services, a smaller percentage is distributed for these activities. A significant percentage of expenditures go to social security. So, theoretically at least, there is nothing wrong with the figures stated in the budget, and its structure is not a problem *per se*. But, when corroborated with the facts in the economy and the wellbeing of the population, the budget becomes an issue.

Firstly, public services – or “services of general interest” – must be recognised not only rhetorically but also through corresponding policies as a central element of a European Social Model based on solidarity and fairness. Public service provisions in the liberalised sectors must be strengthened and implemented and where this becomes increasingly difficult, a tighter direct public control should be envisaged, including new forms of public ownership and administration. The exemption from the internal market and competition rules should apply to all public services – even if they are of an economic character. The European dimension of these services can best be served by the definition of minimum standards with upward convergence, co-operation in border regions and joint research and educational projects.

Discussing the efficiency of public services comes to a contradiction when compared to the performance indicators such as corruption, infant mortality, life expectancy, illiteracy, poverty, emigration, stability. In spite of the high percentage allocated to administration and law and order, these fields are highly inefficient given that 3 individuals out of 10 working people are enrolled in the public sector having low wages. Moreover, according to the corruption perception index (CPI), Romania ranks above the average having a CPI of 3[68], showing a high degree of rent seeking attitude among public servants. Education and health are quasi public expenditures considered as investments in human capital, able to increase productivity and wealth.

The highest percentage of these expenditures is covered by the local authorities considering that they have better knowledge of such needs. Nevertheless, the lack of effective educational programmes and further enrolment of graduated renders these expenditures highly inefficient. For primary education 9,8% of

GDP is allocated for education go to the primary education, 15% to the secondary one whilst for the tertiary education 26,2 % is allocated per student. We think that, this distribution of funds is ineffective given the low level of knowledge provided in primary and tertiary education. Moreover, tertiary education students tend to emigrate, meaning that a percentage of GDP is transferred to host countries. Therefore a higher percentage of funds should be allocated to basic education in the primary and tertiary education, whilst in the tertiary education should prevail the privately obtained funds, including research.

The heath sector is also confronted with a gross inefficiency of expenditures. There are only 20 doctors to 10000 inhabitants and 6,6 hospital beds to 1000 inhabitants. Infant mortality is still high 16,5 to 1000 living births, the mortality rate is 11,9 to 1000 inhabitants, and the life expectancy barely exceeds 71,9 year.

Poverty is another matter of concern. About 40% of the population is affected by moderate poverty, while 11% by extreme poverty (under 1 dollar per day). There are also regions with a high rate of exclusion, about 30% in the NE, for individuals above 15. Under these circumstances, more than half of the population receives a form of assistance, justifying the 20% of expenditures channeled for this purpose. The question that is raised is why isn't there rather financed inclusion, value adding programs than such ineffective forms of assistance that only deepen poverty. Corroborated with the economic expenditures it means that these aren't channeled towards efficient, expending areas, but towards loss making areas.

Conclusion

Under actual requirements, the construction of the expenditure part of the state budget is highly ineffective, a great volume of funds being absorbed by either the black holes in the economy or by nonproductive destinations. Moreover, these ineffective destinations are publicly funded, requiring a greater volume of funds each year. The manner public funds are spent influences tax compliance at great length, given that tax payers are interested in the taxation benefits, i.e. the quantity and quality of public goods and services provided by the state.

Therefore, given the limited funds the budget can make use of it is imperative that the budget be built on effective programs that may add value to the economy and sustain growth.

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[68] A CPI of 10 is the lowest perceived corruption and 0 is the highest.

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IMF AND INTERNATIONAL FINANCIAL ARCHITECTURE REFORM PROPOSALS

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During the past few decades, the radical changes that have occurred in the global economy – uncontrolled inflation rhythms, the growth in interest rates, the increase in foreign debts and in budget and current account deficits, financial crises – have led to the accumulation of a set of issues whose solution generates heated debates at international level and tensions among the global actors. Therefore, it is necessary to make a concerted effort at world level to rethink the International Financial Architecture, especially that of the International Monetary Fund (IMF), by adopting adequate legislative and institutional regulations.

Key words: International Financial Architecture, gradual reform, radical reform, the International Monetary Fund

1. Introduction

The current configuration of the international financial system was created before globalisation reached the size it has nowadays. In the past few years it has become obvious that the international mechanisms (the IMF, the World Bank, and the World Trade Organisation) need another „philosophy" and architecture in order for them to be valid in the new economic and political world order, their reform being imperative. In time, there were numerous critical opinions of the insufficiency, lack of action and weaknesses. Most of them targeted the International Monetary Fund. Actually, after the Jamaica Agreement, no substantial change has occurred as far as the principles guiding the activity of this organisation are concerned.

2. Criticism of the IMF activity and philosophy

The objections to the IMF and its activity can be classified into *exogenous criticism*, which is related to the technical-bureaucratic interaction of the IMF with the other institutional actors, and *endogenous criticism* which targets the political aspect of the decisions taken by the Fund and the activity performed by this institution (Toderean, O., 2002: 31).

Among the *exogenous criticisms* made in time, we can enumerate the following:

- The surveillance function is implemented asymmetrically. The IMF cannot influence the developed economies of the world, but it puts severe adjustment pressures on emerging countries. The latter are often forced to sign agreements with the IMF because such agreements are a „green light" for their entering international capital markets, which is an indirect guarantee for potential investors.
- The conditionalities included in the IMF programmes block development, diminish the economic potential and deepen social polarisation. In addition, they are imposed to countries that already have poor economic performances and that are faced with serious social problems.
- The IMF provides simplistic and universal „recipes", ignoring the peculiarities of each country's economic and social context, which require a different reform rhythm.
- The IMF often proves it lacks the pragmatic economic knowledge. Although initially the IMF was based on knowing the fact that markets often operate inadequately and concerted action at global level is necessary to ensure economic stability, nowadays, the initial Keynesian orientation was replaced in the 1980s by the *Washington Consensus*. It represents a different approach, with three pillars: fiscal austerity, privatisation and market liberalisation, namely the so-called „market fundamentalism" (Stiglitz, J. E., 2003). It generated *judgements* of the type *free markets operate more efficiently, and higher efficiency leads to the acceleration of*

economic growth. The IMF orthodoxy thus legitimated capital mobility and free trade, ignoring the role of the states in providing the necessary conditions for these to occur. As a result, many of the IMF policies through which early market liberalisation was induced by force generated not a better allocation of the resources, but a global instability, because the respective markets became vulnerable.

- The IMF programmes ignore the so-called „social contract", namely the principle which requires that the benefits and costs of the measures should be fairly allocated to social classes. In many cases, through the structural adjustment programmes – SAPs – the IMF imposed privatisation and liberalisation in a way and at a rhythm which generated very high costs for the countries which were not prepared to bear them, the IMF claiming that these costs were a part of the price that must be paid for progress.
- The lack of global financial supervision and coordination, determined by the lack of instruments necessary in limiting speculative movements (Pauly, L. W., 1994).
- The IMF is an untransparent institution, the decision-making process being opaque. We must mention, though, that after the Asian crisis, the communication process has improved visibly, the Fund's activities, missions, debates and decisions being brought to the attention of those who are interested by means of press releases, periodical reports and the permanent update of the web page.

Regarding the endogenous criticisms, the most frequent are:

- The voting system based on participation quotas is undemocratic.
- The IMF is a facade for American interests (Allais, M., 1993), contributing to the consolidation of the USA position and often serving this country's interests. Instead of being a cooperative-type institution, it changed into a super-state decision-making organism, in which the key position is held by the USA. Moreover, the IMF was not limited to its initial purpose – to strengthen global stability, but it started supporting the elitist financial community interests – many of its employees originating from banks or Wall Street (Stiglitz, J. E., 2003).
- Any form of civil society participation are excluded (the IMF does not work with NGOs).
- The process of selecting the IMF employees, especially the managers, is untrasparent, the criteria not being public.
- There are no mechanisms through which the institution can be held responsible for the negative effects or failures of the policies that were implemented.

3. IMF reform proposals

Regarding the role the International Monetary Fund should play in an international-globalised financial system configuration there is a consensus in terms of the opinions that were expressed: a reform, a new legitimacy are necessary. The IMF should become a support for the new international financial architecture. At this point, though, the advanced solutions are divergent and many of them are questionable. We can group the IMF reform proposals in two large categories:

Gradual or incremental reform proposals

They do not affect the fundamental principles in the IMF Statute. Among them we can mention:

a) The reform of the conditionality principle, in terms of an increased flexibility. Certain authors (Stiglitz, J. E., 2003) claim it must be reconsidered, replaced with the one of *selectivity* (which means that the countries which can support the respective measures will benefit from finances). On the other hand, it is necessary to approach the programmes on the long term, not on the short term as before and to grant more decision-making freedom to the benefiting countries (Leandro, J. E., Schafer, H., Frontini, G., 1999: 285-299).
b) The reform of the voting system, probably according to the UNO system – *one country – one vote*. Yet, these measures would diminish considerably the influence of most OECD countries. A proposal that is more likely to be implemented is that made by R. Gerster, which consists in increasing the minimum number of votes for each country up to 5000, instead o

250 as it has been the case so far, to which the votes assigned according to participation quotas should later be added (Gerster, R., 1993: 121-136). Recently, the IMF has announced that in April 2008, a general increase of 10% in the votes is possible, accompanied by at least a 100% increase in the basic votes. The expansion of the votes using the new formula would benefit emerging countries, allowing them to have an increased power in the organisation.

c) The implementation of an NGO collaboration pilot programme, which will improve the IMF relationship with the civil society (Scholte, J. A., 1998: 42-45).

Radical reform proposals

These deeply alter the principles and procedures underlying the IMF actions. Many of the proposals are, yet, arguable and hardly feasible, involving a change in the essence of the paradigm which supports the activity of this organism. In addition, a radical reform does not necessarily guarantee radical consequences, because there are numerous factors influencing this process. Among the noteworthy proposals, there are:

a) taking into account alternative solutions to the economic problems of the countries which request the Fund's support and assistance, in order to ensure a fair, participative and sustainable development. The selection of the reform package should be made on the basis of an IMF-assisted country partnership, not by unilaterally imposing certain conditions.

b) identifying new sources of financing for the IMF activity. Proposals envisage either levying a Tobin-type tax, or reducing the military expenditures of each state and reallocating the respective amounts or a kind of tax on the balance of trade surplus for the countries that record such a surplus.

c) transforming the IMF into a *lender of last resort*, which will stabilise financial markets, regulate the international liquidity levels, regulate the financial institutions' operation, but also act as crises manager as before, refunding the financial-banking institutions through guaranteed loans, with interest rates above the market level (Fisher, S., 1999: 85-104; Calomiris, C., 1998). The premise is that, because a central bank, regardless of how many reserves it may have, cannot financially support measures to fight crises under the conditions in which the capital account is open, this function can only be performed at a supranational level. The proposal is seen by its supporters in the spirit of the original plan designed by J. M. Keynes in 1944 at Bretton-Woods, regarding the International Clearing Union. But it is highly criticised by other authors, being considered unrealistic in the context in which the IMF is not a bank and should not be one (Coyle, D., 2005: 84), therefore it cannot create liquidities. B. Eichengreen considers that such a direction that the IMF activity would take could encourage financial actors to become involved in risky operations even more, namely they could increase *moral hazard*, despite the surveillance measures and the prudence requirements (Eichengreen, B., 2002: 99). Even under the conditions of introducing systems to guarantee commitments and assess risks, banks will still be tempted to become involved in crediting less secure projects. Certain economists recommend that, when crises occur, the function of international lender of last resort should be performed by the Central banks' Club and by the Bank of International Settlement, not by the IMF (Aglietta M., De Boissieu C., 1999).

d) Another proposal belongs to J. Sachs and it was promoted intensely after the crisis in Argentina by the former deputy managing director of the International Monetary Fund - Anne Kruger. It aims at transforming it into an *International Bankruptcy Court (*Krueger, A. O., 2002; Sachs, J., 1995). The new system would be designed following the model of the mechanisms in the USA (chapters 9 and 11 in the American law on bankruptcy), the International Monetary Fund having a bankruptcy trials supervision and administration role. The solution is not feasible for at least three reasons: firstly, because it is difficult to define what *a country's bankruptcy* would mean, and secondly the country-company parallel is faulty – a country's main objective is not profit, but social welfare, and thirdly the responsibility for the failure of macroeconomic policies in a country is associated with a group of economic actors, one cannot identify only one culprit. In addition, political agreement at international level for such an institution, whether it is about transforming the IMF or about a new one, is difficult to be reached in the near future.

e) The dissolution of the IMF and revision of Keynes's initial plan regarding the International Clearing Union, which will administer international reserves and operate with a unit of account called International Money Clearing Unit (Davidson, P., 2004: 591-605). Post-Keynesians consider that the existence of such an organism would clearly diminish the panic on the international capital markets.

f) The dissolution of the IMF, the World Bank and the Bank of International Settlement and their replacement with a single financial authority - *World Financial Authority.* This radical proposal was also made by post-Keynesan economists – J. Eatwell and L. Taylor (Eatwell J., Taylor L, 1998).

4. Final remarks

Although they can be criticised, the reform proposals previously enumerated provide a support in terms of ideas which can improved in time, leading to solutions with actual chances for implementation, but only with an adequate political support.

The need to reform the international financial architecture is acknowledged at all ideological levels, as being a priority, the initiatives and debates in this respect being numerous. In our opinion, a few measures are necessary and can be implemented gradually, in order to ensure their effectiveness. We should not overlook, though, the fact that all these endeavours aim at moving targets, given the dynamic and versatile international economic and financial environment:

- To improve the quality and relevance of the assistance provided by the IMF and also by the World Bank by means of operating major changes in the visions of these institutions. This means that both the World Bank and especially the IMF must become open, flexible and participative institutions which are not only the mirror of the distribution of power at international level.
- To reposition the IMF in the equation of the responsibilities shared by IMF and the governments of the countries benefiting from financial assistance.
- To increase the transparency of the IMF and World Bank operations, namely to implement *good governance principles* in the activity of these institutions.
- To improve the set of conditionalities (a first step was made in 2000 by adopting a new guide in this respect – *Interim Guide on Streamlining Conditionality*) and to increase the IMF responsibility for the implemented measures. The programmes will have to reach a viable compromise between the adjustment component and the economic growth one. In addition, we consider that it would be advisable to reduce the system of conditionalities to relevant aspects in the case of a financial crisis or to aspects that fall into the IMF expertise.
- To improve the intervention systems in the case of financial crisis, by means of ensuring the necessary mechanisms and resources. After the events in Asia in 1997 the Supplemental Reserve Facility (SRF) was introduced for interventions in case of market confidence crises and the Contingent Credit Lines (CCL) in 1999 aimed at counteracting the contagion effects. The introduction is being debated of a new liquidity instrument and the characteristics it should exhibit, meant for the countries that have access to international capital markets and which implement firm economic policies.
- To use an Independent Assessment Office in the case of the IMF activity.
- To encourage he participation of all countries in establishing the IMF and World Bank Agenda by reforming the voting system. The distribution of votes should be established according to the relative position of that country in the world economy, but the emerging countries' right to an opinion should be strengthened. This reform could be made taking into account, for example, each country's actual GDP per capita, which would increase the participation quota of Asian countries. At the annual meeting in 2006, the IMF members agreed upon an ad-hoc increase in votes for China, South Korea, Mexico and Turkey. In the future, a new formula should be established for the participation quota and a second increase should occur for a wider range of countries.

- To create a new process for the selection of an IMF Board of Directors, according to professional performance, not nationality criteria.
- To develop an *information highway* role for this institution, which would strengthen collective confidence.

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STRUCTURAL ADJUSTMENT ON THE ROMANIAN STOCK MARKET PURSUING EUROPEAN INTEGRATION

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Abstract: The paper reviews the stages of the Romanian stock market's establishment and development, and later of structural change in pursuit of a level harmonisation with European legislation and institutions that would allow its integration into a mature market. While not perfect, the structural adjustments were successfuly finalized when Romania entered the EU, providing compatibility between the Romanian and European institutions.

Keywords: financial integration, capital market, structural adjustment, regulation, institutions

1. Stages of structural adjustments on the Romanian stock market

Romania's EU integration involved a complex process of both establishing structures essential to any functioning market economy, and overhauling those left from the comunist era. This would ensure the Romanian laws and institutions' compliance with European regulations and compatibility with EU structures. Financial services hold an important place in this context, and a transparent and liquid stock market, able to connect with the European stock market, is of the absolute essence.

In our country the stock market's foundations were layed after 1989 over certain communist left-overs. On the one hand, there was a stable national currency and an important balance of payments surplus, and on the other a super-centralized financial system, within which the banks and goods and personal insurances were state monopolies.

The events of December 1989 opened the way for the establishment of a free market and functioning economy, a development process that started from scratch, given that Romania had lacked a stock market for the last 50 years, and had no experience in the field.

In the early 90s Romania faced many stock market dillemas, over the techniques, sizing and stages of the funding process, modern portofolio management strategies, the establishing and upholding of general market principles and regulations, and also the trading techniques, crediting, guarantees, clearing and settlement of operations, and financial instruments.

The Romanian stock market's establishment and development took place during the harmonization of Romanian market institutions and legal framework with the European regulations and institutions managing the EU's financial services market. After expressing its desire to join the EU in the 90's, our country initiated a wide and complex process of alignment with European regulations and restructuring of market institutions in accordance with EU rigors.

The principal events in the stock market's evolution, marking both introduced regulations and the founding of the main market institutions, can define the following stages in the establishment and development of the Romanian stock market while pursuing EU integration:

- **1990 – 2002 - laying down a legal framework for the stock market and founding fundamental stock market institutions.** This first stage was a process of forming organizations, drafting and introducing regulations, and forming and surveying specific stock market behavior (educating operators and the general public about concepts long forgotten or never known, still an ongoing process).
- 2002 – 2004 – the first harmonization of Romanian stock market laws with European legislation. The second stage begun while the EU accession negociations were prepared and organized, and the regulatory and institutional stock market reform was launched.
- **2004 – 2006 – institutional consolidation and stock market restructuring** pursuing Romania's EU integration. The third stage opened with the passing of the **Consolidated stock market law** in 2004. It finalized the Romanian stock market structural adjustments for

integration into the European Union, and the NSC declared it finished when the Romanian stock market legislation was considered completely harmonized with current European regulations. This harmonization process defined two distinct sub-stages:

- 2004 – 2005 – the introduction of the consolidated stock market law and the secondary legislation for its implementation; architectural changes.
- 2006 – the alignment of Romanian legislation to the latest European regulations introduced after the Financial Services Action Plan was finalized.

2. The founding of the Romanian stock market and first harmonization with European regulations

The first stage in the Romanian stock market's existence was its actual establishment, in a economy that had no free securities market in the previous 50 years. The lack of market experience available at first-hand to its participants, initialy the law maker's lack of professional training and certification, made for the establishment and development of market institutions and operator categories without continuity and un-coordinated or even non-existent regulations.

We can assert that the lack of a coherent stock market legal framework enabled some participants to enter the market and operate for years at the edge of the law, gravely damaging, through fraud and lack of ethics, a sector of the economy extremely important to funding the real economy, but very sensitive to information.

Nonetheless, we must admit that, even given these defects, politic willpower on the one hand and investor interest on the other enabled within 10 years the esstablishing of all necessary institutions for a functioning stock market.

The implementation of specific stock market mechanisms and the trading of the first financial instruments on the Romanian market – shares and bonds – did not happen effortlessly.

The small number of issuers on the Bucharest Stock Exchange has been to this date an obstacle for increasing capitalization and market turnover, and it has been kept low by Romanian entities' lack of interest for listing on the exchange.

The other stock market segment – the RASDAQ Electronic Exchange – has also been established in a fashion particular for the Romanian economy, which entered an ample privatization process, creating over-night millions of „shareholders" who were unaware of or not interested in the stock market mechanisms. Its introduction on the market – also forced - has made for a tough, years long, struggle to surpass a ridiculously low trade volume and impose a market discipline for investor information and market transparency. Due to these issues, the main tier contained for a long time thousands of inactive companies, whose shares were never traded.

In this climate, there were few financial instruments offered on the Romanian market: not many firms considered an IPO, the first corporate shares issues were failures, municipal bonds didn't enter the market until 2001, and derivatives have only begun being traded in 1997-1998.

The second stage in the Romanian stock market's evolution was directly related to the intention in the '90s to become a full EU member, as soon as possible. This required Romania to enter a pre-accession process that would align its regulations and institutions with the European standards.

This process was more difficult for the stock market, than for the sectors of the economy with an actual history. The difficulties were due partly to having to conform its legislation and institutions to a mature market, with tens of years of trading, and partly to the European financial services market's own ongoing integration process, involving regulatory changes which took place in parallel with Romania's integration. This required successive legislative harmonizations for the Romanian stock market, in order to keep the pace with European regulations.

The legislative harmonization included with the 2002 regulations package brought important changes concerning market participants and operations, and as mentioned above, had no pretention to perfection, but represented a step forward for the stock market in the pre-accession process.

At the end of the secong stage, exchange institutions on the market began putting forward the ideea of consolidating th Romanian stock market. The BSE and RASDAQ set as their main goal for the next period advancing the Romanian stock market to the first positions among the Central and Eastern Europe stock exchanges. One direction toward this was identifying optimal solutions for stock market consolidation, either by a RASDAQ takeover by the BSE, as the BSE proposed, or by a merger, as proposed by the NASD. On 22nd May 2003, the RASDAQ Electronic Exchage and the Bucharest Stock Exchage made an official announcement of their intention to merge into a single, well capitalized and liquid stock exchange, with a trading system, clearing, settlement and modern register, and regulations compatible with the ones of European exchanges.

The institutions on the Romanian stock market had evolved , by the end of the stock market's second stage, to a position superior to that of their inception, with well defined structures, oriented toward qualitative goals targeting transparency and integrity, the elimination of dishonest practices like market manipulation and insider trading, and dedicated to increasing competivity on the market. Among this stage's missed accomplishments we find the failure to implement the universal bank concept, due to credit institutions unability to operate directly on the capital market, and the absence from the market of institutions imposed by the European directives, like the investors' compensation fund, even though they were included in the legislation.

3. The completion of Romania's stock market structural adjustments targeting European integration

The final stage of the capital market's structural adjustment process pursuing compliance with the European standards for the financial services market took place between 2004 and 2006, beginning with the introduction of the consolidated legislation for the capital market in 2004. We must point out that this last, finalizing stage of harmonization with European legislation and building institutional structures compatible with the European ones, happened simultaneously with the definitization, at the EU level, of the legislative framework intended to accelerate the financial integration process initiated after the Maastricht Treaty, and continued by the Financial Services Action Plan.

The review of the stock market evolution between 1990-2003 and the analysis of the stages it went through during this period leads to the conclusion that in 2004 the Romanian capital market hadn't made significant progress toward alignment to European standards, and shows that the interval leading to the integration moment should have marked major changes that would have built a Romanian stock market capable to take up the challenge of integration into the mature European financial services market.

The regulatory process on the Romanian capital market and the new market architecture achieved by restructuring some institurion and introducing new ones in accordance with Law 297/2004 demonstrates that some important progress has been made in this last stage, toward alignment to the European standards, but some unresolved issues remained, leaving the Romanian financial services market's potential only partially exploited.

Firstly, we consider that only at this stage was the concept of a market conforming with European regulation correctly defined and implemented on the Romanian capital market, and thus in January 2007 there were two regulatesd market operators : the Bucharest Stock Exchange and the Sibiu Monetary-Financial and Commodities Exchange. Secondly, the consolidated legislation for the capital market introduced the „unique European passport" concept, by regulating the authorization conditions for financial intermediaries able to provide financial services within the EU, based on the capital market authority's authorization, and the regulation of activity on the Romanian market of intermediaries authorized in other EU member states.

Thirdly, this in stage the concept of universal bank was successfuly implemented, by regulating the access of credit institutions to financial intermediation activities. This was an subject of criticism from the European Commission, as the first attempt at regulation in 2002 was a failure. After 2004, at least 10 Romanian credit institutions solicited NSC's authorization for financial services intermediation. Fourthly, we think that an important was taken toward a capital market thatguarantees investor protection, through the introduction of the Investor Compensation Fund. This institution was regulated since 2002, but it only came to reality in 2005. Although it became operational on the market the maximum compensation per investor is much lower than the 20000 Euros imposed by European regulations, and Romania asked since 2002 for a gradual increase of this ceiling.

Another positive effect of the consolidated legislation for the capital market was its unification effect on post-trading services institutions, through the establishment of a unique such institution – the Central Depository, thus aligning the Romanian market to European standards.

In our oppinion the consolidated legislation for the capital market has the merit, even with all the critiques by market participants, of defining on the Romanian market concepts such as market manipulation, insider trading, and transparency, long since consacrated on the European financial markets, but new or little known to Romanian market participants.

We also consider that the implementation of the latest regulations meant to bring the Romanian legislation up to the European standards had qualitative effects for the structure of capital market institutions, and also on educating market participants on financial instruments and the opportunities of the capital market's segments. We remark the growing preocupation for imposing stronger quality criteria for listing on a regulated market – the BSE, the beginning of diversification of financial instruments offered to the investors by the exchange (preemptive rights trading, international issuers), imposing performance criteria that led to cleansing companies traded on RASDAQ, which finished the technical support phase for trading shares of companies participating in the mass privatization program.

Educating market participants and awareness of the advantages of derivatives trading has determined a remarkable evolution for the only derivatives exchange in Romania, recording 200-300% growth in traded volume for futures and options, from 2004 until EU accession.

Considering all these aspects, we can affirm that this last stage in the Romanian capital market's structural adjustment process towards EU integration was successfuly finalized, and on 1st January 2007 Romania had a market segment able to join the other European capital markets in the complex process of financial integration still taking place in all the EU.

4. Conclusions

Going through these stages was a difficult process, both because the Romanian capital market was rebuilt from the ground up, since in 1989 it didn't exist even in an incipient form, and because of the authorities' lack of experience in creating and implementing a coherent legislation for capital markets. The market participants were thus in the position of participating to trading activities with unknown mechanisms, and using poor undestood financial instruments. These difficulties were amplified by the need to harmonizea fragmented legislation, created after anglo-saxon models, with European regulations undergoing themselves redefinitions and restructuring.

The process of harmonization of Romanian regulations with the European ones had its failures too. We find that the European regulations were transposed in Romanian legislation with excessive verbosity, with ambiguous and vagues provisions, and references to a future secondary regulation which would cover for specific issues. One cause for this was NSC's wish to declare the Romanian legislation completely harmonized with the European one, while not paying sufficient attention to signals from market participants. Thus, the entire EU regulations were transposed, not taking into consideration the Romanian market's different stage of development, shorter history and fewer experience.

The result was not perfect, but it led to a capital market that even still under development, can compete with similar European structures, and benefit from the advantages of integration into a mature market.

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ARE ABLE THE MEMBER STATES TO PROMOTE THE EUROPEAN FISCAL CO-ORDINATION WITHIN THE EUROPEAN UNION? THE BACKGROUND OF THE TAX STRUCTURES

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Abstract: In planning of this paper we have started from the question whether those 27 states belonging to the European Union are able to promote, due to their fiscal systems, the fiscal co-ordination within the European Union or to accept the fiscal systems, consequently. In this way, the paper provides a breakdown of taxes according to different classifications: by types of taxes (direct taxes, indirect taxes, social contributions) and by levels of government. The breakdown of tax revenue data computed in percentage of GDP provides indicators of the tax burden and of the structure of taxation in the different Member States, as well as developments over time. As the interpretation of the tax-to-GDP ratio as an indicator for the tax burden requires additional information, an economic classification of taxes has been developed and implicit tax rates have been computed for the economic categories identified.

Key words: tax systems, new member states, old member states, differences in tax system

1. Introduction

Taxation, by using three main sources, can make up both developments and wellbeing:

- firstly, the taxation system has to attract income effect in order that public services should be properly financed, as well as social transfer at high standards;
- secondly, taxation persuades ultimately economical judgement and it would have to offer a stimulus for the key personnel to be deeply engaged. Moreover, the natural resources, efficiently used are consequently required;
- thirdly, the taxation system undeniably redistributes gainfulness and this has to be done in such a way that to strengthen the effective request as well as social balance that is the covering of huge misuses from the income distribution.

Regarding European fiscal policy, this one has to contribute towards the accomplishment of the general goal established by the European Union, namely, “by the end of 2010 the European Union economy should become the most competitive and dynamic from the world, capable of a long-lasting economical development, displaying the best places of employment as well as a greater social cohesion” (target established by the European Council, Lisbon, March 2000). This goal demands a drastically diminishing of a fiscality general level from the EU, and, consequently, requires that the taxable basis be extended so that a balance should be achieved among this diminishing financial consolidation supporting through public debts decreasing and proper investments in essential public services.

Starting from this strategic target proposed by the official meeting in Lisbon, it has been concluded that home market should act a sole market. However, a great contradiction is to be noticed: the measures referring to taxation, the ones that develop inequality and halt the demand, are hardly supposed to achieve such an economical area with a dynamic economical growth, mentioned by the Lisbon Strategy.

Undeniably the question, whether the 27 states, members of the EU are able to contribute through their fiscal systems to the fiscal co-ordination within the EU is to be raised; in other words they have to accept the fiscal systems mandatory, systems that proved to be lately more and more distasted because of the inner logic of such fiscal competition.

The question raised is as judicious because the multinational cooperations are able to complete set of strategies of fiscal optimization provided that the capital is a mobile one.

The transfer facilitated for the profits relocation to the areas with a slight level of taxation as well as financial departments creation in so-called tax heavens/tax shelters are being used in order that investments should be financed by credit lines from the group.

2. Tax structures by type of taxes

Bearing in mind the inherent heterogeneity of tax systems, it is perhaps not surprising that there are significant differences between the new and the old Member States tax systems. The structure of tax revenues differs between new and old Member States, as the former raise relatively little revenue from direct taxation (personal and corporate income tax) and proportionately more from indirect taxation (VAT in particular) and social contributions (figure 1).

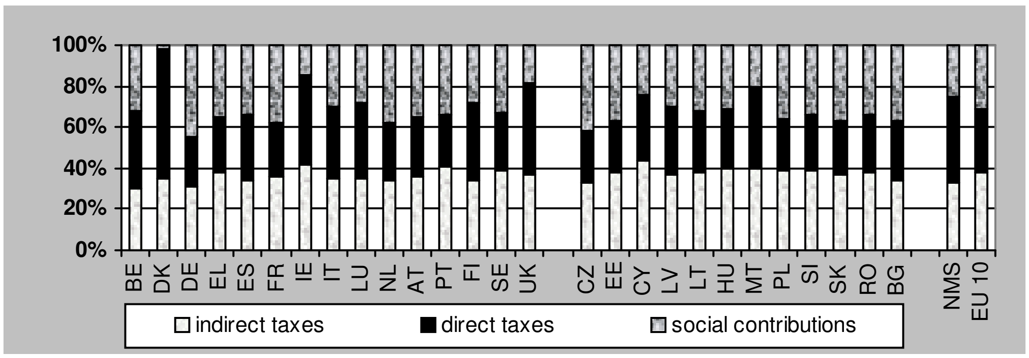

Figure 1. Structure of tax revenues, 2006 (% of total tax burdens)

Source: European Commission (2007)

In 2006, the difference between the EU-15 and the new Member States averages was about 10 percentage points (36.0% vs. 25.7%). With the exception of Malta, all the new Member States are below the EU-15 average. The lowest shares of direct taxes are recorded in Slovenia (19.8%), Poland (24.1%) and Hungary (24.2%). One of the reasons for this difference can be found in the generally lower tax rates applied in the new Member States regarding corporate tax and personal income tax. The following figures 2 and 3 however highlight the limited predictive power of the top rates viewed in isolation as neither Slovenia nor Poland particularly stand out in this respect.

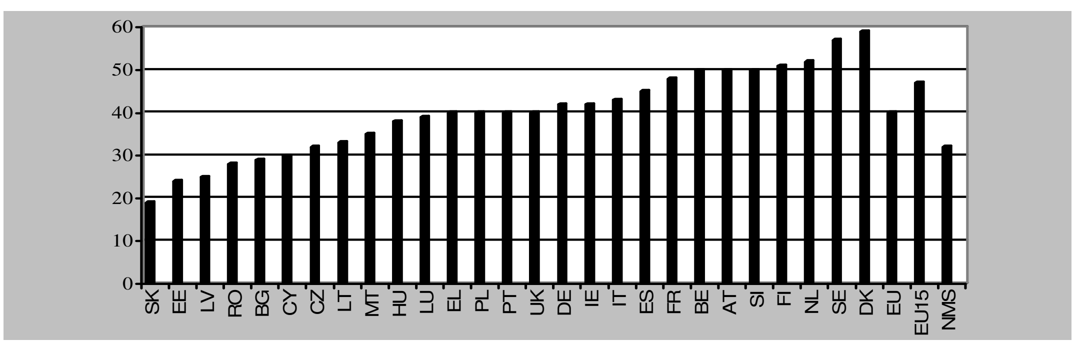

Figure 2. Personal income tax rate ,2006 (% of total tax burdens)

Source: European Commission (2007)

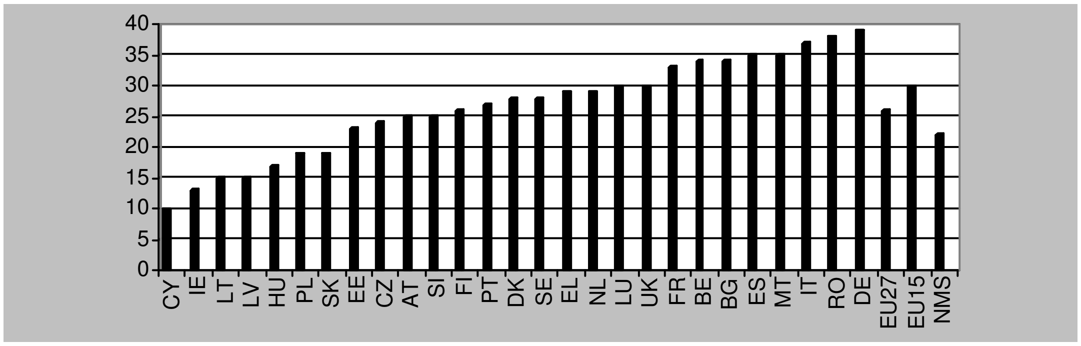

Figure 3. Corporate income tax rate, 2006 (% of total tax burdens)

Source: European Commission (2007)

The low share of direct taxes in the new Member States is counterbalanced by higher shares of social contributions (+4.2% respect to the EU-15) and indirect taxes (+5.7%) on total tax revenues; the gap between the EU-15 and the NMS-12 in the shares of social contributions had been shrinking in the last few years but increased in 2006. The highest shares of social contribution among the NMS-12 are found in the Romania, Czech Republic, Poland and Slovakia. Cyprus and Malta have the highest share of indirect taxes. Also among the EU-15 countries there are some noticeable differences, as illustrated by figure 1. The Nordic countries (Sweden, Denmark and Finland) have relatively high shares of direct taxes in total tax revenues, whereas some southern countries (in particular, Portugal and Greece) have relatively high shares of indirect taxes compared to the EU-15 average. In Denmark and, to a lesser extent, also in the United Kingdom and Ireland the shares of social contributions to total tax revenues are relatively low compared to the EU-15 average. In Denmark, most welfare spending is financed out of general taxation. The share of direct taxation to total tax revenues in Denmark is in fact the highest in the Union. Germany has the highest share of social contributions in the total tax revenues. Germany's share of direct tax revenues, on the other hand, is the lowest in the EU-15. France also has a relatively high share of social contributions and a corresponding relatively low share of direct tax revenues, compared to the EU-15 average.

3. Tax structures by levels of government

In the new ESA95 framework of national accounts, taxes are usually classified according to four different units of government that may operate within a country and to the Institutions of the European Union. The combination of the different government levels operating within a Member State is called the general government, and may include:

- Central (or federal or national) government, including all administrative departments and central agencies of the State whose competence extends normally over the whole economic territory, except for the administration of the social security funds;
- State (or regional) government, when relevant within a Member State, which are separate institutional units exercising some of the functions of government at a level below that of central government and above that at local level, except for the administration of social security funds;
- Local (or municipal) government, whose competence extends to only a local part of the economic territory, apart from local agencies or social security funds;
- Social security funds, including all central, state and local institutional units whose principal activity is to provide social benefits.

Figure 4 displays a classification of aggregate tax revenue (including social contributions) by receiving level of government.

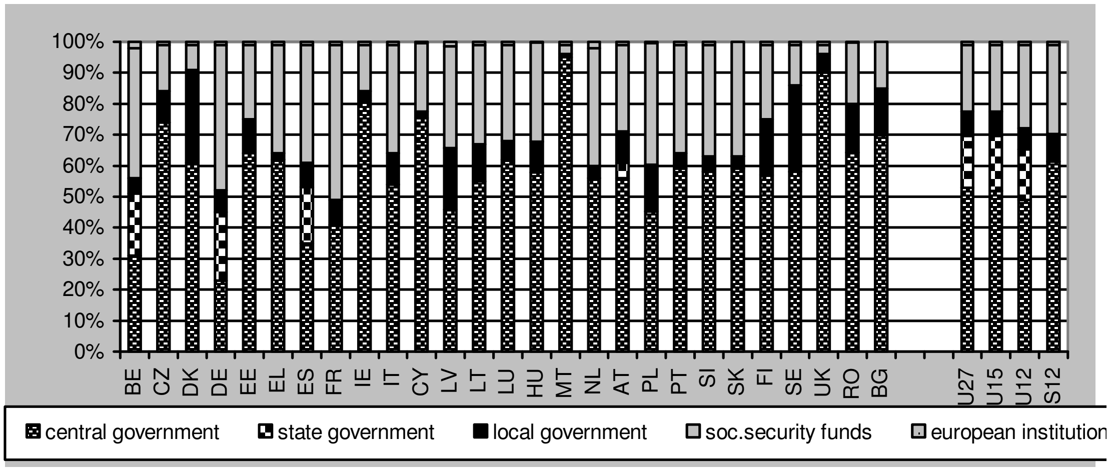

Figure 4. Classification of tax revenues, 2006, (% of total tax burdens)

Source: European Commission (2007)

The figure 4 represent "ultimately received" tax revenues. This means that the shares displayed under State and local governments do not only include 'own' taxes of government sub-sectors, but mostly also the relevant part of the tax revenue that is actually "shared" between the different levels of the general government, even in cases where a government sub-sector has practically no power to vary the rate or the base of those particular taxes.

In 2006, in the EU-15 about 56% of the "ultimately received" aggregate tax revenue (including social contributions) was claimed by the central or federal government, roughly 29% accrued to the social security funds, and around 11% to local government. Around 1% of this tax revenue is paid to the Institutions of the European Union. There are however considerable differences from one Member State to another. For instance, a few Member States have a State government level. The share of regions and municipalities varies from less than 1 % in Greece to 35% in Denmark. Not only Denmark, but also Sweden (33%), Belgium (29%), Spain (29%) and Germany (28%) show relatively high shares of total taxes received by government sub-sectors. The share is around the EU average in Austria (18%) and Italy (16%). The share is noticeably small in Greece (1%), Ireland (2%), the Netherlands (4%) and the United Kingdom (5%). Concerning social security funds, the highest shares in the EU are reported by France and Germany.

In the new Member States the State government level does not exist. Concerning local government taxation the figures vary between Malta, which does not apply local taxes, to Latvia with a share of 18%. Relatively high shares of local taxes can be seen also in Estonia (13%), Hungary (12%), Poland (13%) and Lithuania (10%). Concerning social security funds, high shares appear in Poland (40%)5, Slovakia (39%), Slovenia and Lithuania (37%).

Conclusions

The competition extension among the member states made them exceed themselves in order to attract a large number of economic operations. As it has already been shown "taxation" is one of the implements used. From this point of view, there is a sharp competition among these states, an issue which, inevitably, may cause disturbances in the assurance of the best level. Moreover, according to W. Koko, this type of conduct may lead to "such an extreme race" for taxes or income (W.Kok, 2003).

In the latest years, especially in the states from Eastern Europe, an increasing amplification has been registered regarding preferential fiscal systems promoting various investments, some of them even displaying high efficiency in attracting foreign investments.

This happens according to a well known opinion suggesting that preferential fiscal systems, the reduced taxation being included, may represent premises of an attractive location for foreign investments (G.Nicodeme, 2003).

In present, 27 taxation systems coexist in the EU, afferent to the 15 member states, plus those taxation systems belonging to the 10 new states which joined on May 1st 2004, besides Romania and Bulgaria entered the EU at the beginning of 2007.

There are noticeable differences among all these states according to their fiscal policies regulations because the national fiscal policies signify a consistent of the member states sovereignty.

The tax system inherent heterogenity being taken into account, the significant differences between the former member states do not make anybody feel surprised at such diversity in tax systems.

The structure of tax revenues differs between new and old Member States, as the former raise relatively little revenue from direct taxation (personal and corporate income tax) and proportionately more from indirect taxation and social contributions. While direct tax revenues represent more than one third on average in total revenues in EU-15, these are closer to 20% in the new Member States.

The new Member States collect less tax from the corporate sector than the old and corporate tax revenues are less important both in terms of its share of GDP and relative to other tax sources. *Corporate tax rates* are generally lower in the new Member States. While the average corporate tax rate in EU-15 is around 30%, it averages nearly 10 percentage points lower in the new Member States.

However, corporate tax rates in the new Member States vary widely, and the differences fall comfortably within the range of Ireland’s 12.5% and Germany’s rate just below the 40% mark.

Finally, while EU-15 Member States have reduced rates and have broadened tax bases since the 1980s the new Member States have cut rates more aggressively, especially since the late 1990s.

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THE ROLE OF INVESTMENTS IN THE METROPOLITAN DEVELOPMENT OF PITESTI MUNICIPALITY

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The metropolitan development represents a present issue in Romanian local communities. Romania's 1st January 2007 integration imposes a new model of economic and social development at the level of the local community. Sustainable development gets new connotations, the role of investments and community policies become the main pillars in achieving local strategic objectives.

Pitesti, a city that intends to launch a new type of development, initiated a series of activities and investments meant to contribute decisively to the accomplishment of all its goals.

Key words: social development, sustainable development, investments, development, minimax principle.

Sustainable development, a new type of post-industrial development, has been argued worldwide for over 30 years (Stockholm Conference on the Environment in 1972). On the other hand, the reference moment is represented by the United Nations Conference on Development and Environment held in Rio de Janeiro in 1992. At that time, an official document (Agenda 21 and Rio Declaration) mentioned for the first time the name and the concept of sustainable development.

Sustainability gets today new connotations (economic, ecological, social and cultural, moral and spiritual, as well as temporal). Regardless the applicability area, sustainable development cannot be done without investments. The role of an investment is that of intensifying the capacity of an economy, social and cultural sector or field. An investment implies an allocation of resources on economic principles so that the tension between needs and the possibilities of accomplishing them should be diminished at maximum. A fundamental investment on efficiency-based criteria reflects the application of a fundamental economic principle that contemporary economy should take into account: the minimax principle (minimum consumption of resources with maximum results).

National statistics place Pitesti and the neighboring areas among the most attractive economic, social and investment-related places. Located in a transit region, Piteşti was firstly developed as a market town, and then it became on e of the country's largest cities. Its economic, financial and human potential is represented by its area (4,100 hectares), by its population of more than 170,000 inhabitants, by the large number of economic agents, by the regional branches of various banks and insurance companies, etc.

The large development of Pitesti Municipality also implies a local economic development promoted by the local authorities. This attracted and will attract investors by the facilities it offers: urban infrastructure (road, water, and sewerage), social services, secondary and higher education, development of neighboring areas, environment protection etc. Sustainable economic development will have effects upon the entire local community: public authorities, private sector, and community.

A SWOT analysis of the main features of Pitesti emphasizes a series of aspects that support the metropolitan development of the city.

Strong points:

- a diversified industry with large development potential;
- increasing population not due to the birth rate but to the migration towards rural areas or less developed urban ones;
- a modern infrastructure;
- a relatively large number of pre-school educational institutions;
- the existence of some multinationals representative at international level;

- the existence of two universities that provide qualified labor force;
- an active preoccupation of local authorities for a local sustainable development;
- Pitesti – Bucharest motorway;
- the population’s purchasing power exceeds the country average;
- unemployment rate under the country average;
- foreign investment exceeding the country average.

Weak points:

- limited land area for real estate investments;
- various congested crossroads that create long waiting time;
- relatively low capitalization of some small enterprises;
- activity restructuring at S.C. Rolast S.A., S.C. Arpechim S.A.;
- insufficient green spaces;
- an insufficient number of playgrounds;
- poorly developed tourism;
- the non-arrangement of the Arges river for nautical sports;
- the low usage of the city belt road.

Opportunities:

- using various structural funds for a social and economic development;
- using various lands of Dobrogeanu Gherea, Turceşti, Zamfireşti, Baloteşti, Stadionului, Trivale for real estate development;
- building some road passages in the congested areas of the city;
- extending the industrial platform by creating the Development Area of Piteşti which should include its neighbouring villages;
- relatively qualified labor force.

Threats:

- taking over the main economic responsibilities by the neighboring areas of Piteşti due to their unexploited territorial potential;
- the foreign capital migration to more attractive areas;
- the qualified labor force migration to Bucharest or to the European Union;
- the incapacity of the current road infrastructure to face any future development.

There were permanent preoccupations for a smooth development of Piteşti at the level of the local officials, mainly in the last 8 -10 years. The efforts were intensified in 2005-2007, when important amounts from the local public budget were directed towards important investments. The following sectors were taken into consideration:

1. Investments in primary and secondary education;
2. Investments for culture, entertainment and religion;
3. Investments for housing, public services and development;
4. Investments for environment protection;
5. Investments in general economic, commercial and work activities;
6. Investments in transportation;
7. Investments regarding public order and national safety.

From the analysis of the expenses and incomes budget we found out that in 2007 they were directed to cover all investment expenses of over 43 billion lei, an important amount of money for the local level.(anexa 1)

The efforts that aim at the sustainable development of Pitesti Municipality as European Metropolis are meant to reduce the differences between our city and other similar cities in the European Union.

Setting up the investment strategic objectives implies identifying investment needs and also continuing the developing projects, so that they can support the citizens' real needs.(anexa 2)

An important problem is the identification of financing sources that could let put into practice all our proposed objectives. Undoubtedly, local public authorities will finance a part of the projects costs form their own sources (the local budget), but we have to use at maximum the capacity offered by the structural funds. Literally, any investment objective can be financed with European funds.

The main investment objectives proposed in 2007 – 2013 are:

1. ***Investments in road infrastructure*** – Possible sources of financing: the local budget by its contribution to the project and the Regional Operational Program – AXA 2.
2. ***Development and extension of the water network and the sewerage system*** **–** Possible sources of financing: the local budget by its contribution to the project and the Regional Operational Program – AXA 1 and 2; POS MEDIU – AXA 1.
3. ***Projects with impact on the environment and entertainment activities*** **-** Possible sources of financing: the local budget by its contribution to the project – POS MEDIU – AXA 1, 2, 3, 4.
4. ***Modernization of the city public transportation*** **-** Possible sources of financing: the local budget by its contribution to the project - POR AXA 2.
5. ***Investments in the public lighting network and in the electricity network*** **-** Possible sources of financing: the local budget by its contribution to the project- POS – CCE AXA 4.
6. ***Investments in education and human development*** - Possible sources of financing: the local budget by its contribution to the project – POS – DRU.
7. ***Investments in developing the administrative capacity*** - Possible sources of financing: the local budget by its contribution to the project- POS – DCA.

There is no doubt that the accomplishment of investment-based strategic objectives proposed above will lead to a harmonious development of Pitesti Municipality and will turn it into a modern, European city. The finance sources should not represent a big issue since we previously showed that there various possibilities to finance these projects with structural funds. The only thing that we have to do is to put into practice all our initiatives, to prove willingness and capacity to access such funds.

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ANEXA 1

The categorised evolution of public investments in 2005 – 2007

Investments	2005 (thousand)	2006 (thousand)	2007 (thousand)
Investments regarding public order and national, public authorities and external activities	430.9	620	2444
Investments for the secondary education development	11	1285	866
Investments for culture, entertainment and religion, social assistance	0	3085	13989 150 -------- 14139
Investments regarding housing, jobs and public development	34299.5	6754	12192
Investments in environment protection	1113	1670	2227
Investments in general commercial, economic, job-related activities	60.2	22570	160
Investments in transportation	3802.2	2138	11694
Total of investments	39717.8	38172(38122)	43723

SOURCE: ACCORDING TO INVESTMENT-RELATED PROGRAMS IN PITEŞTI

ANEXA 2

A survey developed in Piteşti Municipality regarding investment-related projects revealed the following priorities:

No.	Investment projects for the development of Piteşti Municipality	Percentage
1	Parking	**10,8%**
2	Undergrounf passage in the area of Podul Viilor and Bascov intersection	10,8%
3	Parks and green spaces	8,8%
4	Playgrounds	6,9%
5	Bio-warehouse	5,9%
6	Health	5,9%
7	Water cleaning	4,9%
8	Housing for the youth	4,9%
9	Road infrastructure	3,9%
10	Traffic planning	3,9%
11	Public transportation	3,9%

No.	Investment projects for the development of Piteşti Municipality	Percentage
12	Infrastructure in neighboring areas	2,9%
13	Heating	2,9%
14	Tourism	2,9%
15	House constructions	2,0%
16	Finalizing civic center	2,0%
17	Culture-related projects	2,0%
18	Environment protection	2,0%
19	Other Houses of Culture	1,0%
20	Modern sewage	1,0%
21	Canteens for school kids and poor people	1,0%
22	Kids hostel with lower tax	1,0%
23	Open-air cinema	1,0%
24	Opening of commodities traffic on the city belt-road	1,0%
25	Deviating railway traffic outside the city	1,0%
26	Small industry	1,0%
27	New jobs	1,0%
28	Urban-related projects	1,0%
29	Social protection	1,0%
30	Reabilitation of main streets	1,0%
31	Re-usage of old factories	1,0%

Source: made by the author according to information

INDICATORS OF ROMANIAN MUTUAL FUNDS PERFORMANCE

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The Romanian capital market seems to continue a positive process of convergence to other European markets in terms of market indicators and market infrastructure as it benefits from harmonized regulation to best standards and practices, which stimulate growth. Mutual funds represent a very strong investment vehicle by offering investors access to the stock-exchange growth and the monetary market with less effort, money and risks than the direct investment. These investment vehicles raise a great number of questions, most of them related to their performance evaluation. The main question is whether actively managed mutual funds managers are able to add value for their investors. We will analyse in this paper Romanian mutual funds performance indicators and their evolution during the last years. Romanian mutual funds industry is poorly developed, mutual funds assets detaining an insignificant percent in the GDP.

Keywords: active management, mutual fund, performance evaluation, performance indicators

Introduction

Comparative to the situation in other member states, Romanian investment funds hold an extremely low market share in the financial intermediation institutions structure. At a global level the net active value of mutual funds has doubled in the last seven years especially due to an impressive increase in Europe and Asia. In Europe a substantial increase of almost 30% has taken place in 2006 (from $ 6 trillions in December 2005 to $ 7.7 trillions in December 2006), Europe controlling 36% of mutual funds global actives comparative to the share of 34% in 2005.

Even if in Romania the growth ratios of mutual funds actives have been very raised in the last years, there value is still extremely low in comparison to other European member states. In our opinion this is not a reason of concern since Romanian mutual funds begin to regain investor's trust and to become an attractive investment vehicle for all categories of investors. More than that Romania's integration in the UE facilitates Romanian investors' access to foreign mutual funds and raises the competition and creates the premises of an adequate functioning framework more rigorous and in the same time more flexible towards the investment policy.

At the end of 2006, UNOPC was reporting a total number of 32 open-ended funds: two monetary funds, seven bond funds, eleven balanced funds and twelve equity funds. Most of them are young funds which have started to function after the year 2000 on a small capital market, characterized by poor transactions, low liquidity, legal instability and investors' lack of trust. We will try to follow the evolution of Romanian mutual funds through performance indicators using data furnished by UNOPC in its annual reports.

Evolution of the main performance indicators

Romanian mutual funds performance indicators registered an accelerated rhythm of growth during the last years due to the positive evolution of the capital market, corroborated with the improvement of the management quality and the increase of investors' interest in these entities.

The development of financial instruments on the capital market and the enlargement of the selection area of investments for mutual funds' managers favored the introduction of strict classification criteria of these investment vehicles. Mutual funds managers operated during the last years severe portfolio' structure adjustments dictated by the increase of investors' toleration of risk and a reorientation towards the capital market after past unfortunately experiences.

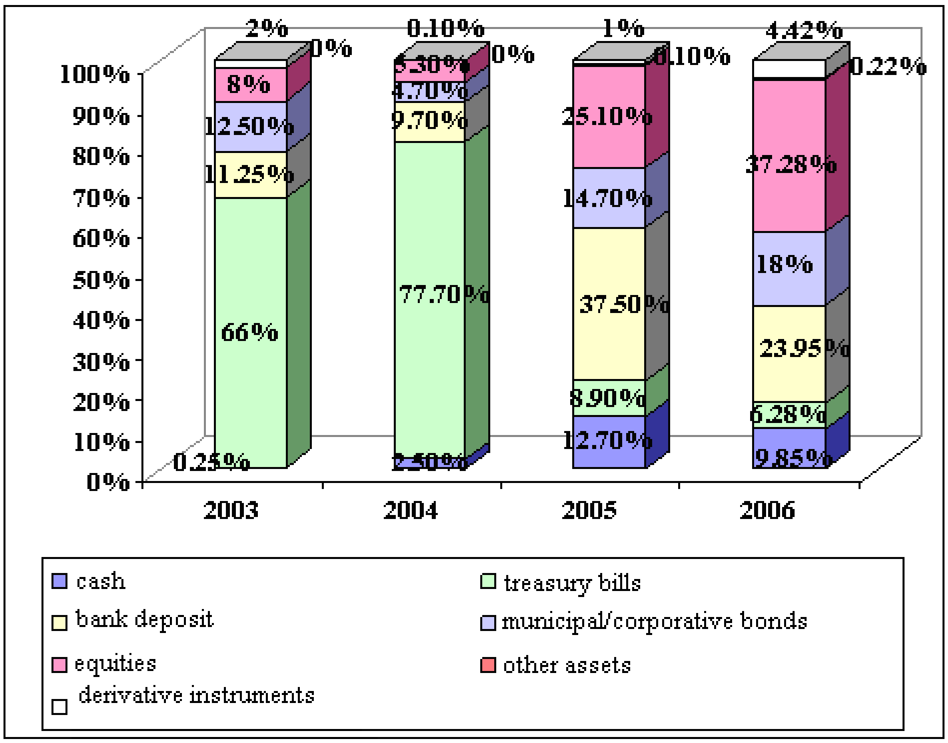
Tab. 1 The dinamic of the global portfolio structure during 2003-2006

Assets' structure	2003	2004	2005	2006
cash	0.25%	2.5%	12.7%	9.85%
treasury bills	66%	77.7%	8.9%	6.28%
bank deposits	11.25%	9.7%	37.5%	23.95%
municipal/corporative bonds	12.5%	4.7%	14.7%	18%
equities	8%	5.3%	25.1%	37.28%
derivative financial instruments	0%	0%	0.1%	0.22%
other assets	2%	0.1%	1%	4.42%

Source: UNOPC Reports at the 31 of Decembre of each year.

In 2005 and 2006 an equilibration of different assets classes weights in the global portfolio took place by the augmentation of quoted financial instruments weights to the prejudice of money markets instruments which dominated the market in the previous years.

Graph. 1 The evolution of the global portfolio structure during 2003-2006



Source:Author's processing.

Investors' preference for traded financial titles is justified both by their superior return and the decrease of interest rate for bank deposits and treasury bills. The increase of mutual funds total assets is the result of launching new funds, attracting new investors and also the result of assets value appreciation.

Tab. 2 Main indicators characterizing mutual funds performance during 2003-2006

Indicatori	2003	2004	2005	2006
Number of UNOPC funds	20	19	23	32
Net assets (mil. lei)	93,2996	209,959	339,12	633,201
Growth of net assets (%)	2,84%	125,04%	61,52%	86,71%

Number of investors	58.017	62.082	70.978	78.380
Net assests/investor (lei)	1608,14	3381,96	4777,82	8078,6
Growth of net assets /investor (%)	-1,49%	110,3	41,27%	69,08%

Source: UNOPC Reports and author's calculation.

The tendency of growth of mutual funds performance indicators and especially the performance generated by these investment vehicles will lead in the following years to their confirmation as viable alternative of investing available capital. Managers of actively managed portfolios are expected to consistently outperform the index or the benchmark. In order to prove their ability in generating excess returns, managers have to rely on their past performance. Financial industry spends considerable amount of resources in measuring and ranking the performance of actively managed portfolios.

We present below the evolution of the Romanian mutual funds performance in the last four years compared to inflation rate and the growth rate of BET, which is the Romanian capital market index. The average performance is calculated as the average variation of the unitary value of mutual funds (we include all Romanian mutual funds regardless their investment policy) net assets taking into account the market share of each mutual fund.

Tab. 3 Mutual funds performance evolution during 2003-2006

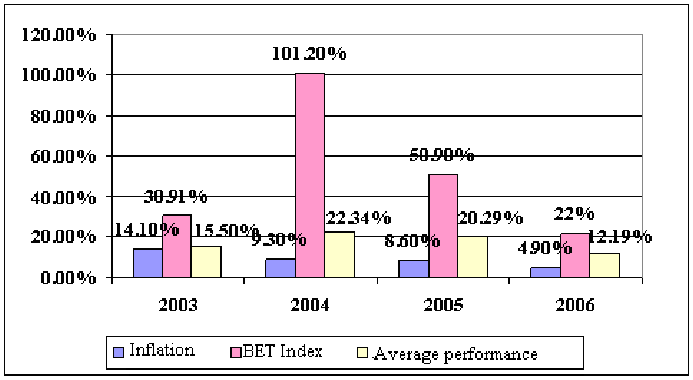
Indicator	2003	2004	2005	2006
Inflation ratio1)	14,1%	9,30%	8,60%	4,90%
BET Index 2)	30,91%	101,20%	50,90%	22%
Average mutual funds performance3)	15.5%	22,34%	20,29%	12,19%

Source: 1) www.bnro.ro; *2)* www.kmarket.ro*; 3) author's calculation.*

Mutual funds average performance exceeded the inflation rate each year and was exceeded by the BET Index. This high positive variation of the market index is due to under-evaluated stocks on the market. As the capital market matured the evolution of the index stabilizes. Meanwhile mutual funds adopted a more prudent strategy and balanced their portfolios by investing in monetary instruments with low risk and return characteristics. Each mutual fund has a specified investment policy, which is described in the fund's prospectus. Equities, bonds and money market instruments are major assets categories, largely used by long-term portfolio investors. The safety of any mutual fund is determined by the fund's strategy, activities and investments. The risk is the same whether it is sold by a bank, stockbroker, financial adviser or other marketing organization.

Taking into account that BET Index is composed of the 10 most liquid stocks on the market which have also registered the highest performance, that mutual funds diversify their portfolios and that we don't expect managers to have had high selectivity capacity, the discrepancy between BET and average performance is understandable. Anyway, the declared objectives in the prospectus of each Romanian mutual fund are connected to the increase of assets' value and return exceeding the inflation rate without mentioning a target related to the capital market.

Graf. 2 Performance of the global portfolio versus inflation and BET Index



Source:Author's processing.

According to the funds' stated objectives, the National Union of Collective Investment Schemes, classifies them into four classes:

– Equity funds are mainly orientated to listed stocks. These funds represent a very strong investment vehicle by offering access to the stock-exchange growth. Investing in such a fund implies less effort, money and risks than the direct investment on the stock-exchange. They offer smaller investors the benefit of diversification and professional management. They include different investment styles such as growth, value or growth and value, and concentrate in alternative-sized firms, including small-cap, mid-cap and large capitalization stocks. The investment term is long and very long. The criteria of funds enclosure in this category is a minimum investment of 45% in stocks.

Tab. 4 Main indicators characterizing equity funds during 2003-2006

Indicators	2004	2005	2006
Market share	8,9%	21,3%	32,3%
Number of funds	5	8	12
Net assets (mil. lei)	18,77	72,28	204,283
Growth of net assets (%)	-	285,08%	182,63%
Number of investors	6.945	11.860	15.417
Net assests/investor (lei)	2.703	6.094	13.251
Growth of net assets /investor (%)	-	125,45%	117,44%

Source: Author's processing after UNOPC Reports at the end of each year

– Bond funds or fixed income funds that invest in long-term government, corporate or municipal bonds. The enclosure criteria is an investment of more than 90% in bonds and money market instruments. These are investments on the medium term implying small risks. They address to investors with high risk aversion and also to stock investors who aim an equilibration of the global portfolio and risk diminution.

Tab. 5 Main indicators characterizing bond funds during 2003-2006

Indicators	2004	2005	2006
Market share	12,1%	14,9%	9.7%
Number of funds	6	6	7
Net assets (mil. lei)	25,361	50,608	61,285
Growth of net assets (%)	-	99,55%	21,1%
Number of investors	8.854	8.437	9.038

Net assests/investor (lei)	2.864	5.998	6.781
Growth of net assets /investor (%)	-	109,43%	13,05%

Source: Author's processing after UNOPC Reports at the end of each year

- Balanced funds invest both in fixed income instruments and in stocks, adopting a balanced strategy in order to obtain high returns but keeping a medium risk level. They invest between 10% and 45% in stocks and the rest in fixed income instruments. They address to investors who aim performances above interest rates without exceeding a medium level of risk.

Tab. 6 Main indicators characterizing balanced funds during 2003-2006

Indicators	2004	2005	2006
Market share	22%	31,9%	37.9%
Number of funds	6	7	11
Net assets (mil. lei)	46,105	108,22	239,72
Growth of net assets (%)	-	134,72%	121,52%
Number of investors	41.098	45.900	49.540
Net assests/investor (lei)	1.122	2.358	4.839
Growth of net assets /investor (%)	-	110,16%	105,21%

Source: Author's processing after UNOPC Reports at the end of each year

- Money market funds invest above 90% of the total active in money market instruments deposits, deposit certificates, treasury bills. They are short term investment and represent cash management instrument. They appear to individuals as an alternative to bank savings accounts because they are safe and provide yields above what is available on most savings accounts, are available in any moment without loosing the accumulated gains.

Tab. 7 Main indicators characterizing monetary funds during 2003-2006

Indicators	2004	2005	2006
Market share	57%	31,9%	20,2%
Number of funds	2	2	2
Net assets (mil. lei)	119,723	108,012	127,913
Growth of net assets (%)	-	-9,78%	18,42%
Number of investors	5.185	4.781	4.385
Net assests/investor (lei)	23.090	22.591	29.171
Growth of net assets /investor (%)	-	-2,16%	29,12%

Source: Author's processing after UNOPC Reports at the end of each year

Conclusions

The Romanian mutual fund industry registered in the last years a constant growth in assets but most important is the consolidation of the market with respect to such investment. After huge frauds in the industry finally we have a law and an authority that supervises these institutions. A solid infrastructure will ensure future development of these investment companies which will have to face in the nest years a strong competition with funds from other European countries.

At European level a new regulating framework is conceived in order to simplify the functioning of investment funds whose objectives pass beyond the origin country. The 85/611/EEC Directive with the subsequent amendments, which as we have shown, created the juridical harmonized framework for facilitating cross border investment fund marketing, is being revised in order to facilitate the construction of a perfectly integrated European market for investment funds. The following aspects are aimed:

- simplifying the procedure of **launching a fund** on another member state market;
- eliminating the discrimination between contractual funds and corporative funds as far as the **company passport** is concerned (it is at present valid only for corporative funds);
- regulating the functioning of investment schemes that allow for the co administration of several member state mutual funds' assets **(entity pooling**);
- **simplifying funds prospectus**;
- a better **cooperation** between member states' supervising authorities as far as the legislative framework is concerned.

Romanian mutual funds represent a young industry with a high potential of growth in a safe profitable investment environment. Such an environment also implies a developing economy. We remark and appreciate CNVM efforts of assuring the compatibility with the highest European standards and directives in order to frame the Romanian capital market in the developing tendencies of the unique market.

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THE PROBLEMATIC OF REAL VALUE ESTABLISHMENT FOR PROPERTY INSURANCE

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***Abstract**:"The practice of insurance is permanently confronting with a delicate problem related to the real value of property insurance. In this paper we will analyze thecorrelations between real value, insured sum and market value for motors' insurance, homeowners' insurance and insurance for stock of goods. The sum insured may genereate an adequate value for the insured object, or a subinsurance, and this fact will be put into evidence through compensation principles.also, we will present practical and technical situations in order to maintain the insured sum at the real value level, and this autimatically will generate a full compensation of any loss."*

***Keywords**: Insurance, Real Value, Sum Insured, Compensation Principles*

Introduction

A delicate problem inside the property insurance contracts is referring to the real value of the insured object. The way this value is determined depends of the type of the property: motors (or equivalent fixed assets), buildings, stock of goods. All these aspects must take into account different knowledge related to evaluation process.

All the insurance companies expect the client to insured their assets at the real value. In case there appear differences is very important to have a discussion about how this value is determined.

Literature review

In the insurance literature and also in the claims adjusting process, inside the insurance companies there are two principles of damages' compensation. The debating problem inside these two principles is the correlation between the insured sum and the real value of insured object (Motors, buildings, stock of goods).

The first principle is known as first risk principle (prim risk). No matter the real value of the insured object is the compensation of the insurance company is limited to the insured sum. In that case a partial loss is reimbursed entirely by the insurance company, and the owner of the insurance has no financial prejudice. For example if a building has a real value of 100,000 Euro and the insured sum is of 60,000 Euro we are in a traditional case of underinsurance. Using this principle any loss will be paid by the insurance company up to 60,000 Euro. So if the loss is of 3,000 Euro the compensation will be of 3,000 euro. The situation is negative for the owner of the property if the loss is a total one. In that case the reimbursement of the insurance company is only 60,000 Euro, and the owner will support the difference up to the real value of 100,000 Euro.

The second principle is the proportional compensation one. In this case the compensation from the insurance will be the report from the insured sum and the real value.

$$C = L \times \frac{S.I.}{R.V.}$$

Where C. – Compensation

L – Loss

S.I. – Sum Insured

R.V. – Real Value

Using the same presumption as in the first principle if we have a loss of 3,000 euro the compensation is:

$$C = L \times \frac{S.I.}{R.V.} = 3{,}000 \times \frac{60{,}000}{100{,}000} = 1{,}800 Euro$$

That principle is similar to a mathematical report, in our case the insurance company judge that the insured object was insured at a 60% of its real value.

Problem solution

After analyzing the insurance market we noticed that the first principle – prim risk principle, is more a theoretical one and it was used only in the beginning of the insurance markets in more developed countries. Also this principle is still used by some small insurance companies in the homeowners insurance in their expectation for insurance premiums increasing. Using such a principle is very uncomfortable for the owners just in case of total losses. But also the insurance premium is lower than for a quotation applied to the real value.

So if the quotation for block of flats insurance - whole risks is around 0.25%, if the sum insured is 60,000 Euro the insurance premium is 150 Euro per year, instead of 250 Euro per year in case of insured sum equal to the real value of 100,000 Euro. So the premium for the insurance is at a lower level and cumulated with other losses for the same type of insurance may cause financial problems in loss payment. This is why the most insurance companies used the second principle.

The second principle is very used by the insurance companies, and the fair insurance companies that followed strictly ethic principles, let their insured people know about this principle at the moment of initial payment. These differences between insured sum and real value must be explained very well and understood, because nobody desire to argue in the moment of a loss.

In this research we will focus on the real value for three types of cases: homeowners, motors and stock of goods.

In case of homeowners insurance the potential insured persons may choose the sum insured between the actual value of the building (market value) or the reconstruction value. No matter the option will be made the person will be entirely reimbursed in case of partial or total loss. In case of personal houses the market value is usually higher than the reconstruction value. The difference may be done by the land value. But the land is not insurable, so the client may choose for a lower level of sum insured. If a property has a price of 500,000 Euro and a premium quota is 0.25% – whole risks policy, the insurance premium is 1,250 Euro per year. But if the house is evaluated at 350,000 Euro and the land at 150,000 Euro there is no reason to pay insurance for the land. So the premium is only 875 Euro. The insurance company may put this aspect into evidence also. Each insurance company has theirs own evaluation systems correlated to the existed situation on the market. Moreover the insurance companies use the services of professional evaluators to determine a medium price per square meter, taking into account the location, materials and utilities of the house. In our case if the house has 250 squared meters the insured sum of 500,000 Euro (2,000 Euro/square meter) will be refused by the insurance company because is too high and we are in a case of over insurance. But if we decrease the land value, it remains 350,000 Euro (1,400 Euro/square meter) that may be close to reality of the real estate market.

The other option – the reconstruction value involve more technical issues because the owner of the house must calculate (using the initial house planning and the actual prices of the materials) the value of its components. Usually, this value is lower than the first one.

No matter these option are taken, the person is insured entirely and in case of a partial/entire loss there will be an equality between the sum insured and the real value, and the compensation is equal with loss:

$$C = L \times \frac{S.I.}{R.V.} = L$$

In Eastern European countries the real estate market is now into an ascending trend, both for the price evolution and number of the new buildings. So there appears a very probable situation that the price to increase 10-20% per half of year, and in the moment of a loss the real value of the building is 20% higher than the insured sum. Because this trend is very hard to be exactly predicted, if the insured sum was equal to real value at the beginning of the insurance policy, the insurance companies will not make any proportion in case of any type of losses.

There is in practice another situation that may generate proportional compensation principle. We refer to the case when a person insures its unfinished house. In that case the person chooses for an open insured sum at the beginning of the insurance, adjustable at every three, four or six months. The adjustment of the insured sum will take into account the added value since the last period. In case the owner refuse or forget to adjust the insured sum, in case of a loss the insurance company will reimburse him proportionally (the rapport between the insured sum and undeclared existed value).

But if the owner adjusts the insured sum, he will pay only for added value and for the remaining period.

For example the owner of the house that is building decides to make an insurance policy for an insured sum of 60,000 Euro. The insurance quota is 0.25%, so the insurance premium is 150 Euro per year. The owner agree a special clause for adjusting the insured sum at every 4 months, so after the first four months period the value of the house became 100,000 Euro.

In that case the insurance companies use the formula:

$$P' = (S.I._1 - S.I._0) \times Cp \times \frac{n}{12} = (100.000 - 60.000) \times 0.25\% \times \frac{8}{12} = 67\,Euro$$

S.I. – Insured Sum at moment 0, moment 1

Cp – Premium quota

n – Numbers of months to the end of the insurance contract

In that case, after the payment of this supplementary insurance premium, if any type of loss occurs, the insurance company pays the entire loss. The situation will be the same after the next period mentioned in the insurance contract.

Secondly we will analyze the situation existed in the motors' insurance market.

The situation is referring to the real value of the motors. In case the motor is a new one, the situation is very simple the sum insured is equal to the new value. Also, in case the motor is buy as new from a Romanian dealer in the next year the real value is determined simply by reducing the new value with the depreciation.

$R.V. = S.I. = N.V. - D.$

R.V. – Real Value

S.I. – Sum Insured

N.V. – New Value

D. – Depreciation – determined by actuarial departments of each insurance company

In that case if a loss occurs the compensation will be entirely.

The same formula operates also in case of used motors (imported used motors) but there is a very important aspect related to the establishing of the new value. The insurance agents must identify in the specialized catalogues (APIA, Schwacke, Nuts) the new value taking into account the model of the motor and existing features (cube centimeters, power, model, additional options etc.). After this step the real value is determined very simple:

$R.V. = N.V. - D.$

There appear a difficult moment is insurance negotiation when the potential client find the real value of the motor, that may be 10-15% higher than the price he paid for it. In many cases the market value of a motor on the Romanian second hand market, or the value of a used motor imported from other countries are lover than the real insurance value.

So if the market price of a used car (let assume 3 years old) is 15,000 Euro and the new value determined from the specialized catalogues is 24,000 Euro and the depreciation is 30%, the real value is:

$R.V. = N.V. - D. = 24{,}000 - 30\% \times 24{,}000 = 16{,}800\,Euro$

The percentage quota for full insurance is 7% and in that case the insurance premium is of:

- 1,176 Euro per year if the insured sum is equal to the real value or
- 1,050 Euro per year if the insured sum is equal to the market value

As we notice there is a difference between the insurance premiums of 126 Euro per year.

In case the owner of the motor agrees the insured sum propose by the insurance company in case of any loss the compensation will be entirely.

In case the option will be for an insured sum equal to the market value in the compensation process there will be applied the proportional principle. So if we assume the client has a minor loss of 1,000 Euro the compensation is:

$$C = L \times \frac{S.I.}{R.V.} = 1{,}000 \times \frac{15{,}000}{16{,}800} = 893 Euro$$

The owner of the car will support the difference of the 107 Euro.

This situation will be very delicate in the moment of the loss, so the most famous insurance companies in the Romanian market refuse to insure a car at the market value, in that case they eliminate from the beginning the potential negative situations in case of losses.

The other insurance companies accept the market value as an insured sum and worse; they don't explain what this value implies. So in the moment of the loss appearance they will make a proportional compensation, and definitely the client will be unsatisfied.

It is generally known that after each loss the insured sum is depreciated with the loss value. So the insurance will continue for a reduced insured sum:

$$R.I.S. = S.I. - L.$$

R.I.S. – Reduced Insured Sum

L. – Loss

So if the Insured Sum is of 20,000 Euro and the loss is 1,500 Euro, the Reduced Insured Sum is of 18,000 Euro. In that case we fall in the situation of o potential proportional principle because the new insured sum is lower than the real value,

$R.I.S. \triangleleft R.V.$, and any loss is paid:

$$C = L \times \frac{R.I.S.}{R.V.}$$

This is also an inconvenient for the owner of the motor that may not agree a proportional compensation in case of a future loss. In order to cancel this disadvantage the insurance company offers the possibility to pay a supplementary insurance premium:

$$Ps = L \times Cp \times \frac{n}{12}$$

Ps. – Supplementary insurance premium

L – Loss

Cp – Premium quota

n – Numbers of months to the end of the insurance contract

After the payment of this insurance premium the contract will continue at the real value and if there appears a loss the compensation will be entirely.

The last problem related to the real value and debated in this paper refers to the insured sum of the stock of goods and materials. The value of this insured sum includes the acquisition costs or the cost of the final product, and very important does not include the profit of the company.

The insurance companies offer two possibility of insured sum:

- Sum insured equal to a maximum stock or
- Sum insured periodically adjusted

Sum insured equivalent to maximum stock give the potential insured company to choose for the sum. The company will follow the trend of the stock in the last year, and judging after the existing flux of goods or product, may opt for a maximum value. It is very difficult to predict an exactly maximum stock for the next period and this problem may choose difficulties in claims adjusting.

In case of a loss, the insurance companies verify the accounting papers of the insured company and in case the maximum insured sum is overlapped at least one time, they will apply the proportional principle in the loss compensation.

$C = L \times \frac{I.M.S.}{M.E.S.}$, Where

C – Compensation of the loss

L – Loss occurred

I.M.S. – Insured Maximum Stock

M.E.S. – Maximum Existed Stock

If we assume that I.M.S. is 1,000,000 Euro and one time the M.E.S. were of 1,200,000 Euro and there is a fire that destroys stock in amount of 25,000 Euro, the compensation is:

$$C = L \times \frac{I.M.S.}{M.E.S.} = 25{,}000 \times \frac{1{,}000{,}000}{1{,}200{,}000} = 20{,}834 Euro$$

In case the insured company decides to increase the insured sum in the moment they realize that they exceed the maximum stock, they will pay only for the exceeded value and for the remaining months:

$$Ps = (M.E.S. - I.M.S.) \times Cp \times \frac{n}{12}$$

And if we continue our example, the quota is 0.30% and the moment when the Insured Maximum Stock is exceeded occur after 4 months from the beginning of the insurance, the supplementary premium is of

$$Ps = (M.E.S. - I.M.S.) \times Cp \times \frac{n}{12} = (1{,}200{,}000 - 1{,}000{,}000) \times 0.3\% \times \frac{8}{12} = 400 Euro$$

In case of payment, any loss occurs the compensation will be entirely.

The second option is to adjust the insured sum at a specified term (every three/four/six months). This option is benefic for the insured company because anytime a loss occurs the compensation will be entirely.

So after the mentioned period the insured sum will be increased (only if the insured sum was exceeded) and there will be paid a supplementary premium:

$Ps = (M.E.S. - I.A.S.) \times Cp \times \frac{n}{12}$, Where

I.A.S. is Insured Adjustable Stock.

Conclusions:

After these analyze in the insurance market we conclude that the real value is very important for the insured person or insured company. There is a directly connection between the real value, insured sum and the compensation principles.

For each type of property insurance (motors, homeowners, stock of goods) there are exactly solution to opt for the real value as insured sum, at the initial moment of the insurance or even during the contract, or after a loss is occurred. The insurance agents have a very important role: to explain the advantages and the methods of the real value' determination.

So in conclusion, it is recommendable to agree the real value suggested by the insurance company, because in this case the reimbursement of the loss will be entirely.

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LOCAL BUDGETS' OWN REVENUES IN ROMANIA

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Local own revenues represents a very important financial issue for every local community because their dimension assure the prosperity of the municipality. The decentralization process determined a rise of own revenue number, giving the possibility to local authorities to finance more objectives in their community.

The main local own revenues are presented and analyzed in this paper, emphasizing their role in the local budgetary process. The three categories in which local own revenues were divided are: local taxes and fees, rates from income tax and other local own revenues.

Key words: own revenues, local budgets, taxes, fees

The budgetary revenues are collected to different components of the budgetary system. These revenues include taxes, fees, property incomes etc. In many cases, the amounts owed to the budget are established by law and the most frequently these become revenues in state budget or social security budgets. But there are revenues collected to different budgets and their level is established by the beneficiary public entity respecting the limits imposed by law. This are considered own revenues in Romanian budgetary system.

The main own revenues categories, in the Romanian budgetary system, can be found in the following budgets or budgetary components:

- Local budgets – in every year, the State Budget Act presents in a special annex a list with the local revenues and expenditures, some of them being own revenues that can be collected by local budgets;
- Out-local revenues and expenditures - special local fees should be administrated in distinct account, opened apart from the local budget;
- Subsidized public institutions' budgets – subsidized public institutions can collect fees for the services they supply. These fees represent their own revenues;
- Autonomous authorities' budgets – autonomous authorities collect taxes and fees established by the legal acts that settle their activity;
- Wholly auto-financed public institutions' budgets – auto-financed public institutions cover all their expenditures from own revenues obtained performing services;
- Wholly auto-financed public activities' budgets - auto-financed public activities are organized by ministries and other budgetary entities and has a separate financial regime;
- Special healthcare tax.

Local budgets' own revenues represent the main category because all local budgets have such incomes. These can be divided in three main categories:

- Local taxes and fees – taxes established by the Fiscal Code;
- Rates from income tax – the most important local revenues;
- Other local own revenues.

The Romanian local budgeting system consists of 41 county budgets and over 3,000 municipality budgets (including the General Budget of Bucharest Municipality and the six separate district level budgets corresponding to the six administrative parts of Bucharest Municipality).

Every county has tens of municipalities: cities, towns and communes. From budgetary point of view, the tasks are clearly separated by law. Sub-regional interest public expenditures are financed from county budgets and local interest public expenditures are financed from municipality budgets.

The local own revenues include the fiscal revenues (excepting the amounts of VAT transferred from the state budget) and the capital revenues. The main categories of local own revenues are presented bellow:

- Building tax
- Land tax
- Fee on means of transport
- Hotel fee
- Tax on shows
- Fee for the issuance of certificates, permits and authorizations
- Fee for using means of advertising and publicity
- Rates from income tax
- Property revenue
- Revenue from service supplies
- Fine and penalty
- Capital revenue
- Financial operations.

The local own revenues proportion in total local revenues is very variable. In many cases, the excluded amounts of VAT transferred from the state budget and subventions from other public budgets (like unemployment budget or health insurance budget) are less important than the local own revenues.

Although the variation of proportions of local own revenues is quite large, a careful analysis can light the situation. The local own revenues can be grouped into three main categories:

- Local taxes and fees – taxes established by the Fiscal Code;
- Rates from income tax – the most important local revenues;
- Other local own revenues.

1 Local taxes and fees

The Fiscal Code (Law no. 571/2003) has a special part dedicated to the local taxes and fees. This act establishes the main rules that must be respected by local authorities when set the rate of taxation.

Any person that owns a building located in Romania owes an annual tax for building. In physical persons' case, this building tax is determined using the standard rates established by the Fiscal Code. The building tax paid by physical persons varies between 3 and 38 eurocents per square meter per year. In legal persons' case the local council establishes the rate and may be between 0.5% and 1%. This rate is applied to the inventory value of the building. In the case of a building not revalued, the rate of tax will be between 5% and 10%.

Any person that owns land that is located in Romania owes an annual tax for land. The land tax is to be determined by taking into account the number of square meters of land, the rank of the locality where the land is located, and the zone and/or category of use of the land, in accordance with decisions of the local council. The land tax is not higher than 21 eurocents per square meter per year.

Any person that owns a means of transport that is required to be registered in Romania owes an annual fee for the means of transport. The tax is established separately for cars, buses, commodity transport vehicles, trailers, means of water transport, etc. This tax per year is between 2 and a few hundreds of euros.

Local authorities may introduce hotel fees by establishing a rate of the fee between 0.5% and 5% applied to the cost of the accommodation.

The organizers of artistic performances, sporting competitions or other entertainment activities in Romania have to pay tax on shows with a rate of tax between 2% and 5%.

Any person that must obtain a certificate, permit or other authorization from the local authorities must pay a fee for certificates. There are many kind of certificates issued, the most frequent are those related to urbanization certificates, construction permits or permits to carry out economic activities.

Fees for advertising and publicity services are paid by the persons that benefit from advertising and publicity services in Romania on the basis of a contract or another form of agreement. The rate of the fee is to be established by the local council and is to be between 1% and 3%.

Fees for the display of advertising and publicity regards the persons that uses a sign, display or display structure for advertising or publicity in a public place. The amount of the fee for the display of advertising and publicity is to be computed on an annual basis by multiplying the number of square meters, or fraction thereof, of the area of the advertising or publicity display by an amount established by the local council, but not more than 6 euro.

For the functioning of local public services created for the benefit of physical and legal persons, local councils, county councils and the General Council of the Municipality of Bucharest, as the case may be, may adopt special fees. The domains, in which the local authorities may adopt special fees for local public services, as well as the amount of such fees, are established in accordance with the provisions of the Law for local public finance.

2 Rates from income tax

The income tax is cashed in the state budget, but every month 88% of the amounts collected in the previous month are transferred to the local budgets: 47% goes to the budget of cities, towns and communes, 13% is transferred to the county's budget, and 22% is kept in a special account in order to balance the local budgets. To assure a correct share of amounts to every local authority, the employers should have separate fiscal codes for every working places that have more than 5 employees.

The 22% rate is divided in two categories: 27% is transferred to the county's budget and the remaining 73% goes to the local budgets of cities, towns and communes after the following rule: 80% is distributed in two stages by the director of the county's public finance directorate and 20% is distributed by the county council's president.

The director of county's public finance directorate should establish the amounts respecting the legal methodology:

1. in the first stage are eligible only that local authorities that have per capita income taxes under the county's average. The amounts established in this stage can not exceed the average value registered at county level.
2. the remaining amounts are distributed in the second stage to all the local authorities depending on their financial capacity.

Beginning with 1st of January 2009, the balance of local budgets will be made in correlation with the possibility of financing the functional expenditures with own revenues, the minimal cost and quality standards of public services offered to population, and so on.

3 Other local own revenues

Other local own revenues groups property revenues, revenues from service supplies, fines and penalties, capital revenues and revenues from financial operations.

Property revenue refers to the payments made by local authorities owned companies (such as public transport companies, sanitation companies). All the payments are made from the net profit obtained by each local level owned company. All the state owned companies have to pay to the budget at least 50% of their net profit.

Other local property revenues are represented by the concession fees and rents. If local importance public spaces are leased or rented, the fees cashed become property revenues. The most frequent leased or rented items are parking places, markets and commercial areas owned by local authorities, mortuary places in cemeteries.

There are assimilated with property revenues the entire amount that should have been returned to the local budget in previous years. The Romanian budgetary mechanisms are cash based. This is why any amount cashed in a budgetary year becomes the revenue of that year. In the case of taxes, the problems are simple because the accounts are the same. Special problems are related to the operations regarding the year-end operations that can not be completed till the 31st of December. Examples of such operations met at local level are (provided that the later operation to be different to those of former one): differences to pay back by those employees that were sent in mission and had received cash advances in the previous year, recovers of amounts spent in previous years without respecting the legislations.

In case the local public authorities supplies services that are not compulsory, they can collect fees for services in order to cover partly or entirely the cost with this service.

In this category are included also the contributions of parents for children in state owned crèches, contributions of parents for keeping up the children in social protection units, the contributions of the beneficiaries of social restaurants, fees paid for survey services.

Fines are paid to local budgets in every case natural persons are sanctioned for not respecting the law. In legal persons' case, local budgets collect only those fines that are applied by local authorities or refer to running on public roads.

Penalties refer to that amounts that should be paid by those who omitted or delayed to declare at the local authorities some legally stipulated information such us property acquisition or car acquisition.

The revenues obtained from selling the confiscated or abandoned goods represent also a separate revenue type that weight very little in a local budget.

Donations represent an extraordinary budgetary revenue category because this are collected depending of the availability of donors or sponsors to support some actions or activities developed by local authorities. Usually, donations are not included in the budget drafts, but during the execution of budget there are made changes in order to present the exact amounts cashed from donors and sponsors.

Capital revenues represent all the amounts that are cashed from selling immobile goods of local communities or financial assets owned by local authorities.

In only some local budgets we can find financial operations. These operations refer especially at loan reimbursements. Local authorities can land certain amounts to organize self-financed activities by subordinated entities. When amounts are returned, they appear as financial revenues in the local budget.

Local authorities can obtain short term loans by borrowing the necessary amounts from State Treasury or by the territorial-administrative unit's working capital. State Treasury is authorized to land those local authorities which have cash deficit deriving from discrepancies between the income and payment. These loans should be paid back in the same financial year. The second loan type supposes borrowing the amounts necessary to cover the cash deficit from the territorial-administrative unit's working capital. The local working capital is formed by cumulating annually budgetary surpluses of the local budget and is used. The available funds of the working fund shall bear interest, shall be kept in a distinct account, opened for each territorial-administrative unit, with the territorial units of the State Treasury, outside the local budget, and may be utilized, temporarily, for covering the cash deficit deriving from discrepancies between the income and expenditure of the current year, as well as for the definitive covering of the potential budgetary deficit resulting at the end of the budgetary year. The working fund may also be utilized for the financing of certain investments within the competence of the local public administration authorities or for the development of the local public services in the interest of the community.

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THE IMPACT OF STATE AID ON PUBLIC DEFICIT

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The present paper comprises relevant aspects regarding the state aid and budgetary policy. The aim of the study is to examine to what extent state aid measures that distort competition can affect the budgetary deficit. In order to highlight the relation between the two indicators, we will focus on the following elements that will be developed separately:

1. State aid: concept, types of measures, policy developments;

2. General consolidated budgetary deficit;

3. Correlation between state aid and budgetary deficit in Romania and European Union.

Key words: state aid, public deficit, public budgets

State Aid : Concept

State aid is a member state's financial aid to business which meets all the criteria in Article 87(1) of the European Community Treaty. Article 87(2) of the EC Treaty declares that state aid, in whatever form, which could distort competition and affect trade by favouring certain undertakings or the production of certain goods, is incompatible with the common market, unless the EC Treaty allows otherwise.

The key criteria provided by Article 87(1) are presented below:

1. State aid is granted by state or through state resources. State resources include public funds administered by the member state through central, regional, local or other public or private bodies designated or controlled by the state. It includes indirect benefits such as tax exemptions that affect the public budget.
2. State aid favours certain undertakings or production of certain goods. It aids an undertaking, i.e. an entity engaged in an economic activity. Economic activity is activity for which there is a market in comparable goods or services. It can include voluntary and non profit making public or private bodies such as charities or universities when they engage in activities which have commercial competitors. It includes self employed traders, but generally not employees as long as the aid does not benefit the employers, private individuals or households. The aid is available to certain undertakings but not others in the member state, it selects individual business, sectors, areas, sizes of business or production of certain goods. In other words, a benefit available to all kinds of business is not state aid, but a general measure.
3. State aid constitutes an advantage granted to undertakings. These benefits can be measured using the economic methodology.
4. State aid distorts or threatens to distort competition and may affect trade between member states. Almost all selective aids will have potential to distort competition – regardless of the scale of potential distortion or market share of the aid recipient. Most products and services are traded between member states and therefore aid for selective business is capable of affecting the competitive structure inside the Community by eliminating or threatening to eliminate a competitor operating within the Community that does not benefit from the state aid measure.

The conclusion is that the existence of state aid is based on the sum of these four criteria. For a better understanding, we define the state aid function taking into account the factors presented above, namely x1, x2, x3 and x4 in this order, where:

$$f_1(x) = \begin{cases} 0, \text{if the aid is not granted through state resources} \\ \\ 1, \text{if the aid is granted through state resources} \end{cases}$$

$$f_2(x) = \begin{cases} 0, \text{if the criteria of specificity is not fulfilled} \\ \\ 1, \text{if the criteria of specificity is fulfilled} \end{cases}$$

$$f_3(x) = \begin{cases} 0, \text{if a commercial advantage is not granted} \\ \\ 1, \text{if a commercial advantage is granted} \end{cases}$$

$$f_4(x) = \begin{cases} 0, \text{if the trade between member states is not distorted} \\ \\ 1, \text{if the trade between member states is distorted} \end{cases}$$

We have: $f(x_1, x_2, x_3, x_4) = \prod_{i=1}^{4} f_i(x_i)$

As a consequence, we can have state aid if the four conditions are satisfied, that means: $f(x_1, x_2, x_3, x_4) = 1$, if $f_i(x_i) = 1$, for any value of i belonging to the interval of {1,2,3,4}.

If $f(x_1, x_2, x_3, x_4) = 0$ (for at least one value of i belonging to the interval mentioned before, the function $f_i(x_i) = 0$), there is at least one condition that is not fulfilled and, consequently, there is not state aid.

The four conditions are relevant in the state aid analyze. However, in practice, the degree of competitiveness on the relevant market can influence significantly the state aid assessment.

State aid: Types of measures

The notion of state aid doesn't only comprise contributions in the form of pure capital, but also includes tax relief, certain depreciation rules, parafiscal levies on goods imported from other member states, acquisition and sale on favourable conditions, such as the sale of real property, loans granted on favourable conditions, relief regarding interest rates, tax exemptions, price differentiations, warranties, social contributions, if certain companies or certain forms of production thereby achieve an advantage.

All these measures have a direct impact on the difference between public revenues and expenses that is budgetary deficit.

State aid: Policy developments

In the internal market with an increased competition, the member states are more inclined to grant subsidies, rather than tax exemptions. Moreover, the removal of technical barriers to trade and tax harmonization contribute to an increase in the volume of subsidies. The evaluation and the controlling mechanisms are carried out in a wider geographical perspective.

The trend registered in the last 10 years regarding the volume of state aid granted has shown a progressive decrease of this indicator. The method used to quantify the global state aid allocated by member states is known as Scoreboard Technique.

The strict control of state aid is one of the European Commission responsibility. In considering proposed state aid, the Commission is guided by criteria in published frameworks and guidelines that apply to particular aid categories or purposes and in all member states.

General consolidated budgetary deficit

The Romanian economic policies that will be implemented during the year 2008 aim to ensure the objectives accomplish that was assumed in the process of European integration. The budgetary revenues will continue the increasing trend between 2006-2007, as a result of a favourable cyclical position as well as the improvement in the collection of revenues.

The general consolidated budget comprises federal budgets, local budgets, social security budgets and others that rule financial public flows. The consolidation is required in order to avoid double records of economic operations between the components of the public budget.The items that should be eliminated are:

- the transfers between different levels of public administration,
- capital reimbursements for the account of public debt.

Correlation between state aid and budgetary deficit in European Union

Analysing the budgetary deficits registered in the member states, by means of Eurostat, and comparing the results with those obtained for state aid, we can formulate the following conclusions:

- The state aid had a general constant trend, slowly decreasing, without significant changes. The exceptions were recorded in Poland (2003) and France (1997). The general trend can be explained taking into account the Commission policy in order to control and monitor state aid. 2. State aid represents a percent of at most 5 percent of GDP. A percentage higher than 2% can cause serious macroeconomic imbalance by reducing public revenues or/and increasing public fund allocations.
- The budgetary deficit must be smaller than 3% of GDP, according to the criterion established by the Maastricht Treaty. The limit imposed hasn't determined a constant trend in the value of budgetary deficit. This is due to the differences within the fiscal policy of each member state. As a consequence, there are significant variations recorded in the trend of public deficit for the last 10 years.
- State aids imply a financial effort from state budget, local budget, social security budget, unemployment budget or health assurance budget. It is evident that budgets are affected by state aids because budgetary revenues are smaller or expenditures are higher. In this way, the deficit is higher in absence of other variable factors.

BUCHAREST STOCK EXCHANGE –EVOLUTION AND PERSPECTIVE

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Abstract: Bucharest Stock Exchange(BSE) registers important achievements regarding the organization and regularization, but also a disatisfactory level of the activity indicators (stock indicators, transactioning volume, number and strucure of the issuers).

Keywords:capital, market, stocks, development, perspectives.

Premises of the appearance and development of capital market

The appearance and development of the Romanian capital market has been and still is influenced by decisional and economic factors. The capital market in Romania was market by the late appearance of the legal frame. The institutions tipical to the capital market have registered a series of deficiencies in the supervision and even sincopes in the functioning. The disrespect towards the share holders insuficiently informed and without investitional knowledge regarding the capital market was shown both through legislative measures as well as by the management. The functioning of the capital market was influenced by the slow rythm of privatisation, economic recession, the saving level, the investmental capacity and the investments' rhythm[1].

The saving rate has met an increasing tendency, but still insignificant and limited to a reduced segment of the population. The saving rate in Romania increases to 13% of Gross Domestic Product (GDP), half of the level registered in EU. At the same time, there has been created a hiatus between the tendency to increase the saving and its attraction so as to finance the real economy. BSE has met a permanent process of growing up, made real by increasing the number of quoted companies, the number of shares and transactional bonds, the volume of transactions and of the financial intermediators[2].

2. Contradicting evolutions at BSE

1995 is the year in which started the transactions to the Bucharest Stock Exchange, after the re-opening of this institution in Romania. From the first day of transactioning (November 20) till the end of the year had been transactioned the shares of 9 companies. We are talking about companies with most state capital, of very different sizes and importance. The investors have not benefit of dividends this year (because they are distributed in spring) and neither of increasing in the registered capital. The shares have generally evolved in a decreasing manner: from the nine listed companies five have decreased and only three have increased with insignificant results. Cumulated, the evolution of the stock exchange was of 12.75% up to the end of the year. As a beginning year for the stock exchange transactions, the year 1995 represented more a curiosity from the BSE investments point of view, without real benefit possibilities.

The stock exchange remained an anonymous institution in 1996 too. The number of listed shares increased to 17. The average output of the listed shares that was counted based on the price differences only were of -44.36%. If we add the dividends too, then it is of -43.01%. By adjusting the result with the inflation rate we obtain a total real performance of the BSE of 62.28% in 1996, performance that marks the weakest year in the stock exchange history.

In 1997, the stock exchange got out of the anonymity and registered a major qualitative step. It began a common five days a week transactioning schedule, and the number of the issuers and that of the real estate companies has accelerated the increasing and in the course of the year a number of 75 listed companies were transactioned. The first official index of BSE was launched: Bucharest Exchange Trading (BET), counted as a balanced average of the prices of 10 1st category representative shares. In Romania, the capital market registered a first period of glory in the 1st semester of the year 1997 when the prices of various shares had rapidly increased and brought big benefits to the investors. The foreign investors have invested a lot of money on the market and the prices of the shares increased spectaculously [3]; but not being sustained by economic results by the issuers, the prices dropped in the same spectacularly way.

The enthusiasm on the capital market continued a little bit longer out of inertia. The number of the listed issuers and that of the investment firms continued to increase. Thus, the number of the companies whose shares were transactioned in 1998, reached 125. But the general trend of decreasing the prices was unstoppable while the investors' interest in the stock market decreased.

The general trend of decreasing continued in 1999 too, and on the market the depressing ruled. The number of the investment firms began to decrease. The number of the transactioned issuers (138) in 1999 was higher than in the previous year. In 1999, began the fever of increasing the capital out of personal funds – 13 companies gave free shares to the share holders. Among them, important companies such as Terapia, Arctic, or Electroaparataj. The investors in the shares of the Transilvania Bank and those of Impact started to realize that these companies bring very good profit every year ; 48 shares shared dividends, but they were modest. The general trend of decreasing prices continued in 1999 too, but the balance started to move downwards; although in 1999 had been listed the SIF shares, these elements were not enough to regain the investors' interest.

In 2000, the market decreasing stopped, many shares started to increase and the interest in the stock market revived. For the first time, the number of the transactioned issuers (125) was lower than the one in the previous year. The stock market started to apply more rigorous criterion in listing, so that, in this year only two new issuers reached the stock market quota. From the 125 transactioned companies, a number of 83 ended the year with a positive output for the investors; moreover, 56 of them brought real profit over the inflation rate.29 shares brought nominal profit over 100%; six issuers gave free shares and 51 gave dividends. For the first time, the dividends started to be important for some of the issuers, and the dividends' influence in the total output of the stock market overpasses 10%. Practically, the stock market stopped from decreasing and most of the shares ended the year with a positive output on the market; As a result, it was the first year of real-positive increasing of the stock exchange from its setting up [4].

The increasing trend started in 2000 continued in 2001 too. More important, the stock market registered the second major qualitative step in its history. Among the measures adopted in 2001, there were the down-listing of a high number of unattractive issuers for the investors, the increasing of the transparence level imposed to the issuers, the beginning of the transactions with bonds and the listing of some companies with a major impact over the Romanian economy. These elements, together with the performances obtained by the stock exchange in the previous year, attracted more and more investors and the prices continued to increase [6]. The increasing was generalized out of the 110 transactioned issuers, 94 brought a positive output (out of which 76 over the inflation rate); The increasing was speeded for the 47 issuers who brought nominal profit of over 100%.

The measures taken in the previous year by the new management of the stock exchange and the performances from 2000-2001 brought up results; in 2002, BSE marked the best year in its history. As a result of the hardening of the regulations, the number of the transactioned issuers decreased to 66, while the number of the investment firms to 75. These measures have had a positive influence leading to the increasing of the trust in the investments in listed shares at BSE. The number of the municipal bond emissions listed at the stock exchange also increased, but the transactions remained sporadic. Although the legal frame of the capital market has been modernized, the stock exchange has not announced any significant events this year while the danger of stagnation began to threat the benefits expected by the investors. It seems that the investors did not notice these lacks since they had been busy with calculating their registered benefits [4]. From 75 transactioned issuers, 56 brought positive output in 2002 (out of which 52 over the inflation rate). Helped by the reduced inflation and by the performances in the past years, the BSE marked an extraordinary year; Practically, it was registered the highest real average output in the BSE history: 81%.

In 2003, the evolution of the shares listed at the stock exchange, offered reasons for joy to the investors, but this joy did not equal the one in 2002. The BET index registered an increase of only 30, 91%, much less than the one in 2002 (+119, 79%), and even less than the one 2001 (+38, 58%). Another tendency was that the capital increasing based on the re-evaluation differences, which brought great benefit in the past, disappeared. As a result, the number of own funds capital increasing operations reduced considerably. Besides these, we still have to follow the capital increasing with cash at prices below the market; neither these were many, but some of them were significant. In 2003, the importance of the dividends as income source continued to reduce itself; From the 65 companies, 27 gave dividends in 2003 based on the profits from 2002, but the benefit brought by them were not significant. Another trend was that of consolidating the issuers by fusions. 2003 is also the first year from the modern history of the stock exchange when this did not list any new issuer. For a change, the opposite trend of down-listing continued in force. All in all, in 2003 were down-listed the shares of three issuers. Although many shares increased, the investment firm registered its first year of stagnation after a period of accelerated increasing.

The year 2004 was a year of exception for the stock exchange investors and from various points of view the best year in the BSE history of after 1990. Of course, the major interest for the investors is the output offered by the shares, and from this point of view, the situation was more than satisfying: the official stock index, BET, counted as average of the prices of the most representative 10 shares listed at the stock exchange, increased with over 100% in 2004. In other words, the average profit offered by the shares listed at the stock exchange doubled the investors' money. The increasing registered in 2004 was quite surprising, if we think of the evolution in the past two years. Thus, after a 2002 excellent from all points of view, when there was registered a generalized increase of the shares and an appreciation of the BET index of 119, 8%, followed a 2003 relatively disappointing, with stable evolutions and an index increasing of only 30, 9%. In these conditions, there were fears that stock exchange (or at least the shares listed at the stock exchange at that moment) reached their potential and, lacking some issuers or new instruments, the prices of the shares would stagnate. The year 2004 contradicted this hypothesis: the BET index increased with 101, 2%, the BET-C index (counted on the basis of the prices of all shares listed at the stock exchange) with 103, 8% and the BET-FI index (counted on the basis of the SIF prices) with 115, 5% [5]. The fluctuations on the currency market made the performances of the stock exchange expressed in currency to be even better than those expressed in lei. Thus, the increase of the stock index expressed in EURO was of +111,5%, +114,1% and +127,0% for BET, BET-C, namely BET-FI. The stock exchange made the first (timid) steps towards new instruments by transactioning two preference right emissions; the bond market continued its development through new emissions; BSE registered some new interesting listings and made big steps towards the institutional consolidation through the fusion with the Rasdaq Electronic Stock Exchange. We may say that 2004 was a very good year, but with a series of new tendencies, such as: higher volatility on the market and more selective increasing [6].

2005 may be considered the SIF's year due to the spectacular increasing of the shares of the five financial investment companies. Starting with 2005, the stock exchange evolution became more agitated, due to the stronger and stronger correlation with the stock exchange from other countries.

The year 2006 was a pretty good year from the point of view of the investment on the capital market, but the performances were generally below expectations. The stars of the stock exchange (including the SIF shares) show more and more clear signs of tiredness. The BET index which expresses the average increase of the prices of the listed shares at the stock exchange, registered an increase of 22,2% in 2006 (the smallest output in the last six years), while BET-C+28,5%. The performance remains solid compared to the bank interest level at deposits, being of about three times larger than this. At the chapter positive events we may mention the conclusion of the fusion between BSE and Rasdaq, the introduction of the transactions in the margin for the spot market (shares), the successful run of two public emissions of important bonds (those of the World Bank and those of BCR), the setting up of the Central Depositary, and the successful listing of shares after concluding an initial public offer of the shares. Transelectrica (the first issuer in the field of utilities listed at the stock exchange); the initial interesting public offers are more and more attractive. As lacks in the stock exchange activity we may mention the disapproval for the fusion between BSE and Sibiu Monetary Financial and Commodities Exchange (SMFCE), the ending without success of one of the three Initial Public Offers launched (CCC Blue Telecom), the small number of new listings, not beginning in 2006 the transaction the state titles and not introducing the selling in absence.

From certain points of view, 2007 evolved in similar coordinates with 2006. The official BET index registered a positive performance of 22, 1%, and the composite index, BET-C won 32, 6%. After the fusion of the two stocks exchange (BSE and Rasdaq), the companies in the Rasdaq market became more visible. I noticed an increasing interest for these, materialized in the increasing of the price and of the transactioned volumes. The shares listed at BSE have had a constantly positive evolution in the past years; as a result, the investors searched for new challenge. They set their attention on the companies; thus, they oriented themselves towards the companies with increasing potential. Their option was for those listed on Rasdaq, since many were part of dynamic sectors or had very good actives, namely lands. This way we can explain the fact that the highest increase was hold by the RASDAQ market indexes with appreciations around 100%. The capital market registered a spectacular Initial Public Offer (IPO) – that of SNTGN Transgaz which attracted record sub-subscriptions of EUR 1, billiards and an exceptional sub-subscription order number of over 12.000. The Transgaz offer brought a new premier – the transaction of the allocation rights. The BSE derivates had no success and the spot market is still awaited at Sibiu Monetary Financial and Commodities Exchange. 2007 was also the year when the private pension system was launched in Romania, system that might have in time positive influences over the capital market. I may say that 2007 resembled 2006 from the point of view of the market evolution positive performances, higher at category II than at category I and high volatility. The SIF shares disappointed while IPO Transgaz was the most spectacular Initial Public Offer till now. In 2007, the correlation index of BSE with New York Stock Exchange(NYSE) reached 0, 52 of the maximum 1, which explains the reason for which when the market drops there, we also feel it strongly. The crisis on the sub-bonuses market extended and the negative signals on the external markets affected also BSE. The internal context proved to be a less favorable one in an international crisis.

The bigger and bigger influence that the external markets have over the evolution of the market in Bucharest marked the beginning of the year 2008 at the Stock Exchange; thus, the debuted of 2008 was an unusual one because instead of the usual increasing, in the first semester were registered massive decreasing. The average capitalization companies from the Stock Exchange have been the most hurt by the decreasing from then beginning of this year, losing between 40% and 60%, in the conditions in which the BET decreased with 30%.

Perspectives

The bad news that came from the external markets brought great decreasing at BSE. For now, the trend is negative and on short term (at the date when the work was written at the end of March 2008) new decreasing are expected. The correlation of the stock's internal local indexes with the external ones is more on the decreasing trend [4].

Still, the evolution of the stock exchange can be mainly considered as a cyclic one and it is estimated that the most expected increasing will not be long waited for; it is foreseen that BSE shall have a total stock capitalization of EUR 45 billiards at the end of 2008 (BSE + Rasdaq) and a daily average value of the transactions of EUR 30 million.

Even if the private pension funds shall start this year to invest at the Bucharest Stock Exchange, in 2008 their influence on the market shall be low due to the reduced size they will have in the first year of function. It is estimated that the weight of the foreign investments shall increase in the total of acquisitions, there will be more Initial Public Offers and the volatility shall continue to be high;

Up till now, BSE and Sibiu Monetary Financial and Commodities Exchange (SMFCE) have no success in developing themselves on each other's market. It seems that cash attracts cash; so far BSE has had no success on the market on time, although its launchment had been prepared for a long time and the panders were anxious for it.

One problem of the BSE is the little cash which can also be explained through the more reduced transactioning program compared to the developed stocks in the area that are closed after 16.00. There are wanted much more cash, more sophisticated investors but there is no way to satisfy their needs because of the lack of correlation with the external markets.

In the conditions when BSE wants to become a reference market in the East-European region, the transaction program is helpless. On the one hand, the run of the transactions during four hours daily limits the cash of the Stock. The daily average value of the transfers from BSE is of only EUR 12, 1 million, which raise questions regarding the attainment of the BSE representatives' objects for this year, of EUR 30 million. And more when we take into account that the immediate effect of a short program is the moving of the investors' interest towards long schedule markets.

Conclusions

Presently, the big economies of the world have to deal with certain economic problems and this fact may generate unfavorable effects on the capital markets and, implicitly, on the emergent markets too, which correlated as trend with the mature capital markets.

Although, under the aspect of the institutional construction, of the automatic and flexible electronic transaction technical systems, of the flexible mechanisms for forming the prices and of some regulations adjusted to the BSE and Rasdaq international standards they detached from other stocks, under other aspects they are beyond other stocks in the Central East-European are.

The number of the companies quoted at BSE and of investors is still low; despite the increase of the volume of the transactioned shares and bonds, their contribution to the optimum allocation of the financial resources is low.

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THE INTEREST FOR THE MUNICIPAL BONDS

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Abstract: The emissions of municipal bonds are a pretty recent apparition in the evolution of the Romanian capital market. The reduced level of the local administrations available funds and the impossibility to increase the local taxes so as to get higher incomes cashed by the local budgets, impose the finding of some alternative financing sources to sustain the local investment programs.

Keywords: bonds, investments, advantage, lower risk

1.The legal frame of the municipal bonds

The municipal bonds are movable values issued by the local authorities, especially cities and towns, through which are attracted funds form the capital market to finance some investment projects of local interest [1].

In the ex socialist states, the local authorities started to issue municipal bonds in 1995, Poland being the first country in the Eastern Europe in which these titles are largely used to attract financing for investments. In Romania, existed some unsuccessful attempts to launch municipal bonds, including on the international markets (Sinaia, December 1996), but the issuers did not received the necessary certificate from the Ministry of Finance.

The emissions of municipal bonds were not possible till 2001 because there had not been found the pandors to provide the security and the good development of such action, there was no legal basement to allow such operations.

According to Govern's Order(GO) 45/2003 regarding the local public finance, Art.58 (2) The instruments of the local public duty to which the local administrations have access are the value titles and the loans from banks or other credit institutions. According to the same normative act, through local public duty we understand the general debenture that must be reimbursed from the self incomes of the administrative-territorial units, according to the concluded contracts [2]. The regulation allows the municipality to create some budgets of whose execution is responsible; to plan average and long term investments based on the foreseen incomes; to establish local priorities; to finance by loans from the bank or by municipal bonds; Law 525/2002 of the capital markets regulates the emission and transaction conditions.

The emissions of municipal bonds are a pretty recent apparition in the evolution of the Romanian capital market, because they became possible only the entering in rule of Law 189/1998 regarding the local public finance, replaced in the present by Law 273/2006, completed by the Govern's Emergency Order no. 64/2007. The legal frame of the municipal bonds emissions is completed with the Capital Market Law and with Regulation CNVM no.1/2006, regarding the public offer of movable values and other financial instruments regarding the issuers and the movable values operations.

The advantages of the municipal bonds

The reduced level of the local administrations available funds and the impossibility to increase the local taxes so as to get higher incomes cashed by the local budgets, impose the finding of some alternative financing sources to sustain the local investment programs. From the point of view of the costs, of the reimbursement terms, of the easiness to obtain financing, the obligatory loans are more advantageous in comparison with the bank loans. For investors, the bonds offer an intermediary output between the shares holdings directly on the stock exchange and the bank deposits. They are also called "determinate income instruments", which refer to their coupon. Their enormous advantage to the deposits is that they are transactional on the organized markets.

In the mature markets, the volume of the transactions with bonds is bigger than the volume of transactions with shares or other derivate financial instruments. This is because the bonds market is the investment place of many investment banks and the bonds are their favorite instrument, from the corporative ones to

Eurobonds, from those issued by the local administrations to the ones issued by governs or multi-national companies or national banks, etc [4].

The bonds are always an alternative to the stock investment and to the bank deposits that is why they function quite reversely: if the stock or the interests to deposits decrease, the transactional prices of the bonds increase and vice-versa. As to the influence of the currency market, generally it is the same: when the national currency decreases in comparison with other currency, the bond market increases and vice-versa. The advantages of the bond emissions are clear both for the investors and for city halls. They both avoid the financial intermediation of the banks. The investors receive higher interests than at deposits while the city halls get cheaper loans than if they would make a bank credit [5].

3. The interest for the municipal bonds

In 2001, for the first time after the World War II, two resort-towns in Romania, Mangalia and Predeal, proclaimed their independence to the state budget for investments in the sub-structure and launched a municipal bonds emission.

For Romania, this was a premiere and this emission was also a test to see how things evolve. The interest of these bonds was counted with an arithmetic average between the active and passive interests on the interbank market - BUBID/BUBOR – at which we add 2 percentage points for the titles issued by Mangalia and 3 for those issued by Predeal. At the initial value, this represented for their first semester an interest of 36% for Mangalia and 37% for Predeal. In that moment, on the Romanian bank market, for the natural persons the interests fluctuated in the interval 26-36% for the bank deposits on three months, 27-37% at six months, and 26-38% for one year. At the state titles for the population, the interest was of 36% for six months. For the state titles for the population, the interest was of 36% for six months.

These emissions of municipal bonds were later followed by other municipalities: Zalau, Alba Iulia, Cluj-Napoca, Breaza, Bacau, Sebes, Targu Mures, and Slobozia. Presently, the interest for the municipal bonds is much below the values registered 7 years ago. Thus, for the bonds launched by Bacău at the end of the past year, the interest is variable, counted according to the interbank rate average [(BUBID$_{6M}$ + BUBOR$_{6M}$)/2] + 0,85%; at the beginning of April 2008, the average rate of interest at deposits on the interbank market at 6 months is around 10,37 %, while for Romanian Interbank Offer Rate (ROBOR), the average rate of interest for the loans given on the interbank market is of 11,12%, which means that for the Bacău municipal bonds the interest is around 11,595 %, while the deposit interest is between 7,25-8,5%.

2007 was the year of the credit titles at the Bucharest Stock Exchange. From the 16 transactioned emissions, seven started at the stock exchange in 2007. Nevertheless, the credit titles market at the Bucharest Stock Exchange is still modest even if lately, the number of bond emissions almost doubled. The values of the emissions are relatively small, in a total of LEI 182 million. Presently at BSE there are present a series of 16 municipal bonds issued by 12 city halls that decided to finance their projects with the help of the capital market. Some of them were attracted by the bonds reaching the second or even the third emission. We talk here about Alba Iulia, Bacău, Deva, and Timişoara, which all have at transaction two bonds emissions(Table1).

Table 1. Municipal Bonds(Bucharest Stock Exchange)

Symbol	**Name**	**Total bonds**	**Principal initial (RON)**	**Issue value(RON)**	**Issue Date**	**Listind Date**	**Maturity Date**	**No. coupons**
BAC08	MUNICIPIUL BACAU	89.500	100,00	8.950.000,00	19.06.2004	24.02.2005	15.09.2008	8
DEV08A	MUNICIPIUL DEVA	19.160	100,00	1.916.000,00	14.10.2004	04.02.2005	30.09.2008	8
TIM11	MUNICIPIUL TIMISOARA	200.000	100,00	20.000.000,00	07.07.2005	20.07.2005	01.03.2011	11
AIU08	MUNICIPIUL AIUD	7.000	150,00	1.050.000,00	03.02.2005	29.07.2005	01.09.2008	15
MED09	MUNICIPIUL MEDGIDIA	21.000	100,00	2.100.000,00	01.04.2005	23.08.2006	20.03.2009	16
NAV09	PRIMARIA	45.000	100,00	4.500.000,00	23.06.2005	11.05.2006	19.06.2009	16

	MUNICIPIULUI NAVODARI							
DEV08	MUNICIPIUL DEVA	58.000	100,00	5.800.000,00	15.09.2003	20.02.2004	24.04.2008	19
ORD10	MUNICIPIUL ORADEA	100.000	150,00	15.000.000,00	24.06.2004	26.11.2004	20.05.2010	24
TEU20	ORASUL TEIUS	15.000	100,00	1.500.000,00	18.08.2006	12.02.2008	25.11.2020	29
LGJ14	Primaria Lugoj	35.000	100,00	3.500.000,00	15.11.2006	27.03.2007	15.09.2014	32
ALB25A	Primaria Alba Iulia	80.000	100,00	8.000.000,00	10.01.2007	26.11.2007	15.04.2025	37
ALB25	Primaria Alba Iulia	80.000	100,00	8.000.000,00	27.09.2005	26.11.2007	15.04.2025	39
TGM27	MUNICIPIUL TARGU MURES	200.000	100,00	20.000.000,00	29.08.2007	14.12.2007	15.08.2027	75

Although from the number point of view, the credit titles emissions listed at the Stock quota should have insured a minimum cash amount, in reality, the number of transactions with such movable values was up to the present extremely low due to the reduced value of the emissions.

Municipal bonds perspectives

Even if at first sight the total value pf the bonds emissions and of the bank credits accessed by various municipalities was low, in the past years it increased significantly. For 2006, the credit market accessed by the local municipalities reached and important amount (EUR 1,5 million), which increased in 2007 at about EUR 2 million. The market is reduced in value due to the few listings and to the small values; In the following years, the number of the municipalities to choose this solution of financing shall increase, being stimulated by the example given by those in Timisoara, Deva, or Alba Iulia, who each have at transaction two bond emissions and the money was efficiently invested in local development programs. This year, various city halls in the country announced that they want to launch bond emissions on the local capital market. If initially neither the city halls, nor the state made loans on longer terms than seven years on the capital market, in the last years, the municipalities have tried the internal market with three times bigger maturities. Together with the EU adhering, the municipalities shall have more and more work to do. The rehabilitation of the sub-structure shall benefit of the biggest structural funds, but to access them they will need their own money too [3]. The money may be obtained through bank credits or bonds. More advantageous are the municipal bonds that can be run on longer periods and which are immediately "absorbed" by the market (insurers and private pension funds) considering that the non-payment risk is almost zero. Together with the apparition of the private pension funds, it is estimated a bigger and bigger volume of bonds and long term loans. Almost 30 municipal bonds offers issued by at least 10 city halls, could be run in 2001, through the agency of the Bucharest Stock Exchange (BSE), doubled to the ones run in 2007. The municipal bonds are among the most successful titles transactioned at the Stock due to the interest over the market's average and to the investment guarantee assured by municipalities. 2008 could bring a real revivement on the bond market, in concordance with the expected increase of activity on the whole local capital market. If in the present there are run 16 bond emissions, this year we could assist at a double number, 10 new offers having already been confirmed. Till not long ago, the seven years loans made the rule with the titles issued by city halls and by the Ministry of Finance, now, the mayors or the district boards launch bonds emissions on 18-20 de years. They need to attract money on longer terms in order to co-finance the projects for which they want to attract structural funds from the European Union. Especially the sub-structure works but other big local projects too, brought on the financial market with such titles the authorities in Iaşi, Alba, Hunedoara, Timişoara, Bistriţa, Bacău, Focşani, or Târgu Mureş. The Iaşi city hall shall even launch an emission with a record value – LEI 200 million having the term in 2028. It is one of the few municipal bonds who used the bridge credit (a pre-finance of the future bond emission that allows the payment of the interest for the amounts used on the investment period only). In its turn, the Ministry of Finance shall launch in April the first state titles on ten years. These instruments shall be a reference point for other actors of the financial market too, interested in issuing bonds with higher and higher maturity. The offer for such titles becomes more and more consistent when the request shall also greatly increase in the following years. The most interested shall be the insurance companies, but mainly the administrators of the private pension funds. About to function from 2008, they will need to put the contributors' money into low risk instruments and on longer terms possible. The municipal bonds and state titles fulfill all these conditions. That is why they could attract the interest of the foreign investors who would wish to build more diversified portfolios. A benefic effect over the future outputs of the municipal bonds shall also have the cash on the market and the presence of the non-residential interested in more various investment instruments.

Moreover, the municipal bonds have the advantage of a very long running period with output over the market average, both for legal and natural persons [6]. The outputs shall be influenced by the evolution of inflation that acts for decreasing, but also by a cash price for the mobilization of the amounts on longer terms, that act for the increasing of the output.

Conclusions:

The signals were positive and we may expect that in some years all important cities in the country develop local investments based on the funds obtained from the bond emissions.

The positive evolutions both of the emission values and of maturities mark a positive and correct direction of development of the municipal debt market in which the bonds are basically used for the long term financing of the municipality needs.

The interest shown to the municipal bonds prove that the issuers consider these instruments as an efficient way of financing their investment projects, while the investors find them an instrument which offers interests superior to those existent on the bank market and with a lower risk degree in comparison to the shares on the stock exchange.

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FISCAL EQUALIZATION SYSTEM IN ROMANIA

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After 1990s, the countries in transition have been in a process of finding their own path for public sector democratization and construction of a sound public finance management system. This paper aims to provide an overview of the system of fiscal equalization transfers in Romania starting from the first major step of decentralization taken after the fall of the communist period and the subsequent modifications for adapting to the new environmental conditions imposed especially by the European Union perspective. Therefore, in the first section of the paper I will provide a conceptual framework addressing fiscal equalization, in the second part I will approach the intergovernmental transfers and the design of the equalization transfer process while in the third section, I will present an overview of the system and its evolution in the post-communist period and the last section will provide the concluding remarks on fiscal equalization.

Cuvinte cheie : decentralisation, fiscal equalization, intergovernmental transfers

Conceptual framework

After 1990s, the countries in transition have been in a process of finding their own path for public sector democratization and construction of a sound public finance management system and fiscal decentralization is one of major importance in the current context of public policies.

Fiscal equalization is a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue raising capacity or public service cost. Its principal objective is to allow sub-central governments to provide their citizens with similar sets of public services at a similar tax burden. Fiscal equalization can be seen as the natural companion to fiscal decentralization as it aims at correcting potential imbalances resulting from sub-central autonomy. (OECD 2007)

Fiscal equalization is shaped by the wider institutional framework such as size, number and geographical distribution of sub-central governments, the responsibilities and fiscal resources allocated to each jurisdiction, or the mechanics of power sharing between the central and the sub-central level. Those arrangements often form the constitutional backbone of a country and will, if ever, be difficult to change.

The main rationale for fiscal equalization is the presence of unequal economic circumstances, which produce disparities in the capacity of different regions to generate wealth and thus fiscal resources. Policies to reduce these disparities are justified by equity concerns. Specifically, it is assumed that citizens of the same country should have approximately the same access to public services independent of the place where they live.

The central government generally keeps for itself most of the revenue-raising authority and at the same time, it is typical of decentralized systems that sub-national governments are responsible for more expenditures responsibilities than they can finance. The result is that the local governments rarely have, on average, the means to finance a standard basket of local public goods and services by themselves. Equivalently, central government typically has relatively more resources than those needed to provide the public goods and services for which they are responsible.

In this context, it is clear that local governments normally depend, at least to some extent, on centrally raised revenues to balance their budgets; and additionally, it is also clear that different local governments will end up with unequal abilities to cover their expenditure responsibilities. The concept of fiscal disparities provides a useful framework to define and analyze the budget imbalances generated in a decentralized system of government. Fiscal disparity can be defined, for every level of government, as the excess of expenditure needs over fiscal capacity. Moreover, expenditure needs consist in the funding necessary to cover all expenditure responsibilities assigned to the government at a standard level of service provision; and fiscal capacity can be broadly defined as the ability of a government to rise revenues from its own sources, exerting a standard level of fiscal effort, in order to finance a standardized basket of public goods and services. In general, whenever the fiscal disparity of a unit of government is positive, then it might be said that it has no enough per capita revenues to cover its per capita needs.

The differences in per capita fiscal disparities among units of governments are called fiscal imbalances, and represent the asymmetric conditions under which the government units are financing their respective expenditure responsibilities. There are two types of fiscal imbalances. First, vertical fiscal imbalances refer to the difference in fiscal disparities between the central government and all sub-national governments. Second, horizontal fiscal imbalances refer to the differences in fiscal disparities among governments at the same level. As it can be easily seen, the existence of fiscal imbalances so defined do not arise as a result of the behavior of government units, but rather depend on the mismatch between the assigned expenditure responsibilities and revenue-raising ability of the government units. Moreover, such a mismatch will likely exist even under optimal conditions, and thus a proper measure to reduce it becomes essential to virtually all decentralized system of government.

Of course, it will always be possible to reduce fiscal disparities at the sub-national level by increasing the revenue-raising power of local governments or by decreasing their expenditure responsibilities, but these options could potentially be either inefficient or contrary to the spirit of a decentralized organization of the public sector. In order to address the problem of fiscal imbalances, it is important to recognize that their solution does not require a correction of local government incentives by changing the relative price of public goods and services, nor the imposition of any condition beyond the simple presence of a positive fiscal disparity.

Intergovernmental transfers

Intergovernmental transfers represent the basis for sub-national government financing in most developing and countries in transition. In the process of design and implementation of equalization transfers one has to consider several issues and one has to make sure that the proper equalization is used for a country depending on its specific objectives. All the elements (sub-national expenditures, revenues, transfers) are part of a whole system that should not be disregarded. Even if our main concern refers to equalization grants, it is important to notice that all types of transfers are just a part of the fiscally decentralized system, together with expenditure assignment, revenue assignment and borrowing. Intergovernmental fiscal transfers finance about 60% of sub-national expenditures in developing and transition economies and about a third of such expenditures in OECD countries (Shah : 2006, page 3).

The central government has several types of transfers available, from which a proper combination can be chosen in order to design the transfer program that better suit the objectives of policymakers. For example, intergovernmental transfers can be *conditional* or *unconditional*, depending on whether the purpose of the grant is defined/controlled by the grantor or not. Unconditional or "general purpose" grants are openly defined, and thus the recipient government can use its own discretion to decide how to use the funds. In contrast, when grants are conditional the grantor specifies the destination for which the funds must be used, and so the recipient government has less discretion over the final use of the funds(Grigore:2006, p 147).

Intergovernmental transfers can also be categorized as *lump-sum* versus *matching* grants. Lump-sum transfers are fixed in amount, and can be either conditional or for general purposes. In contrast, the amount of funds received in the form of matching grants varies proportionally with the recipient's expenditures in certain project or function: for any given funds provided by the grantor, the recipient must contribute with certain sum of money to finance the same project or function. Therefore, due to their basic structure, matching grants are essentially conditional. Additionally, matching grants can be *closed-ended* or *open-ended*, depending whether they are limited to a maximum amount or not. Clearly, lump-sum transfers are closed-ended by definition (Velasquez: 2007, pg 14).

The design of a system of equalization grants is a complex and demanding task which requires having clear objectives, transparent procedures and good data. The design of equalization transfers needs to be framed with the rest of the components of the fiscal decentralization.

The design of fiscal transfers is critical to ensuring the efficiency and equity of the local service provision and the fiscal health of sub-national governments. Shah suggests the following guidelines in designing fiscal transfers (Shah: 2006, pg 15):

- *Autonomy*–sub-national governments should have independence, flexibility in setting priorities

- *Revenue adequacy* – sub-national governments should have adequate revenues to discharge designated responsibilities.
- *Responsiveness* - the grant program should be flexible enough to accommodate unforeseen changes in the fiscal situation of the recipients
- *Equity/fairness* - allocated funds should vary directly with fiscal need factors and inversely with the tax capacity of each jurisdiction
- *Predictability* - the grant mechanism should ensure predictability of sub-national governments' shares and the grant formula to have ceilings and floors for yearly fluctuations
- *Transparency* - both the formula and the allocations should be disseminated widely, in order to achieve as broad a consensus as possible on the objectives and operation of the program
- *Efficiency* -the grant design should be neutral with respect to sub-national governments' choices of resource allocation to different sectors or types of activity
- *Simplicity* -grant allocation should be based on objective factors over which individual units have little control. The formula should be easy to understand *Incentive* - the design should provide incentives for sound fiscal management and discourage inefficient practices. Sub-national government deficits should not be covered by transfers
- *Reach* - all grant-financed programs create winners and losers. Consideration must be given to identifying beneficiaries and those who will be adversely affected to determine the overall usefulness and sustainability of the program

Equalization transfers in Romania – an overview

In order to understand the developments in fiscal equalization one has to consider the different political and economic factors which represent the backdrop of ongoing changes in fiscal relations and affect the intensity of reform performance (Slukhai: 2003, pg 14). There have been many negative developments and steps backward and the reforms are far from being completed. The mechanism of equalization are rather unstable – sudden changes take place due to shifting balance of political power between the center and sub-national entities. All post socialist countries use equalization schemes and this is due to the inherited unequal territorial allocation of industries and weak fiscal basis for local government (Slukhai 2003, pg 17)

Briefly looking into the structure of the local governments (LGs) in Romania one can notice that the local administration is organized on two tiers: counties and localities. However, there is no hierarchical relation between localities, counties and central government, each of them being politically legitimate. When decentralization was adopted immediately after 1989, being regarded as a mandatory stage on the "road towards Europe," the historical experience of local self-government was neither rich, nor very useful in the new context. Creating a functional network of local governments turned out to be both a challenge, because of the difficulties since a new system could be built up from scratch in a coherent manner (Slukhai: 2003, pg 18). Therefore, many decisions regarding the process of decentralization were taken by default rather than consciously and the results were below the expectations. However, a change is still in progress. In terms of intergovernmental fiscal relations there are a few streams of legislation that I am going to briefly mention:

- *The Law on Local Public Administration (LLPA)* adopted in 1991 and amended several times until its replacement with the new LLPA in 2001. It defines mainly the structure and attributions of the local governments at the two levels.
- *The Law on Local Public Finance (LLPF)* adopted in 1998 which is the cornerstone of the system of transfers among tiers of government, the shared taxes, the equalization grants and the municipal borrowing issues. In the same time, local governments control over their own revenues increased and the local councils were allowed to administer their own taxes. Moreover, a formula of sharing the PIT among the three tiers of government was introduced which improved the predictability of the intergovernmental finance. A system of grants equalization was introduced reducing in this way the central government's discretion in assigning sums for LGs.

- *The Emergency Ordinance 45/2003* approved by Law 108/2004 on Public Finance provided the basis for the system of intergovernmental transfers, improving the LLPF of 1998, the law that has incorporated for the first time provisions on intergovernmental transfers.
- *The Law 273/2006 on Local Public Finance*, defined the "principles, broad framework and procedures for local public finance generation, administration, commitment and use, as well as the responsibilities of local government authorities and public institutions involved in local public financing" (Article 1). The new law came into effect in 2007 and with it, a substantially revised system of inter-governmental equalization transfers (Articles 32-33 of the new law).

Until the reform from 1997-98, Romania faced a slow process of decentralization. Nations in transition engage in decentralization activities in order to increase the efficiency of the public sector being in line with Oates' theorem of decentralization (Oates 1972), to diminish the costs of public administration, to reduce horizontal disparities. Potential motivations behind this low performance could be: governments faced external pressure for reform implementation from international organizations or EU agencies providing aid – and here comes the proof for the argument made earlier that decisions were made by default, being pushed by external factors; the central government sought to dispose of some spending and therefore transferred responsibilities to lower levels; one should also consider the possible constraints that made the process go slowly: lack of managerial capabilities, fraud opportunities.

The system of fiscal equalization in 1999-2003

However, the major starting point was represented by the law adopted in 1997-98. The Law 189/14.10.1998 brought major changes in the process of decentralization. It established the transfer of responsibilities from the central government to lower tiers and defined the tasks and responsibilities of the local governments: drafting and approving the local budgets in due time, setting, and cashing in and watching the flow of the local taxes, administer efficiently the public goods, efficiently manage the financial resources, setting priorities in public expenditures (Art. 5 of the Law 189). The main revenues come from the local taxes and quotas and sums allocated from the state budget or local budgets having a specific destination. The salary tax remains the main source of revenue – the paying firm has to pay 50% towards the state budget, 40% to the local budget-local territorial administrative institution to which it belongs, and 10% goes to the county's budget. Article 10 of the law refers to fiscal equalization transfers. Different sums are allocated from the state budget towards the lower tiers. Out of the amounts allocated, 25% go to the county's budget and the rest is allocated by the county council to the municipalities, towns and communes according to some criteria pre-established in consultation with the councils from lower levels.

The system of equalization in 2003-2007

The system of intergovernmental transfers in Romania comprises a system of equalization grants (within and across counties) and a system of conditional grants. The main sources of equalization comprise a lump sum amount determined annually at the central level subject to the discretion of the central authorities and a percentage share of the revenues collected from PIT (personal income tax). The pool of funds is determined according to a rule based on pre-established (in the law) revenue sharing rates in the central government personal income tax. For instance, in 2005, the share of PIT revenues retained at the county level for equalization purposes was 22 percent.

The equalization funds determined under the discretion of central authorities are distributed to counties according to a formula with two factors:

- c*ounty fiscal capacity*, which is measured by the inverse of per capita personal income tax collections in the jurisdiction, and given a relative weight of 0.7 in the distribution formula
- *county land area* of the local jurisdiction, has a relative weight of 0.3 in the formula

Of the total amount of funds received for equalization at the county level 25 percent is retained by the county council. The law required the county councils to distribute the other 75 percent of these funds applying a formula with the following components:

- *local fiscal capacity*, which is measured by the inverse of per capita personal income tax collections in the jurisdiction, given a relative weight of 0.3

- *land area* of the local jurisdiction, given a relative weight of 0.3
- *population* of the jurisdiction, given a relative weight of 0.25
- "*other factors*" as determined by the county council, given a weight of 0.15

The current system of equalization transfers

The last Law on Local Public Finance (L 273 / 06), came into force in January 2007, and involved substantial modifications not only to the institutional arrangements in place for the disbursements of equalization transfers, but also to the formula employed in order to distribute the funds across counties and communes.

Article 32 of the Law states that 22 percent of all revenues collected from the income tax will be deposited in "a distinct account opened on behalf of the county general directorates for public finance…for equalization of local budgets." The county general directorates for public finance, the de-concentrated arm of the Ministry of Finance, thus replaces the county councils in the task of implementing the equalization amounts corresponding to every level of government (Velasquez: 2007).

The law's definition in Article 32 of a 22 percent share of PIT revenues for equalization purposes effectively sanctions the increase in transfers conducted in 2005 (from 17 to 22 percent) to offset the expected lower tax revenues from the introduction of a flat rate income tax schedule. The previous distribution formula is maintained at the county level. The funds determined annually in the national budget, are distributed by county on the basis of financial capacity (70 percent) and county surface area (30 percent).

Concluding remarks

The systems of fiscal equalization starting from 1999 onwards are characterized by an increasing complexity, instead of simplifying it more elements and steps are added which undermines the transparency and objectivity of the process. A major concern remains the formula which seems to be far from its ideal shape now being even more complex, a four variable formula. An important issue encountered refers to the interaction between county and locality officials in the process of drafting and allocating the transfer funds. Counties have to wait for the annual state budget law to be passed in order to find out the funds allocated to them and the localities in turn will have to wait for the county councils to conclude the equalization process.

Despite all the shortcomings, the reforms had also some achievements that are worth mentioning. For instance, the formula has improved in the sense that it avoids negative incentives in terms of collecting revenues. Moreover, a cap was imposed in terms of the funds withheld by the county as own budget out of the funds received for equalization purposes. However, the process is far from being complete but the important thing is that a change has emerged. In order to improve the process, I would suggest some considerable changes in terms of formula, allocation of resources, management and control of the financial statements and reporting:

- The formula needs to be simplified – the fiscal capacity should be avoided to be double used
- The flow of funds should be easier in the sense that passing through so many tiers it takes time; probably, a good option would be a direct allocation from the center to the lower tiers
- The lump sums are still established by the central government; probably, a better option would be to increase the share of PIT and make less the lump sums
- In terms of data availability, a software should be acquired in order to gather data from all levels of local governments; this would make easier the process of forecasting and would increase predictability and improve the system on the overall

However, all the changes have to consider the whole environment, including the social, economic and political conditions.

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ON DETERMINING THE FINANCIAL STRUCTURE OF A TRADING COMPANY BASED ON ITS YEARLY FINANCIAL STATEMENTS

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Abstract: The present article addresses the following concepts: financial structure, financing structure, capital structure and the connection between all the three. Methodological aspects are addressed regarding advance expenditure, advance incomes, provisions included in the accounts balance as capital resources, long-term and short-term debts.

Based on a case study, a number of twenty-eight ratios are determined which will support the evaluation of the enterprise structure.

Key words: Structure, ratio, provisions, equities, permanent capitals, assets, liabilities

In Romania, yearly financial statements are regulated by O.M.F.P. 1752/2005 and its subsequent changes approved by Order no. 2374/2007.

The capital structure is defined as "the capital of a trading company which can contain ordinary shares and other types of preferred shares, bonds, capital as long-term loan. Capital structure shows the weight of each capital category in the overall used capital."[69]

Nicolae Hoanță, in the book *Finanțele firmei* (Company Finance), Economică Publishing House, 2003, defines the financial structure of a company as follows: "it refers to the size of short-term and long-term loans, to preferred shares and common stock used for company financing. Thus, capital structure is part of financial structure and thus represents the permanent funding sources of a company."

Other authors use the term of funding structure:[70] "the funding structure encompasses all elements (irrespective of their nature and deadline which determined the company to draw funding); funding structure is only defined based on medium- and long-term funding sources."

We believe these additional descriptors of the funding structure and of the financial structure to be adequate, as short-term debts are also included in the funding of a trading company. The following assets and liabilities balance published by a trading company is used for calculating structure ratios:

TOTAL ASSETS	
Permanent assets	7.774.952 lei
Circulating assets	27.336.582 lei
Expenditure in advance	961.545 lei
	36.073.079 lei
TOTAL LIABILITIES	
debts < 1 year	17.974.868 lei
debts> 1 year	569.256 lei
provisions	-
Incomes in advance	1.673.140 lei
Owners' equities	15.855.815 lei

[69] Gheorghe D. Bistriceanu, 2001, Lexicon de finanțe, bănci, asigurări, vol. III, Economică Publishing House, Bucharest, 2001,p.332.

[70] Mihaela Brânduşa Tudose, Gestiunea capitalului întreprinderii, Economică Publishing House, 2006, p.101

36.073.079 lei

Before proceeding to the calculus of the structure ratios, we consider the following:

- Expenditure in advance are considered to be elements of circulating assets;
- Provisions are "a category of intermediate resources between equities and debts; they can be considered when determining the equity size"[71];
- "incomes registered in advance are assimilated to the obligations that the trading society has toward third parties and they refer to future exercises, as they do not affect the incomes of the accounting period."[72] This point of view is considered also when determining net circulating assets, the balance position according to O.M.F.P. 1752/2005.

Based on the data in the accounts balance at 31.12.2007 and based on the profit and loss account, the structure ratios are calculated in the table below:

Financial structure ratios[73]

Name of the financial structure ratio and calculation	Current year	Normal limits
Financial stability ratios		
$R_1 = \frac{\text{permanent } capitals}{Total \text{ liabilities}}$	$\frac{16425071}{36073079} = 0{,}455$	-
$R_2 = \frac{Debts \text{ on a short term}}{\text{Total liabilities}}$	$\frac{19648008}{36073079} = 0{,}5445$	-
Financial autonomy ratios $R_3 = \frac{\text{Owners' } equities}{Total \text{ liabilities}} \times 100$	$\frac{15855815}{36073079} \times 100 = 44\%$	30%-35%
Financial autonomy ratios		-
$R_4 = \frac{Debts \text{ on a medium and long term}}{\text{Total liabilities}} \times 100$	$\frac{569256}{36073079} \times 100 = 1{,}58\%$	-
$R_5 = \frac{\text{Owners' } equities}{\text{Permanent capitals}} \times 100$	$\frac{15855815}{16425071} \times 100 = 96{,}53\%$	-
$R_6 = \frac{Debts \text{ on a medium and long term}}{\text{Permanent capitals}} \times 100$	$\frac{569256}{16425071} \times 100 = 3{,}47\%$	<50%
$R_7 \frac{Debts \text{ on a medium and long term}}{\text{owners' equities}}$	$\frac{569256}{15855815} = 0{,}0359$	>1 debt capacity is saturated
Debt structure ratios for a company		

[71] Mihaela – Brânduşa Tudose, Gestiunea capitalului întreprinderii, Economică Publishing House, 2006, p.217
[72] I. Bătrâncea, coord., Analiza financiară pe bază de bilanţ, Cluj University Press, Cluj-Napoca, 2001, p.53
[73] Maihaela-Brânduşa Tudose, 2006, Gestiunea capitalurilor întreprinderii, Economică Publishing House, Bucharest, pp.216-226

B_1. Permanent capitals composition ratios $R_8 = \frac{\text{Owners'}\textit{equities}}{\text{debts on a medium and long term}}$	$\frac{15855815}{569256} = 27{,}85$	Values close to 1
$R_9 = \frac{\text{Permanent}\textit{capitals}}{\text{debts on a medium and long term}}$	$\frac{16425071}{569256} = 28{,}85$	>2
$R_{10} = \frac{\text{Own } \textit{funds}}{\text{total financial debts}}$	$\frac{15855815}{569256} = 27{,}85$	The higher R_{10} and R_{11} are, the better the company is structured financially
B_2 Financial security ratios		
$R_{11} = \frac{\text{Permanent } \textit{capital}}{\text{Total liabilities}}$	$\frac{16425071}{36073079} = 0{,}455$	
$R_{12} = \frac{\text{Permanent } \textit{capitals}}{\text{debts on a medium and short term}}$	$\frac{16425071}{17974868+1673140} = 0{,}0836$	-
$R_{13} = \frac{\text{Permanent } \textit{capital}}{\text{immobilised } \textit{assets}}$	$\frac{16425071}{7774952} = 2{,}112$	>1
$R_{14} = \frac{\textit{debts} \text{ on a medium and long term}}{\text{owners'equities}} =$	$\frac{569256}{15855815} = 0{,}0359$	≤ 1
$R_{15} = \frac{\textit{debts} \text{ on a medium and long term}}{\text{permanent capital}}$	$\frac{569256}{16425071} = 0{,}0347$	$\leq 1/2$
B_4 Medium and long term financial balance ratios		
$R_{16} = \frac{\text{stable}\textit{resources}}{\text{invested capital}} = \frac{\text{Owners'}\textit{equities} + \text{DTL} + \text{DTM}}{\text{Ai}}$	$\frac{16425071}{7774952} = 2{,}1126$	$\xrightarrow{\textit{tends}} 1$
B_5 Medium and long term debt reimbursement capacity ratios		
$R_{17} = \frac{\textit{debts} \text{ on a medium and long term}}{\text{internal financing capacity}}$	$\frac{569256}{495805 + 686575} = 0{,}4814$	-
$R_{18} = \frac{\textit{annuities} \text{ for medium and long term debt reimbursement}}{\text{internal financing capacity}} \times 100$	$\frac{-}{1184380} \times 100 = -$	<50%
$R_{19} = \frac{\text{financial exp}\textit{enditure}}{\text{turnover}} \times 100$	$\frac{2514334}{61136536} \times 100 = 4{,}1$	-
Or $\frac{\text{financial exp}\textit{enditure}}{\text{gross profit}} \times 100$	$\frac{2514334}{495805} \times 100 = 507{,}12\%$	-

Or $\frac{\text{financial expenditure}}{\text{net profit}} \times 100$	$\frac{2514334}{101149} \times 100 = 2485{,}77$	-
C Ratios of short term assets and liabilities		
Current liquidity $R_{20} = \frac{\text{Circulating } assets}{\text{short term debts}}$	$\frac{27336582 + 96.545}{17974868 + 1673140} = \frac{28298127}{19648008} = 1{,}44$	>1
Quick liquidity $R_{21} = \frac{\text{Circulating } assets \text{ - stocks}}{\text{short term debts}}$	$\frac{28298127 - 7744059}{19648008} = 1{,}0461$	>0,5
$R_{22} = \frac{available\ assets}{\text{short term } debts}$	$\frac{552363}{19648008} = 0{,}02811$	0,35-0,65
D. Activity turnover ratios		
Ratio of economic capital profitability: $R_{23} = \frac{\text{gross } profit}{\text{economic capital}}$ [74]	$\frac{495805}{360736079} = 0{,}014$	>25%
Ratio of permanent capital profitability: $R_{24} = \frac{\text{gross } profit}{\text{permanent capital}}$	$\frac{495805}{16425071} = 0{,}0302$	-
Ratio of owners' equities profitability: (ratio of financial profitability)		
$R_{25} = \frac{\text{net } profit}{\text{owners' equities}}$	$\frac{101149}{15855815} = 0{,}0064$	-
Ratio of social capital profitability: $R_{26} = \frac{\text{net } profit}{social\ capital}$	$\frac{101149}{4945203} = 0{,}0205$	-
Ratio of share profitability: $R_{27} = \frac{\text{distributed } dividends}{\text{social capital}}$	$\frac{-}{4945203} = 0$	-
Ratio of gross operation immobilised assets $R_{28} = \frac{\text{depreciation fund}}{\text{gross operation immobilised assets}}$	$\frac{10681446}{18451235} = 0{,}5789$	-

The data presented above lead to the conclusion that the company under analysis does not fall within the normal limits for the ratios: R22, R23.

[74] Total assets were used.

The calculus of structure ratios produce information which can lead to decisions concerning the level of the company's structure and in the case in which the ratios do not fall within the normal limits, the deviations show if the companies can continue or if they have to adapt their structure to normal limits.

Jean-Piere Labille, in his book Analyse financière, Dunod Publishing, Paris, 2007, p.130 also calculates the ratio: $\frac{\text{Immobilise d } assets}{\text{Total balance}}$; thus, a "value of 50% would be ideal and it would bring harmony because ½ of the capital i mobilised in stable elements (machines, equipments, patents) and the other ½ in elements that are easily immobilised in case of need (stocks, debts, clients)".

In the example shown, this ratio has the value $\frac{7774952}{36073079} \times 100 = 21{,}55\% < 50\%$

According to the same author, the ideal balance will look like:

Immobilized assets 50%	Owners' equities 33% 1/3
Short-term assets 50%	Financial debts 33% 1/3
	Operation-based debts 33% 1/3

In the presented case study, the balance is as follows:

Immobilized assets 21.55%	Owners' equities 43.95%
	Financial **debts** 1.58%
Short-term assets 78.45%	Operation-based debts 54.47%

The structure in the presented balance is not the same with that of the ideal balance.

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FINANCIAL ANALYSIS OF POLLUTION PREVENTION ACTIVITY

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Abstract: The concept of pollution prevention, or "P2," is emblematic of a new, proactive environmental mindset that promises more sustainable industrial management. By targeting the causes, rather than the consequences, of polluting activity, P2 seeks to eliminate pollutants at their source and thereby avoid the need to treat or dispose of those pollutants later. The P2 concept has given rise to talk of win-win opportunities in which innovation and new ways of thinking will lead to waste reduction and, at the same time, make firms money by reducing costs or stimulating new products. Unfortunately, the vision of pollution prevention as a set of win-win opportunities is somewhat at odds with actual corporate experience. While anecdotal evidence from a number of studies suggests that such opportunities exist and that many firms have pursued them, proponents say the pace of P2 is too slow and that the private sector is somehow failing to see opportunities in front of it.

Key words: pollution prevention, reducing costs, profit, ecoprofit

Pollution prevention is a challenge for the private sector because it requires diverse forms of innovation. Pollution prevention can require the redesign of products, the reconfiguration of manufacturing processes, and the realignment of supplier and customer relationships. Because innovation is difficult, often costly, and inherently uncertain, firms must also find new ways of integrating environmental concerns into the corporate planning process.

Pollution prevention, cast as both a corporate and an environmental benefit, has ignited hope in less adversarial environmental regulation. It has also created optimism in the private sector's ability to come up with low-cost solutions to their environmental problems. Unfortunately, the vision of pollution prevention as a set of win-win opportunities is somewhat at odds with perceptions of actual corporate behavior. While anecdotal evidence suggests that win-win opportunities exist, and have been pursued by many firms, there is some frustration that the pace of change is inadequate.

The idea that pollution prevention can save firms money, but that they nevertheless neglect these opportunities, colors debate over regulatory reforms geared toward pollution prevention. For some, it calls into question the desirability of regulatory reforms often associated with pollution prevention, such as regulatory flexibility. If firms cannot be counted on to make environmental improvements that save them money, the argument goes, then only the blunt instrument of command and control regulation can be counted on to get the job done. Others undoubtedly consider failures to invest in profit-making pollution prevention a further example of corporate environmental intransigence.

Another line of thinking holds that "organizational barriers" account for firms' failure to be aware of and pursue win-win investments. Organizational barriers may arise, for example, due to information barriers, accounting-based distortions, or inappropriate. For their part, corporate environmental managers tend to be more skeptical of pollution prevention's profitability. They point to regulatory barriers that reduce the financial incentive to change production processes or introduce new products with uncertain regulatory mandates. Much of this debate hinges on whether pollution prevention can actually be counted on to save firms money.

Consider the implications of evidence that companies fail to pursue pollution prevention opportunities that would profit them. First, this evidence would lend credence to the argument that regulations should mandate pollution prevention. Second, it would point toward the need to reform private sector capital budgeting, accounting, and environmental management techniques to overcome organizational barriers to P2. If, on the other hand, pollution prevention's economic benefits are overstated, a different set of issues arises for regulators and firms. If firms do not pursue pollution prevention because it is simply not profitable to do so, attention should be focused on factors that contribute to the difficulty, cost, and benefit of implementing P2 innovations. Perhaps environmental costs are not being adequately imposed on the firms creating them. Perhaps technical assistance and government R&D could be used to lower technical barriers. Or perhaps regulatory reforms should be used to lower regulatory barriers to P2 product and process changes. These issues are of central importance to the future of environmental regulation. Unfortunately, very little is known about why - in the real world - firms pursue or do not pursue pollution prevention opportunities.

First, the investment or product marketing effort had to involve a pollution prevention opportunity. Pollution prevention was defined as a new product or process that allowed for pollutant source reductions or that involved in-process recycling. Environmental benefits had to come from these types of innovations, not from new disposal or treatment methods.

Second, the investment or marketing opportunity had to be promising enough to be evaluated by the firms themselves. More specifically, the opportunity had to involve not only technical, but also financial, analysis. The financial analysis is critical. Even if a pollution prevention technology passes muster in engineering labs or environmental health and safety meetings, it will not succeed in a practical sense unless it survives a firm's strategic analysis and capital budgeting process. Strategic and financial analysis is the key corporate decision making nexus. It is the decision-making activity during which the widest variety of internal corporate expertise is brought to bear to evaluate costs, rewards, and risks. What types of information are collected? How is the information used? Since investment analysis is the principal information-processing function of a corporation, firms' investment analysis are the best place to look for answers.

Third, the investments or product had to be in some way "unsuccessful." That is, the firms chose to not invest in the product or process changes, or investment was significantly delayed, pending the resolution of market, technical, or regulatory uncertainties.

Finally, the analysis required the participating firms to provide detailed, often proprietary, data on the investments considered. Only with this level of detail was a full portrayal of the decisions possible.

One of the primary challenges to pollution prevention is the need to define and quantify the benefits of such investments. An emerging literature emphasizes the desirability of methods such as environmental cost accounting as a means to improve corporate decision making. With the identification and quantification of environment-related financial benefits, firms can be expected to make better private, and environmental, decisions. For instance, environmental accounting can highlight the way in which changes in a production process reduce future environmental compliance costs. This reveals a benefit to investment from a process change, a benefit that may not otherwise have been captured in a capital budgeting decision. The quality of environmental accounting is of clear importance, and not least to firms themselves. Are financial benefits being captured adequately?

As we evaluate firms' accounting of environment-related financial benefits and costs, it is important to distinguish between two types of questions. First, to what extent are financial benefits and costs *quantified*? Second, are environment-related financial benefits and costs, even if not quantified, being given sufficient *weight* relative to non-environmental benefits and costs? Note that the first question deals with the detail and numerical sophistication of quantitative estimation techniques - the way in which the firm determines the bottom-line impact of activities that affect the environment. The second question deals with the impact of accounting techniques on the firm's decisions. Failure to accurately quantify benefits and costs could bias investment decisions against pollution prevention.

The analysis of financial evaluation procedures has highlighted significant information barriers faced by firms. This underscores the continued importance of improved environmental cost accounting methods to better estimate environment-related financial benefits. Improved data collection, estimation, and evaluation techniques can only improve corporate decision-making. The important, and open, question for future research is: what forms of environment-related information are likely to be most valuable to the private sector?

The firms can be expected to do a relatively good job of evaluating the environmental and financial characteristics of P2 opportunities, once those opportunities are identified. Perhaps the greatest challenge for firms, however, is the initial identification of those opportunities. The technical identification of P2 opportunities may be well served by greater efforts at basic R&D and firm-specific "materials accounting." Mandated accounting requirements are of questionable value, given the idiosyncratic needs of specific firms and facilities. And confidential business information issues undermine the practicality of mandatory and publicly-disclosed P2 planning.

However, government promotion of state of the art accounting practices, including materials accounting, is likely to concretely benefit firms that are increasingly concerned with environment-related costs and opportunities.

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A CLUSTER ANALYSIS OF FINANCIAL PERFORMANCE IN CENTRAL AND EASTERN EUROPE

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The paper studies the pattern of financial performance for listed companies originating from different industries - financial intermediation, beverage and food industry, energy, pharmaceuticals and chemicals - in four Central and Eastern European countries - Czech Republic, Hungary, Poland and Romania over a four year period (2003-2006). The financial performance is addressed by taking into account companies' return on assets (ROA) and return on equity (ROE). The research methodology consists of hierarchical and k-means clustering amalgamation techniques, in order to distinguish between naturally occurring similar groups that are statistically significant in terms of industry and/or national influences. Our analysis encompasses a dynamic approach, as it refers to changes in clusters' structure in time and searches for possible explanations of corporate financial performance in this region.

Key words: financial performance, cluster, profitability, Central and Eastern Europe

1. Introduction

The research undertaken in the case of financial markets from Central and Eastern Europe is relatively recent, and it is trying, in general, to adapt the analysis already made in the case of developed markets to the region's particularities. The relative degree of novelty and the reduced number of research in this field can be explained by the recent opening of these markets towards the market economy and, consequently, by the lack of information and data necessary for the carrying of consistent and robust analysis. The use of multivariate statistical techniques such as cluster analysis, principal components analysis, discriminant analysis and factor analysis, is present in the international literature that addresses companies' financial performance. Pandit, Cook, Swann (2001) examine the cluster building mode in the financial services industry in Great Britain and study the effect of the cluster power in explaining companies' growth and their survivorship rates on the market. Fifield et al. (2002) investigate the measure in which the global and local factors can explain the returns on the emerging markets, the factors being identified through the principal component analysis. Bensmail and DeGennaro (2004) apply cluster modelling to financial data, their purpose being that of analyzing the missing data and identifying homogenous groups in the interior of the available data. Having a flexible approach and working with complex data structures in the case of missing quantitative and qualitative observations, the authors include the data in a new structure that does not depend on the hypothesis connected to the traditionally necessary distributions for choosing homogenous groups of observation. Dhankar and Singh (2005) use principal components analysis to estimate the factors that influence the returns on the Indian capital market, while Sueyoshi (2005) compares the financial performances of a number of 147 companies without financial difficulties with those of 24 companies in the American energy industry, using non-parametric discriminant analysis, which assigns a set of weights to a linear discriminating function that consequently generates a score regarding its belonging to a group. Ganesalingam and Kumar (2001) use a set of financial indicators for 71 companies from the Australian capital market to determine the chances of success of an investment made in these companies. The authors identify a discrimination rule between the companies and a series of factors that explain the profitability of the companies, which is afterwards used to predict the companies's stability and to build diversified portfolios.

The purpose of our research is to identify sector groups that are natural, and at the same time significant, of companies from Romania, Bulgaria, Hungary, Poland and the Czech Republic, depending on their financial performance, by considering two integrative measures of performance: return on assets (ROA) and return on equity (ROE). Section II presents the data used in the analysis and the research methodology, Section III outlines the main results and Section IV concludes.

2. Data and research methodology

Our paper uses data collected on a number of 115 companies from Romania, Czech Republic, Hungary and Poland and from five industries: financial intermediation, food and beverages, chemicals, energy (oil and gas production and distribution), and pharmaceuticals. The industry sample was constructed in such a way as to allow the observation of financial performance from one industry to another. The data on companies' ROA and ROE was gathered from REUTERS and covers the 2003-2006 financial years. The selection of companies in our sample was based on the following criteria: (1) the company had to be listed on the country's stock exchange at the end of 2006; (2) the company had to be listed on the stock exchange at least during the financial years 2003, 2004, 2005 and 2006: (3) the financial data on the company had to be available during the 2003-2006 period.

Two clustering algorithms were used in our research: a joining tree algorithm and a partitioning algorithm, specifically the k-means. From our research point of view, we used the hierarchical algorithm to identify the number of clusters to be included in the k-means algorithm, by the use of the City-block (Manhattan) distance and following the Ward's amalgamation rule. From the plot of linkage distances across steps we selected the distance that we subsequently used in the vertical icicle plots to determine how many clusters to retain and interpret. In the k-means algorithm we introduced the number of clusters previously identified and have studied the analysis of variance (ANOVA) in order to evaluate the appropriateness of the classification. We afterwards identified the members of each cluster and studied their characteristics. Before the application of the clustering amalgamation techniques, all data has been standardized.

3. Results

Before the application of clustering amalgamation techniques to financial performance data, we consider necessary a brief depiction of financial performance in terms of ROA and ROE, at an industry and country level, both static and dynamic. The maximum and minimum ROA are quite fluctuating from a year to another, regardless of the industry, which suggests that companies are struggling to stabilise their financial position and do not operate in mature markets yet. In all years, the lowest ROA are negative, while the maximum ROA are more or less similar across industries, with the only exception of the financial intermediation industry in 2004 that displays a maximum ROA of 81.03, which belongs to a Polish company. Also, for the financial intermediation industry, 2006 seemed to be the best of the years, since the lowest ROE is slightly positive – 0.07. In dynamics, all industries included at least one company with increasing ROA from 2003 to 2006, the highest number (7) being recorded in the financial intermediation industry and the energy industry. Two companies with increasing ROA were found in the food and beverage industry, and one company each in chemicals and pharmaceuticals. For what concerns the companies with decreasing ROA, the highest number (3) is recorded in the financial intermediation industry, followed by two companies in the chemicals, energy and pharmaceuticals industries. The only industry with no declining ROA was the food and beverages industry. Nevertheless, the majority of companies have seen their ROA oscillating from one year to another, no easily discernible pattern of evolution being identified.

In terms of ROE we can notice a higher diversity for the maximum and minimum values, as well as high differences in the values between industries, particularly for some years. A couple of returns on equity are quite surprising: an astonishing 1004.23 recorded in 2003 in the energy industry, followed by 745.01 found in the same year for the chemicals industry, and at some distance by a ROE of 167.41 also in the chemicals industry, but in 2004, and by a ROE of 121.21 in the financial intermediation industry in 2003. As known, the difference between ROA and ROE is given by the financial leverage multiplier (the well-known Du Pont system decomposes decomposes ROE in three parts, as follows: ROE = profit margin × Total assets turnover × Financial leverage multiplier = ROA × Financial leverage multiplier), therefore we may interpret these considerable differences between ROA and ROE as a high degree of indebtedness of the companies included in the analysis, particularly in 2003 and 2004. From 2003 to 2006, a number of 16 companies see their ROE increasing: 7 from the financial intermediation industry, 3 from the food and beverages, 5 from the energy sector and only one from the pharmaceuticals. Decreasing ROE from 2003 to 2006 are identified for two companies in the financial intermediation industry, one for the food and beverages, 3 from the chemicals, one from the energy sector and 2 from the pharmaceuticals. All other companies show oscillating ROE during 2003-2006.

The cluster methodology was used to analyse companies' financial performance on two grounds: the first one took into account the main profitability ratios – ROA and ROE – for each of the four years, and the second one tried to identify groups of companies depending on the evolution of each of these two indicators in time. In terms of ROA and ROE considered for each year, we used a number of 8 clusters in the k-means clustering algorithm, as indicated by the observation of clusters previously formed by the use of the joining tree algorithm. For all years, the analysis of variance (ANOVA) indicated that the within-cluster variability was statistically significantly lower than the between-cluster variability, as shown by the F-statistic. As a general observation, the clusters' structure in terms of countries and industries of origin changes from a year to another, as one would normally expect given the fluctuating performance in during the period. Figure 1 shows the plot of clusters means for 2006, the similar plots being available for all years.

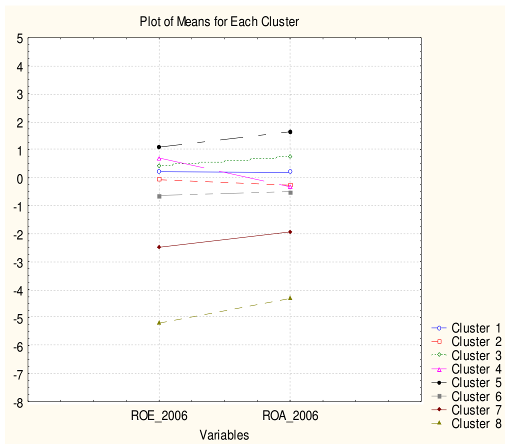

Figure 1. Plot of means for ROA-ROE clusters, 2006

For 2003 we identified three big clusters – one formed of 41 companies, another one of 35, and another one of 20 -, each of them including companies from all countries and industries. One company is excluded from all clusters – a chemical Czech company, due to its very low ROA and ROE. The highest average ROE is displayed by cluster 8 that includes two Romanian companies, one from the chemicals industry and then other one from the energy sector. At the same time, cluster 8 shows the second worst performance in terms of ROA, while also being the least homogeneous from the perspective of both indicators. For what concerns ROA, then highest average ROA belongs to cluster 7, that includes companies from all industries and from all countries except for the Czech Rep. The highest homogeneity in ROA terms is demonstrated by cluster 3, which includes the highest number of companies of all, but it is also an "average" cluster in terms of both ROA and ROE. From the point of view of companies' distribution among clusters depending on their country and industry of origin, the big clusters collect the largest part of companies, maybe the most interesting being cluster 4 that includes more than half of the companies in the financial intermediation industry, and clusters 3 and 4, that gather 40% each of the Czech companies. Both are "average" type of clusters. 2004 is a different year in terms of clustering results. A big cluster is formed, including 73 companies (cluster 3), the vast majority of firms from all countries and industries entering this cluster. As expected, this is a cluster with an average performance in both ROA and ROE. At the other extreme, three companies belong to their own cluster: a Polish company from the energy sector, displaying the highest ROA and ROE (cluster 5), a Czech company from the pharmaceutical industry with the lowest ROA and the second lowest ROA (cluster 6), and another Polish company, but from the financial intermediation industry, enjoying an average ROE accompanied by the highest ROA (cluster 8). Also interesting are clusters 1 and 4. Cluster 1 includes 10 companies, of which 9 are from the financial intermediation industry and is characterised by the highest homogeneity in terms of ROA and a ROE above average. Cluster 4 consists of 14 companies, from all industries and countries – this cluster shows the highest homogeneity in terms of ROE, but the lowest in terms of ROA, the mean for this indicator being above average.

The clusters formed by taking into account the performance for 2005 and 2006 are different from the ones in 2003 and 2004. The first important observation is that no company forms its own cluster, which generally indicates a higher homogeneity of performances among companies. The second observation is that the eight clusters formed for each of the two years manage to spread the companies between them, as we do not find anymore a cluster that collects more than 50% of the total number of companies, either on a geographical or industry basis. In 2005, only two clusters have an average performance – cluster 5 and cluster 1, with 28 and 36 companies from all countries and industries -, while the others are easily identified either by their high or low performance. The worst performers are grouped in cluster 3: the two companies are both from Poland and come from the food and beverages and energy industries, respectively. The best performers from both ROA and ROE perspective – two Romanian companies and two Polish companies, from the financial intermediation, food and beverages and energy industries - are grouped in cluster 8. Cluster 2, with 8 companies mostly from Romania and Hungary, is the second lowest in both ROA and ROE, while cluster 6, including mostly companies from Romania, Hungary and Poland, and from all industries except for financial intermediation, shows the second performance in ROA terms. The best performing cluster in 2006 – cluster 5, includes 12 companies, of which none is originating from the Czech Republic and also none from the pharmaceutical industry. The lowest performing companies are included in cluster 8 – a Hungarian and a Czech company, one from the food and beverages industry and one from the energy sector, while the second lowest performance is displayed by cluster 7, with 4 companies from Romania, Hungary and Poland, and from the chemicals, energy and pharmaceutical industries. Cluster 6 is also interesting, as it is the cluster with the highest homogeneity in ROA, with 20 companies, mostly from Romania (8) and Poland (9), spread equally among four industries (financial services, food and beverages, chemicals and energy). Also, cluster 3 shows the highest homogeneity on a ROE basis, and it includes companies from all countries and industries, except for the food and beverages industry.

Another manner of observing the overall financial performances of these companies that we used involved the application of hierarchical and partitioning clustering methods to the same financial indicator, but using as variables in the clustering algorithm its values in all years, 2003 to 2006. Under this approach, the joining tree clustering indicated also the configuration of eight clusters, and the ANOVA methodology showed us that this number of clusters in statistically significant both for ROA and ROE. Figures 2 and 3 show the plot of means for these clusters.

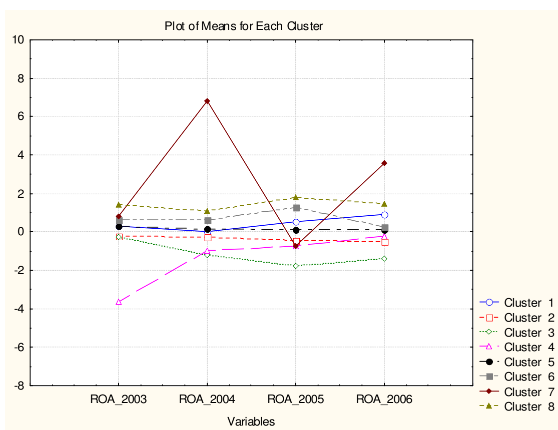

Figure 2. Plot of means for ROA clusters, 2003-2006

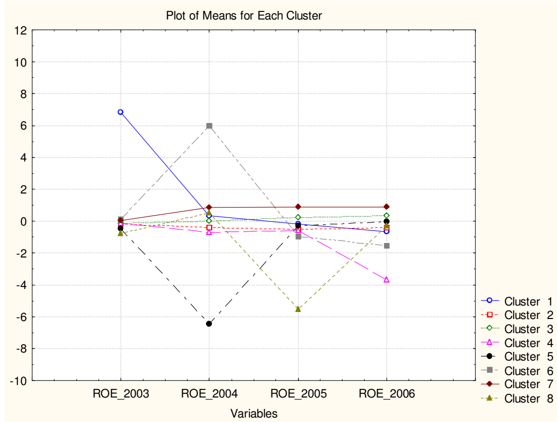

Figure 3. Plot of means for ROE clusters, 2003-2006

A number of characteristics of ROA clusters are interesting to notice. There are two companies that form a cluster on an individual basis – cluster 5 includes a Czech company from the pharmaceutical industry and cluster 6 includes a Polish company from the energy sector. While cluster 5 is an average cluster, cluster 6 has an oscillating performance from one year to another, albeit in all years its performance is above the average. The cluster showing the highest fluctuation is number 7 that groups 16 companies from all industries and countries. Another interesting cluster is number 3, but its fluctuation during 2003-2006 is lower as compared to cluster 8. The only cluster showing an increasing performance between 2003 and 2006 is number 4, which includes companies from two industries only – chemicals and pharmaceuticals -, but from three of the countries: Hungary, Czech Republic and Poland.

Taking into account ROE, the number of companies in the eight identified clusters varies from 1 (cluster 7) to 46 (cluster 2). The company in cluster 7 – a Polish company from the financial services industry – shows the highest oscillating performance of all companies included in our sample: ROE was 121.21 in 2003, then it declined to 58.66 in 2004, then it reached a negative value of -1.44 in 2005, to return to a positive ROE of 33.34 in 2006. Another interesting cluster is number 4, with 5 companies split between countries and industries, showing improved performance from 2003 to 2006, since their average ROE moves from the lowest in 2003 progressively towards the average of all clusters, although somehow below the average, in 2006. The best performing cluster is number 8, demonstrating an above average performance in all years. Cluster 3, with 9 companies, includes companies with declining ROE in 2003, 2004 and 2005, but somehow improving in 2006, although it remains below the average in all years.

4. Conclusions

Our research analyzed the financial performances of companies from four Central and Eastern European countries and from five industries: financial services, food and beverages, chemicals, energy and pharmaceuticals. The main objective of the research was to identify natural groups of companies depending on corporate performance. When observing the changes in financial performances over four years (2003 to 2006), and forming clusters of companies taking into account these financial performance, no clear-cut evidence on their grouping according to industries and/or countries can be identified. Moreover, since their performance is sometimes widely oscillating during the four years, we might reasonably say that corporate performance in the area is more or less similar, with just a couple of companies showing deviating performance in a particular year, but in most cases followed by a correction towards the average in the subsequent years.

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TENDENCIES OF DIRECT TAXING OF EUROPEAN UNION CORPORATION

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Summary: The hypothesis of fiscal competition that generates an alignment "lower" than the imposed level only partially verified empirically, that is for nominal rates, and almost none for effective rates. Also, the impact upon the budgetary incomes can't be made visible. That being said, there are opinions considering that the stout of budgetary money from the companies tax income can't continue on undetermined term. That is because the "space" left for continuous reduction of the imposing rates is still vast while the continuing extending reserves of the legal imposing base have almost exhausted and the companies' rewards can't improve for ever.

Key words: taxing, taxing rates, imposing bases, budgetary incomes, corporation, European Union.

The evolution of the taxing rates among the corporations' incomes offers a good possibility to verify the manifestation of some of the up mentioned effects of the fiscal competition. In this field operate several notions:

a)nominal rate(legal)

This does not offer in formations upon the effective fiscal problem suffered by the company because it doesn't take into consideration different ways through which the imposing base can be determined. Still, the nominal rates seem to have an important psychological function because they are being seen as signals of the general fiscal climate of a country, by the international investors[75].

b)the effective rate

The economical effects of the taxes not only depend of the nominal rates, but also of all the elements that determine the fiscal burden supported by the company-the nominal imposing rate and also the precautions referring to the determination of the imposing base(the foresight of expenses, fiscal credits, fiscal treatment of the reinvested profit, etc).It is very possible that high nominal rate would transform into an effective modest rate if the value of the incomes, consume and wealth is bigger than that of the taxing.

The most important effects of taxes upon investing decisions are determined by the marginal effective rate, which represents the imposing rate of a marginal investment, which obtains an equal efficiency to the economy interests rate, taking into consideration the fiscal liquidation, the inflation rate and the imposing systems.

In exchange, the tax effects upon the public incomes and their function are determined by the medium effective rate, defined as a rapport between the total tax considered on an activity and the total level of the income (economically real) produced by the activity or, in the indirect taxes, of the consume.

Both up mentioned effective rates affect investing decisions, but differently. While the medium effective rates orientate the decision upon the placement chosen for an investment, the level of that investment is more powerful influenced by the marginal effective rate.[76]

Because the fiscal regulations can vary in the activity sector, their effects differ in the active types used and the finance sources of the investments, and the existence of non-linear taxing systems imply the vary of imposing rates according to the theoretically obtained profit rates and there can be an infinity of effective imposing rates.[77]

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c) the implicit rate(apparent)

This indicator is calculated at macro economical level(through the tax rapport taken by the PIB) or micro economic(through the tax rapport taken from the gross income).

He has a big relevance problem for the characterisation of the importance of the fiscal factor. On one side, if it is determined at macro economic level, it is strongly influenced by the level and the dynamics of the PIB and also the companies' sector structure(the importance of companies in it) which affects its capacity to facilitate both international and inter-temporal comparisons.

At a micro economical level, on the other hand, its dimension depends on that of the gross income, which is difficult to compare between fiscal jurisdictions, because of the differences in the accountant standards (especially at the reserves, the extra-balance elements).[78]

On the other side, this is also the only indicator that can globalise the effect of a parameter of the fiscal system, other than the rate and imposing base, that the up-mentioned indicators can't have: the administration tax method. Indeed, aspects such as the honesty of the taxpayers, the intensity of the fiscal controls or the effective payment of the taxes can differ a lot in time or through different jurisdictions.

According to the complexity of the tax operation, the effective rate is more or less tightly associated to the nominal rate. As a general rule, the difference between the two rates is bigger in the cases of the direct investments that in those of portfolio.

This fact explains why some countries come up with low nominal rates(to introduce the profit rapports into their own jurisdiction) and high effective rates(to have a larger imposing base).Still, the differences recorded between European Union state members from the point of view of the effective rates explain principally through existing differences at the level of the nominal rates and only through differences at the level of the elements that determine the taxing base.

In the last 25 years there have been some major reductions of the nominal tax rates for the companies' income in EU, and the tendency seems to have accelerated in the last years. That is how, in 2007 less that 5 member states operated reductions of the imposing rates: Greece, Holland, Spain, Bulgaria and Slovakia[79]. Between 1982-2001 the nominal medium rate went low from 48% to only 33%. Generally the reductions operated by the small countries were more important than those applied in the big countries of the Union. The nominal taxes for corporations' income started to go low strongly in the last years also in the new members of the EU. The medium level of the imposing rate in the new 12 member states was of 21.5% in 2003 and it has reduced to 17.8% in 2006. In the old member states, the reduction was from 30.1% in 2003 to 27.7% in 2006, this representing less that two thirds of the 45% level recorded at the beginning of the 80s'.

Although there is the temptation to attribute this reduction to imposing rates, commune to other extra-European advanced countries, fiscal competition, mustn't neglect the fact that other determinants might have played a same important role. We are talking about, firstly, of the ideological preferences evolution, factor of whose importance can be evidenced by the almost systematically major reductions coincidence of the imposing rates of the capital with presence of the governing persons that come from the right position of the political sceptre. In the same way there can also be explained some very important reductions of the imposing rates of the corporation income that is registered in east-European countries who had the same economical transaction process characterised by the major restrain of the state's interference and the public economical sector.[80]

Secondly, we must take into consideration the fact that a state's reaction to reductions of taxes that were operated into another state can introduce not a competition, but a different behaviour determined by the preferences of the citizens, who compare imposing rates from their own jurisdiction with those existing in other countries[81]. Finally, evolutions correlated into the concern of the rates and the imposing rules applied into different countries can reflect the existence of common intellectual tendencies, usually released by

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[80] Amina Lahrèche-Révil: *Who's afraid of tax competition? Harmless tax competition from the New European Member States*, CEPII, Working Paper no.2006-11, June 2006; p.11

[81] Gaëtan Nicodème: *Corporate tax competition and coordination in the European Union? What do we know? Where do we stand?*, European Commission, DG ECFIN Economic Paper no.250, June 2006; p16

the discovery of certain solutions to difficult fiscal problems (introduction of VAT or the proliferation of certain types of fiscal incentives initially used only by a certain country can be such examples.)[82]

In the last two decades of the past century there has been a o reduction of the disperse of the nominal rates applied by the member countries of UE-15 : standard deviation decreased from 3,4 to 2,0 in the range 1990-97. It rose again, but, in the years 2000. In the conditions where the New Member States of the EU tend to have levels of profit imposed rates noticeably smaller then the old members, the disperse in the UE-27 is even bigger. More , the recorded tendency over the last decade is the deepen of the discrepancy of the imposed rates practiced by the old member states and the new members , even when the rates are decreasing in both country groups. It has to be mentioned that if you take into consideration and local taxes imposed to companies (important in countries like Germany, Italy, Luxembourg and Portugal), the disperse of nominal rates rises even more.

	1980	1990	1995	1998	2001	2004	2007
Austria	55	39	34	34	34	34	25
Belgium	48	41	39	39	39	34	34
Denmark	40	40	34	34	30	30	28
Finland	59	41	25	28	29	29	29
France	50	37	36,7	41,6	36,4	35,4	34,4
Germany	56	50/36	45/30	45/25	25	25,0	25,0
Greece	43	46	40	40	37,5	35	25
Ireland	45	43	40	32	20	12,5	12,5
Italy	36	36	36	37	36	34	34
Luxembourg	40	33	33	33	30	30,4	29,6
Great Britain	52	34	33	31	30	30	30
Holland	48	35	35	35	35	34,5	25,5
Portugal	42/47	36,5	39,6	337,4	35,2	27,5	26,5
Spain	35	35	35	35	35	35	32,5
Sweden	52	40	28	28	28	28	28
EU-15 Average not weight	...	40,4	38,0	34,9	32	31,6	26,9
Bulgaria			40	37	28	23,5	10
Cyprus		42,5	25	25	28	15	10
Czech Republic			41	35	31	28	24
Estonia			26*	26*	26*	26*	22*
Leetonia			25	25	25	15	15
Lithuania		35	29	29	24	15	18
Malta		32,5	35	35	35	35	35
Poland		40	40	36	28	19	19
Romania		38	38	38	25	25	16
Slovakia			40	40	29	19	19
Slovenia			25	25	25	25	23
Hungary		50	19,6	19,6	19,6	17,6	18,6

[82] Rachel Griffith, Alexander Klemm: *What has been the Tax Competition Experience of the Last 20 Years?*, The Institute for Fiscal Studies, WP 04/05, February 2004; p.26

New Member States Average			30,6		24,8	21,5	16,8

Legal imposed rates of corporate' income (excluding local taxes -% -

* un invested profits are not imposed

Sources: - Michele Debonneuil, Michel Fontagne: Fiscalite et Marche Unique, Rapport du Conseil d'Analyse Economique no.40, Paris, 2003;

- Margit Schratzenstaller: *Company Tax Co-ordination in an Enlarged EU*, Austrian Institute of Economic Research, May 2005; p.13
- Wolfgang Eggert, Andreas Haufler: *Company tax coordination cum tax rate competition in the European Union,* University of Munich, Discussion Paper 2006-11, March 2006; p.4
- Gaëtan Nicodème: *Corporate tax competition and coordination in the European Union? What do we know? Where do we stand?*, European Commission, DG ECFIN Economic Paper no.250, June 2006; p.15
- Katrin Rabitsch: *Eastern European Integration and Tax Competition*, Wirtschafts Universität Wien, Discussion Paper nr.26, September 2007; p.18

Reversibly, *medium effective rate* in different member countries of the EU has been less mobile :it recorded a certain decrease during the 80's , but has been stabilised since the second half of the 90's . The disperse of the recorded effective rates has been very important at the beginning of the range, sensitive narrowing later. In 2001, it was just less marked then the recorded one due to legal (nominal) imposed rates, suggesting a high degree of correlation between the two types of rates, which the Pearson coefficient of 0,92 confirms it empirically.[83] Otherwise, according to the European Commission, approximately three quarters of the recorder differences between Member States under the aspect of effective medium imposed rates due to the existing differences between the nominal rates.

The joining of new member states doesn't change the situation as significantly as it happens in the nominal rates case, because these countries don't have such low medium effective rates. It is true that the estimations made for the new members don't take into consideration the different schemes of fiscal stimulants applied selectively to those countries.

We are talking about measures such as: the un paying of tax for 10 years for companies new born in Czech Republic and Slovakia, the fiscal credit is of 35-50% of the investments value, given in Hungary in the first 5 years, the reductions of tax on the companies income that are established in "special economical areas" from Leetonia and Lithuania; the accelerated amortization given in Poland for certain new acquired categories of actives.[84]

If it would have been taken into consideration also the effects of these stimulants, the medium marginal imposing rate would decrease, in some cases (Lithuania, Leetonia, Poland, Slovakia) at almost half! But how most of these schemes are incompatible with the community *acquis* concerning the helps the state is giving, they have been destroyed once with the entrance of those countries in the European Union.[85]

	1982	**2001**	**2004**	**2005**
Austria	50,0	27,9	31,4	23,1
Belgium	39,0	34,5	29,7	29,7
Denmark		27,3	27,0	25,2
Finland	53,0	26,6	27,3	24,6
France	41,0	34,7	33,1	34,8
Germany	56,0	34,9	36,1	

[83] Sijbren Cnossen: *Tax policy in the European Union. A review of issues and options*, 2002; p.60
[84] xxx: *Company Taxation in the New EU Member States. Survay of the Tax Regimes and Effective Tax Burdens for Multinational Investors*, Ernst&Young and ZEW, 2005; p.32
[85] Michael P. Devereux: *Taxes in the EU New Member States and the Location of Capital and Profit*, Oxford University Centre for Business Taxation, WP 07/03, January 2006; p.9

Greece	39,0	28,0	27,0	36,0
Ireland	6,0	10,5	14,4	14,7
Italia	30,0	27,6	32,8	32,0
Luxemburg		32,2	26,7	26,7
Great Britain	36,0	28,3	28,9	28,9
Holland	43,0	31,0	31,2	28,5
Portugal	52,0	30,7	28,0	
Spain	29,0	31,0	32,0	36,1
Sweden	54,0	22,9	23,4	24,8
EU average	***40,6***	***28,5***	***28,5***	
Cyprus			16,7	
Czech Republic			24,6	22,9
Estonia			31,9	
Leetonia			23,4	
Lithuania			15,4	
Malta			34,7	
Poland			29,8	
Slovakia			27,4	16,7
Slovenia			33,4	
Hungary			24,9	17,9
New Member States Average			***26,2***	

The medium effective imposing rate (%)

Source: **-** *Margit Schratzenschaller: Company Tax Co-ordination in an Enlarged EU, Austrian Institute of Economic Research (WIFO), May 2005; p.17-18;*

– Wolfgang Eggert, Andreas Haufler: *Company tax coordination cum tax rate competition in the European Union,* University of Munich, Discussion Paper 2006-11, March 2006; p.4;

According to some studies, the effective marginal rates of taxing have been much more stable through time than the medium ones, which explains through the extending process o imposing bases parallel to the reduction of imposing rates. If this tendency hasn't repeated in the case of the medium effective rates, who, as it is seen in the charter above , have reduced considerably, the explanation must be seek in the increase of investments profitability. Since the more deep capital tends to be also the mobile one, the evolution up-mentioned can be interpreted as a growing competition for the mobile capital, especially for the multinational companies.[86]

Austria	46,3%	Italia	44,5%
Belgium	17,2%	Luxemburg	51,7%
Denmark	66,3%	Great Britain	48,7%
Finland	25,0%	Holland	69,3%

[86] Rachel Griffith, Alexander Klemm: *What has been the Tax Competition Experience of the Last 20 Years?*, The Institute for Fiscal Studies, WP 04/05, February 2004; p.28

France	36,5%	Portugal	28,4%
Germany	55,9%	Spain	57,3%
Greece	37,2%	Sweden	29,7%
Ireland	47,1%		

Effective marginal rates of taxing on corporations' income, 2000

Source : Dirk Gopffarth: The Effect of Tax Harmonisation on Effective Tax Rates in the European Union, June 2001; p.5

The most used implicit tax rate is that resulting from the incomes upon the corporations' profit rapports at PIB. This indicator of "fiscal burden" remained remarkably constant in period characterised still by major reductions of the imposing rates. It is true that in time, we can remark some fluctuations, but they reflect conjectural evolutions, imposed by the phases of the economical cycle. Another finding is that generally, countries with smaller economies have come to increase, including in relative terms, more the budget cashing from the income tax of the corporations comparing to big countries. Furthermore, there is no clue of any tendency to convert this "fiscal burdens" in the EU. The most important changes at the analysed level were in the countries with the smallest "fiscal burdens"(and these variations were in both directions) which means that the preferences of the countries who wanted a better redistribution through the budgetary lever haven't been let down.

There are two important reasons from which the reduction of the imposing rates haven't transformed into decreases in the budgetary incomes. In a way, what worked was the enlarging effect of the imposing base, effect described graphically by the well known "Laffer curve".

The relative constancy of the tax cashing, despite the very important reductions of the imposing rates is because of the fact that parallel, more countries have adopted measures to enlarge the imposing bases. In the EU's case, this seems to be also an effect of the initiatives adopted at community level to destroy the damaging fiscal competition.[87]

This suggest a special interest to attract investments that have a high degree of profitability, as tend those effected by trans-national corporations. To reach this, it has come to the reduction of the imposing rate, and several fiscal deductions have been eliminated. Because the importance of the fiscal deductions decreases with the increase of profits, this measure combination is favourable especially to trans-national companies.[88]

The enlargement of the imposing bases through the reduction of fiscal deduction possibilities can also have unknown consequences in the conditions of the internationalisation of the production and the unstopped circulation of the capital. Firms with essentially aboriginal activity, especially the small and medium one have to support a higher fiscal burden, while the multinationals have access to a wider range of instruments that allow them to restructure the national imposing bases("on paper", not with physical movements of the actives) so they could maximise dimensions of the bases in jurisdictions with the smallest imposing rates.[89]

On the other hand, the incomes from the tax on profit not only depend of the fiscal legal parameters(rate and imposing base) but also on the inside evolution of the variable submersed to taxes.

The companies' profitability evolves in the same way as the economical cycle and may explain the variation of the analysed indicator. Still, a study that was taken recently said that the effect of economical conjecture factors upon the budgetary cashing from the tax on corporation income in EU was very less important in 1990-2003. [90]

There are also more "technical" explanations to the variation of the analysed indicator, like evolutions in the "economy corporation" rates. The cashing increases can reflect a higher weight of the companies'

[87] xxx: Taxation trends in the European Union. Main results, 2007 edition, p.15
[88] Rachel Griffith, Alexander Klemm: What has been the Tax Competition Experience of the Last 20 Years?, The Institute for Fiscal Studies, WP 04/05, February 2004; p.14
[89] Thomas Rixen, Susanne Uhl: Europeanising Company Taxation - Regaining National Tax Policy Autonomy, Friedrich Ebert Stiftung, International Policy Analysis, July 2007; p.8
[90] Alfred Boss: Tax Competition and Tax Revenues, Intereconomics, January/February 2006; p.45

economical sector, while the tax on corporation income reductions have encouraged the organisation as companies of previous economical activities.

In the analyse of known data it must be considered also the fact that the indicator is an “ex post” one and its level can be affected by previous events who still have effects now. It is the case of the previous clauses(who allow an investment to benefit a while from the fiscal regime from the moment it was effectuated, even if that who is now has been modified) or of the possibility to rapport fiscal loses in the future.

	1980	**1990**	**1995**	**2000**	**2003**	**2005**
Austria	1,4	1,4	1,5	2,0	2,0	5,4
Belgium	2,2	2,4	2,8	3,6	3,4	**4,0**
Denmark	1,4	1,5	2,0	2,4	2,8	3,6
Finland	1,2	2,0	2,3	6,0	3,5	3,4
France	2,1	2,3	2,1	3,1	2,6	2,8
Germany	2,0	1,7	1,1	1,8	1,3	1,8
Greece	0,9	1,6	2,0	4,6		
Ireland	1,4	1,7	2,8	3,8	3,9	3,4
Italia	2,4	3,9	3,6	2,9	2,8	2,8
Luxemburg	6,6	6,5	7,5	7,2	7,9	5,5
Great Britain	2,9	3,6	2,8	3,6	2,8	3,4
Holland	2,9	3,2	3,1	4,2	3,0	3,9
Portugal		2,3	2,5	4,1		
Spain	1,2	2,9	1,8	3,0	3,1	3,9
Sweden	1,2	1,7	2,8	4,0	2,0	3,7
Media for EU-15	***2,1***	***2,6***	***2,7***	***3,8***		
Czech Republic			4,9	3,8	4,8	4,6
Poland			2,8	2,5		
Slovakia				2,8		2,4
Hungary			1,9	2,2		2,1

The product of taxes on the corporations’ incomes (% din PIB)

Source: - Alfred Boss: Tax Competition and Tax Revenues, Intereconomics, January/February 2006; p.45

- Frank Zipfel: *One Europe, one tax? Plans for a Common Consolidated Corporate Tax Base,* Deutsche Bank Research, EU Monitor 49, 25 September 2007; p.4

Another important factor for the characterisation of the known evolvements by the tax on corporations’ income is the *percent cashed of this type of tax from the total budget cashing*. The general tendency known by this indicator was decreasing starting with 1965, but lesser at the end of the 80’s. This suggests that, although the member states have managed to keep their incomes constant comparing to PIB, they couldn’t grow that much as other taxes. In the 90’s, the tendency was of a small increase, followed by a new trend easily descending on this decade. At the EU level 15, this indicator’s level was 2.7% in 1995, growing until 3.7% in 2000, so that it would decrease to 3.1% in 2003.[91]

[91] Michael P. Devereux: *Taxes in the EU New Member States and the Location of Capital and Profit*, Oxford University Centre for Business Taxation, WP 07/03, January 2006; p.11

At the new member states level, the modifications in the last decade have been less marked, and the tendencies were opposite: decrease in the second half of the 90's followed by increase in our decade. Generally, the new member states are more addicted to this types of tax cashing for their budget increase than EU-15.

There are big differences between the EU member states according to the tax contribution at the corporations' income and at the realization of the budgetary cashing. In 2002, these taxes contributed with only 1.5% to the federal budget of Germany, but with 20.5% at the budgetary Irish incomes. It is normal that these differences reflect in the priorities that the member states take connected to the harmonization of this type of tax at community scale. As a paradox, at least in the extreme up-mentioned cases, the preference for harmonization isn't what it would be expected: Germany is in the front line of the member states who support harmonisation initiatives for the imposing rates, while Ireland remains into the most reticent members for such proposals.

	2002	**2005**
Belgium	6,7	8,9
Denmark	5,8	7,3
Finland	9,3	7,6
Austria	6,9	5,4
France	5,9	6,3
Germany	1,5	5,2
Greece	10,4	
Ireland	13,0	11,3
Italia	6,3	6,9
Luxemburg	20,5	14,6
Great Britain	7,6	9,3
Holland	9,4	9,8
Portugal	10,3	
Spain	9,5	10,8
Sweden	5,1	7,3
Cyprus	15,4	
Czech Republic	12,4	12,0
Estonia	3,8	
Leetonia	6,9	
Lithuania	2,1	
Malta	13,1	
Poland	4,9	
Romania	6,8	7,8
Slovenia	3,4	8,3
Slovakia	8,3	
Hungary	6,1	5,8

The product of the taxes on the corporations income(% of the budgetary cashing)

Source: - Wolfgang Eggert, Andreas Haufler: Company tax coordination cum tax rate competition in the European Union, Munich Economics, Discussion Paper 2006-11, March 2006;

- Frank Zipfel: *One Europe, one tax? Plans for a Common Consolidated Corporate Tax Base,* Deutsche Bank Research, EU Monitor 49, 25 September 2007

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FOREIGN DIRECT INVESTMENTS AND THE KNOWLEDGE SOCIETY IN THE CEE COUNTRIES

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The foreign direct investments play an active role in transforming the Central and East European economies aiming at the construction of the knowledge-based society, by the development of some research-development activities with innovating character.

Generally, it has been noticed a more powerful impact either in the countries that have received massive foreign direct investments, namely the Czech Republic, Hungary and Estonia, or in countries in which the quality of the attracted foreign capital has completed, at a certain moment, their quantity (as for example Slovenia).

In this paper we are going to approach the relation between foreign direct investment (FDI) inflows and knowledge society building in an explicit manner, analysing the empirical data for the Central and Estearn European (CEE) countries, new members of European Union.

Key words: foreign direct investments, knowledge-based society, innovation activities, research, development

Introduction

Most of the studies tackle this subject in an indirect manner, through the positive effects of foreign direct investments upon host economies, in terms of productivity and competitivity.

In this paper we are going to approach the relation between foreign direct investment (FDI) inflows and knowledge society building in an explicit manner, analysing the empirical data for the Central and Estearn European (CEE) countries, new members of European Union.

Our main goal is to demonstrate that, supporting the development of innovative research-development (R&D) activities foreign direct investments attracted by Central and Estearn European countries had been playing an active role in transformation of these economies, in their way towards a society based on knowledge.

1. FDI and innovative R&D activities

Specialists agree that technological innovation is essential for the economic development and growth. Even more, practice proved that any sustainable economic development requires more than a "receptive" economy to technological inflows inputs.

During the technological innovation process, transnational corporations (TNC) hold a significant role as the globalization and production internationalization processes of the economic inflows deepen. In the extent that these forecasts shall become true, positive effects of the technological progress upon the involved sectors competitiveness and productivity may take place in Romania too, by means of the R&D investments made by the foreign companies that relocate these activities.

In essence, the transnational corporations that develop R&D activities abroad, place it in one of the following categories:

Assets exploiting: these generally originate from the developed countries and internationalize the production in order to get access to national resources or cheap labor force, thus placing the R&D activities in the middle ground;

Augmenting exploiting: these generally originate from the developing economies and by means of FDI they intend to gain access to local research-development capabilities (for increasing competitiveness by means of technological innovation), reason for which R&D activities are placed in the foreground.

Practice showed that transnational companies from the first category (assets exploiting) hold the main share within TNC that internationalize the research-development activities. The developing states generally benefit from the process of the R&D activities abroad localization.

As per the host country, the internationalization of the R&D activities represents an opportunity not only for the technology transfer created somewhere else, but also for the development of technological innovation own capabilities, as long as the particular economy has managed to connect to the innovating and technological global research network. Taking into account the specific of this activity, that assumes not only the existence of some capabilities and knowledge, but also their easy and sometimes unspoken transfer between the producers and the users, the cluster development becomes imperative.

The importance of the clusters in R&D promoting and intensifying has been often underlined by the Romanian specialists, pointing out that given the deep disparities regarding the other EU member countries, Romania must tackle "the complex and difficult aspects associated to the knowledge-based economy construction in a totally changed manner, if it is felt the need to remove the disparities…and reach performance." Thus, among the strategic options, concerning the main directions for the construction of the knowledge-based economy, one must find as compulsory those options regarding "the use of the clusters, the company networks and business centers for the research-development promotion and intensification "(Roşca, 2006, p. 71,74).

Of course, easier said than done as the setting up and development of the own capabilities of technological innovation are not only low, but very expensive processes that require a constant technical effort, the existence of a developed infrastructure (mainly an informational and communicational one) and some powerful and lasting institutions (universities, research centers).

We need to emphasize that the effects of localizing the R&D activities of the transnational corporations within the host economies are multiple and sometimes conflicting. Thus, beside the positive effects, there are other unwanted effects that can develop, namely: attracting the qualified personnel from the domestic companies; disloyal competition in TNC case, that behave totally unethical; on a long term, one can even register a job diminution.

Both the economical theory and practice showed that there is a set of determining factors that encourage the positive impact, namely:

The R&D activity type (adaptive or innovative);

The absorption capacity of the implanting economies;

The innovating system of the host economy.

As a consequence, we appreciate that the foreign direct investments attracted by the CEE countries can impel the R&D activities with innovating character, thus supporting the Central and Eastern European economies on the way of the construction of the new society, based on knowledge.

2. FDI and the knowledge society

Regarding the construction of the new society, the Society of Knowledge, Alvin Toffler specified in his book-the Third Wave (1981) that "the persons, groups, communities, societies or nations that shall have access to information and the potential to process them, shall then gain access to the new society."

Therefore, the construction of the knowledge economy implies the transition from "the industrial approach" of the economy to "the informational approach" whose main characteristic is represented by the speed of change. Consequently, the economic success is no longer guaranteed only by the existence of the technology that changes rapidly due to the high rhythm of the technological progress, because it also depends on adopting a new flexible production system, which may be quickly adjusted in order to comply with the market needs and the distribution system radical change (Roşca, 2006, p.341).

Thus, within the globalization context, the transnational corporations deal with a more and more severe pressure due to the massive and rapid changes that register within the global economy, at the production and distribution level. Taking into consideration the intensive informational character of the globalization, in order to keep their competitive advantages, TNC must achieve significant investments in research-development activities, along with the IT and communication high tech integration within the production process.

As a consequence, the bitter global competition changed the knowledge into the vital force of the economy. Therefore, in order to survive, the transnational corporations have to allocate important resources in view of obtaining knowledge.

The importance of knowledge in the new world economy has been officially acknowledged across the EU once with the adopting of the Lisbon Agenda, that established as a priority for the member countries to build up the knowledge-based society in view of providing the competitiveness increase and a sustained economical development.

Following the adoption of the Lisbon Strategy (2000), The European Commission monitors the progresses recorded by the member countries regarding the capabilities and the innovative performance. In this respect, a survey drafted based on the data supplied by EUROSTAT (The CE Office for Statistics) showed that, during 2002-2004, over 42% of the enterprises that work in the production and services sector within the 27 EU current member countries reported the development of some innovating activities (Eurostat news release, Feb. 2007).

Within the 27 analyzed countries one can notice severe disparities regarding the percentage of the enterprises that achieved innovative activities from the total of the enterprises. Thus, the highest values register in Germany (65% of the overall enterprises), Austria (53%), followed by Denmark, Ireland, Luxembourg (52%), Belgium (51%) and Sweden (50%). At the opposite pole, are ranked the countries with the lowest rates, namely Bulgaria (16% of the overall enterprises), Latvia (18%), Romania (20%), Hungary and Malta (21%).

In what concerns the accomplishment of some partnerships between the public and the private sector, in view of developing the innovative activities it has been ascertained that they occur more frequent in countries like Finland, Slovenia, Slovakia, Latvia, and Lithuania and less frequent in Italy, Malta, Romania and Cyprus.

Moreover, at the EU level, the partnership between the companies involved in the innovation process (suppliers or users) and the public research institutes, as well as the higher education institutions is relatively low (6%, respectively 9%). Though, there are some countries inside which the cooperation level is very high, namely Lithuania (56%) and Slovenia (47%).

Similar to the EU recorded situation, the Central and Eastern European countries present severe disparities in what concerns the enterprise involvement in innovating activities (table 1).

Table 1. Innovation activity and co-operation during 2002-2004 for CEE countries

Countries	Enterprises with innovation activity (% of all enterprises)	Co-operation partners (%of all enterprises with innovation activity)			
		Suppliers	Clients or customers	Universities or other higher education institutes	Government or public research institutes
EU-27	42	17	14	9	6
Bulgaria	16	16	13	6	4
Czech Republic*	38	31	26	13	7
Estonia	49	23	23	9	6
Hungary	21	26	20	14	5
Poland	25	28	16	6	9
Romania	20	14	10	4	4
Slovenia	27	38	33	19	13
Slovakia	23	32	30	15	11

Source: Eurostat News Release, 27 feb.2007, p.2, FCIS 4 (Fourth Community Innovation Survey)

*Data for Czech Republic correspond to the reference period 2003-2005

Estonia and the Czech Republic, states that received massive foreign capital inflows, are ranked the first (with 49%, respectively 38% of the overall enterprises), while the disadvantaged countries, under the FDI inflows, namely Bulgaria and Romania, are among the last places with rates of 16%, respectively 20%.

Starting from the assertion regarding "the 3I of knowledge", according to which "the processes considered as defining for the phenomenology of a knowledge-based society are: innovation, partnership learning and interactivity" (Dragomirescu, 2001), we shall compare the data concerning the innovative activity and the human capital, previously presented and analyzed, to those related to the FDI inflows (inward FDI stock per capita) within the CEE countries in order to emphasize in a more explicit manner the relation between the attracted foreign direct investments and the knowledge based economy.

In this respect, we shall allocate a number from one to eight to each of the eight countries submitted to analysis, according to the ranking in top (1 for the first place, up to eight for the last place), according to the level of the following indicators: inward FDI stock per capita, the innovation index (ICI), the human capital index (HCI) and the percentage of the enterprise with innovative activities (table 2).

Table 2. Relation between FDI and knowledge-based society for CEE countries

Countries	ICI 2001	HCI 2001	Enterprises with innovation activity 2002-2004	Inward FDI stock per capita 2001	
-	(rank)	(rank)	(rank)	(rank)	USD/capita
Bulgaria	5	5	8	7	432
Czech Republic	4	6	2	1	2638
Estonia	2	3	1	3	2307
Hungary	3	4	6	2	2310
Poland	6	1	4	6	1073
Romania	8	8	7	8	351
Slovenia	1	2	3	4	1613
Slovakia	7	7	5	5	1155

Source: UNCTAD, World Investment Report 2003 and 2005, Eurostat and own calculations

From the above-mentioned data, it comes out that the CEE countries placed on the first positions in what concerns the foreign direct investment inflows, namely the Czech Republic, Hungary, Estonia and Slovenia, still occupy top places regarding the innovative activities and the human capital.

Also, Romania and Bulgaria, ranking last within the CEE analysed countries in what concerns the FDI inflows are occupying the same low positions regarding the innovation capabilities and the quality of the labour force.

Consequently, there is a correlation between foreign direct investments inflows and the positive evolutions recorded by some Central and East European countries (as for example Slovenia, Estonia, the Czech Republic and Hungary) on the way of the construction of the knowledge–based economy.

In our opinion, the presented data suggest that in these countries foreign direct investments contributed to the development of the enterprise innovative activities and the improvement of the human capital.

We shall henceforth end by emphasizing the cases of Slovenia and Poland. As per Slovenia, the positive difference between the rank according to FDI inflows and the ones regarding the knowledge society (ICI, HCI and innovation activity) underlines the importance of the FDI inflows structure and of the domestic resources (human and capital) within the social and economic development of this country.

In what concerns Poland, in our opinion, the positive impact is mostly due to the fact that transnational companies, following the internal market potential have diversified the production, achieving new products to respond the local consumer requirements.

3. Conclusions

In our opinion, given the above-mentioned facts, the foreign direct investments play an active role in transforming the Central and East European economies aiming at the construction of the knowledge-based society, by the development of some research-development activities with innovating character.

Despite all, given the foreign capital input reduced level in most of the analyzed countries, as well as the structure of the FDI inflows (aiming at the market and the reduced cost of the production factors) the foreign capital impact is relatively low in most of the CEE countries. Generally, it has been noticed a more powerful impact either in the countries that have received massive foreign direct investments, namely the Czech Republic, Hungary and Estonia, or in countries in which the quality of the attracted FDI has completed, at a certain moment, their quantity (as for example Slovenia).

Therefore, learning from these countries' experience, Romania that register big discrepancies compared to the other Central and East-European economies that have joined the European Union, can maximize the FDI positive contributions attracting more foreign direct investment inflows especially in those branches intensive in technology and knowledge. In this respect, it is imperative to improve the training level of the labor force and to develop the innovative capabilities.

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SMALL AND MEDIUM BUSINESSES FACING FISCAL COMPETITION

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Abstract: Globalisation is not a new phenomenon but it had opened up the national economies and created the global marke, where capital and labour can move freely. Combine with the fiscal competition phenomenon it influences the evolution of the national and international businesses environment.

The authors are trying to underline, in this paper, the connections between globalisation, fiscal competition and the small and medium businesses sector because these businesses are the most affected busineses by the fiscal policies decisions, that are subjet to the globalisation phenomenon and the fight against the negative effects of the fiscal competition phenomenon.

Key words: globalisation, fiscal competition, small and medium businesses sector,economic growth, tax hevean

Globalisation, the creation of the goods and services common market in the European Union, the complete liberalisation of international financial transanctions, capital and labour, the monetary unification, all these, have led to the rethinking the national fiscal policies especially in the direct taxation area. Every national jurisdiction has to answer to questions like: “What tax rate should be used to impose the revenues?”, “How to uphold the small and medium businesses sector?”, “What facilities should be granted to this sector?”, “How to attract new investors or how to make the national territory more attractive?”.

Globalisation will lead to the creation of a economy atfer the operating and organisational model of the existing states (Depoutot, 2003) and this will have as effect a higher capital mobility then labour mobility.

Fiscal competition is differently seen by the economic agent (the small and medium business) and by the state. While the state (the public actor) is seeing the fiscal competition like an obstacle to achieve it’s sovereignty forcing it to drop certain fiscal revenues so some tax payers categories will not emigrate and invest in some other places, the small and medium businesses are seeing the fiscal competition like an opportunity. This opportunity regards the favorable fiscal regulations that will permit an increasing activity and capital mobility and so the result after tax will have the higher possible value.

From the economic theory point of view the fiscal competition can be seen both as a negative and positive externality. The state how is losing capital through it’s run away will assimilate the fiscal competition to an negative externality, but the receiving state, the state where the capital has relocated, will assimilate the fiscal competition to a positive externality.

At the European Union level the fiscal competition is underlining the conflicts that are emerging from the base model of the European Union it’s self (Pisany & Ferry, 2005): the competition space between the system the state, for some, and the cooperation and reconstruction space for a colective sovereignty, for others. And nevertheless, the different policies regarding the social standards, the public investments and the macroeconomic policies are influencing the fisal competition not only at the European Union level but also at international level. In Europe the fiscal competition is shown clearly by the low profit rates applied to companies and we can add the facilities promoted by Holland, Denmark, Belgium and Sweden and many other european contries where the holding revenues are tax free. You can also obtain fiscal advantages in the form of decreasing taxes by applying the stipulations of some Conventions regarding the double taxation avoidance or through the European Union Directives in reference to dividends and interests.

Fiscal competition can be defined as the non cooperanting competition between different fiscal administrations that are wishing for the increase of their national territories through an advantageous fiscality (Le Cacheux, 2000).

Starting from the free circulation of the capital, labour, services, goods and under the globalisation effect the states are still maintaining differnt fiscal systems when it comes to direct taxation.

The indirect taxes, like the value added tax, are harmonised in the European Union through a series of directives and regulations this way thier negative impact upon the european market is reduced at minimum. But when it comes to direct taxation and especially to the profit tax there are no common regulations and only proposals. The European Commission has proposed the establishment of an common unique consolidate bases, but until now no political agreement has been signed. In the European Union the national fiscal systems are divers (27 systems) some beeing characterized by tax free (Greece, Portugal, Denmark) when it comes to tax the mobile bases or by lower taxes applied to the mobile bases in comparison whit the taxes applied to the less mobile bases. The most talk about subjects are the profit tax and the tax on the revenu obtain by placing capital, case these two are very mobile and can easly influence the fiscal pressure.

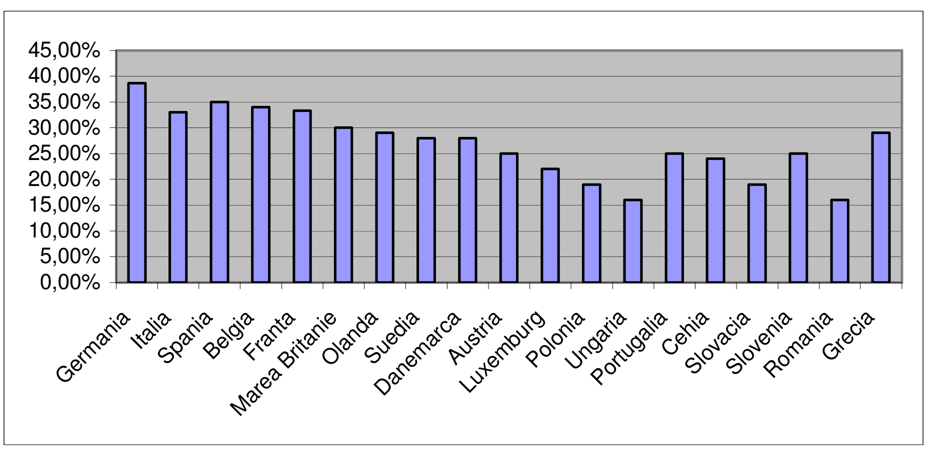
Starting from these aspects the European Commission is underlining the counter productive character of the fiscal competition and of the risks that can manifest at the level of the national public finances (OECD,1999). After 1999 again the European Commission took the first steps to align the national systems into a better coordination, excluding the discrimination and the double taxation of the profit and of the dividends this way reducing the fiscal evasion (COM, 2006, 823). These regulations are underlining the fact that in the absence of an coordination between the fiscal systems regarding the direct taxation we can get involuntary taxation or abuses, that will reduce the fiscal revenues of the state.

At the European Union level because of the adhesion of new state members with a lower fiscality, the ancients states have been forced to rethink their fiscal policy regarding the direct taxation because is clear that the activities are locating in these new areas. This way the Lisbone starategy is evidentiating a series of fiscal regulation that will help the small and medium business activity like: tax free, subventions for reserach and development or fiscal credits. Each country will have the capacity to use different mechanisms to support the small and medium businesses activities, for example, France is the first country to introduce a special fiscal system to sustain the innovating businesses. The stimulents are regarding:

- tax free for the first three years when the businesses are obtainting profits;
- decreasing the profit tax up to 50% in the next two years;
- tax free for a 8 year period for the social contributions afferent to the highly qualified labour.

We have to mention that the profit tax has been reduced in the majority of the european countries furthermore there are a large number of countries that are using the flat taxation: Republic of Estonia, Russian, the Republic of Serbia, Ukraine, Poland, Romania, the Czech Republic – see figure 1.

Figure 1. The nominal adjusted quota of the profit tax in the European Union in 2005



(Source: Eurostat)

Because of the fiscal competition some countries wishing to draw the mobile fiscal bases have modified the tax rate for the profit tax or are using different tax quotas for the small and medium businesses activities, because these are the main tax payers contribuing with 70%-90% from the gross domestic product and are possessing the main part of the active labour. Furthermore some countries are practicing a different fiscality when it comes to this sector – see table 3.

Table 3. Tax quotas fro the small and medium bunisesses in 2006

Country	Quotas
Spain	30% if the profit is ≤ 90.152 euro 35% for the rest
Estonia	0% for the reinvested profit 28,27% for the net distributed amount
France	15% if the profit is ≤ 38.120 euro
Portugal	20% for a three years period or less if the annual turnover is ≤ 149.639 euro
Romania	3% from the anuual turnover

(Source: Direction de la legislation fiscale – The National Statistical Institute-Romania)

We consider that Austria had fiscal competition in view when decided to change the tax quota for the small and medium businesses from 34% in 2003 to 25% in 2006, furtehrmore the state beeing neighbor with Poland and the Czech Republic where the quotas were lower. This measure has been partialy compensated by the inlargement of the tax base.

Starting from the fiscal competition concept the studies that have been realized at the European Union level (OEFE, 2007) have shown that the Europea Union countries can be pun, according to the medium global fiscal pressure determined at the Europea Union level (this value beenin 2005 13,1%) into three categories:

1. countries where the fiscal pressure upon enterprises is low –United Kingdom 9,7%, Holland 9,7%, Denmark 4,6%;
2. contries where the fiscal pressure is around the medium – Germany 13,3%, Belgium 13,3%, Spain 14,1%, Austria 12,2%;

countries where the fiscal pressure is high – Sweden 17,8%, France 17,8%, Italy 15,2%.

We have to take into consideration the fact that the country where the foreign investment will be done has to provide a high quantity and quality of public goods and services. But usually the quality of the public goods and services is higher where the fiscal pressure is higher, in contries like France, Germany or Denmark. This way the small and medium businesses will locate their activity according to the after tax outturn that, meaning, according to the redistribution public finance function, that the tax is seen as a payment for an received service, in this case a public one, and this is way the delocalisation of the capital will take place according to the optimal relantionship between the taxes payed and the received public goods or services.

Small and medium businesses are very important in Romania because:

- they are contribuing with almost 70% to the formation of the gross domestic product;
- assuring almost 2.600.000 working places that beeing 60% of the total active population in economy;
- contribuing with 60% to the formation of the state revenues;
- contribuing directly to the romanian exports – almost 50% of those are done by the small and medium businesses sector.

In order to make more attractive the romanian territory from a fiscal point of view and in order to reduce the brain-drain phenomenon the fiscal system makes the following amendments:

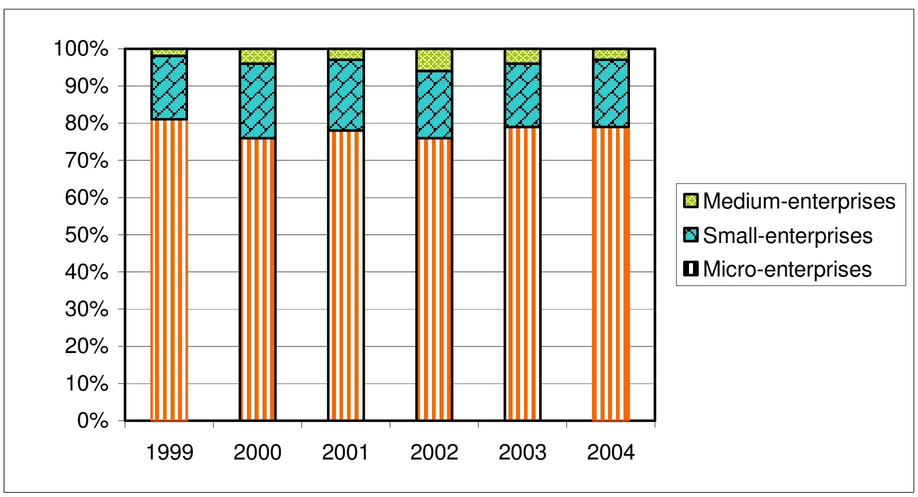
– the possibility to choose an absorption system fitted with the development strategy of the entreprise;
– deductibility of the credits interest;
– fiscal regime to integrate the revenues;
– the possibility to choose between beeing a profit tax payer (16% applied to profit) or beeing a revenue tax payer (2,5% applied to the annual turnover). We mention that this quota has been increase from 1,5% in 2004 to it's actual level 2,5% and in 2009 it will be 3%.

In Romania the legal aspects regarding the taxation of the labour are paying an important role in the emigration phenomenon of the highly educatated "brains", even if here since 2005 the taxation of the revenues is done according to a flat tax by 16% and the quotas of the contribution have been reduced, but at the same time the bases have been increased! When Romania adhered to the European Union in 2007 contrary to all that was aspected – that between 40% to 60% of the existing small and medium businesses will fail, because of the lack of experience and working capital, lower competitiveness – in 2007 the number of wiping off decreased with 74,14% in comparison with 2006, at the same time the number of small and medium businesses that registered a higher profit in 2007 in comparison with 2006 has been in increasing with 4-5% and the numer of small and medium businesses that registered losses in the same period of time has been decreasing with 3-4%.

Fiscal competition (through the use of the same flat tax to impose both the revenues and the profits) had had a positive effect in Romania increasing the number of new created small and medium businesses with international and mixt capital, in 2007 in comparison with 2006 by 9,15%. Another positive aspect is that the cost of labour in Romania in comparison with other european countries is lower. An example in this sense is the new location of the Nokia Factory in Romania from Germany.

From the economic growth point of view the year 2006 has been a better year for the small and medium businesses in the European Union then 2005 registrating an increase of the annual turnover by 10% and in some countires even a higher level – Romania and Estonia 24% and at the opposite position Cyprus and Portugal with an increase by only 4%. In Romania the small and medium businesses structure has registered an evolution similar to the one presented in the following figure.

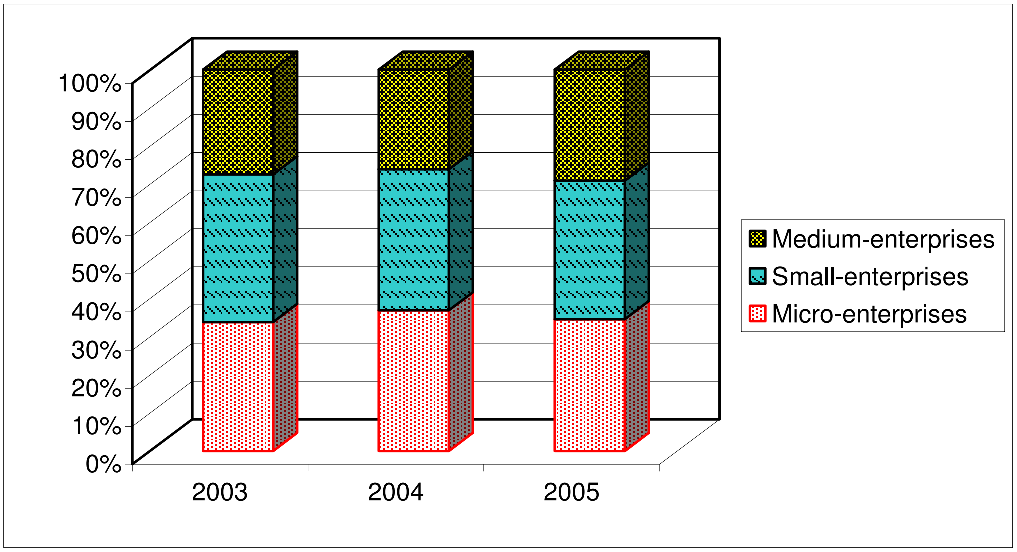
Figure 3. The evolution of the structure of the small and medium businesses



(Source: The National Statistical Commission, Romania)

We can see that the net profit had evolve in the three years analyzed and the most important change was in 2005, when the small and medium enterprises had been put to advantage by the decrease of the profit tax rate but drawback by the increase of theturnover tax rate. The turnover of the small and medium businesses is concentrated at the small businesses level although the micro enterprises are achieving one third of the small and medium businesses turnover their profit range is larger reaching almost 50% of the total.

Figure 5. The turnover structure according to the small and medium businesses types



(Source: The Public Finance Ministery)

For Romania the small and medium businesses are representing the engine of the economic growth and a vector for disseminating the research and development results. The increase of the small and medium businesses sector had a positive influence upon the businesses environment reducing the unemployment rate and increasing the productivity. It is necessary for the romanian state to rethink the fiscal system in order to better sustain the growth of the small and medium businesses sector taking into consideration that eventhough it's major role in the development of the country is known and admited the support is not likewise. We think of this considering that eventhough the number of the small and medium businesses in Romania has grown, the number of small and medium businesses to 1000 inhabitants is under the number from the European Union (in Romania the number of small and medium businesses to 1000 inhabitants is 25 and in the European Union is 64). We should take into account the fiscal changes of our neighbour countries because in comparison Romania is not so attractive to foreign investments.

CONCLUSIONS

Fiscal competition in the context of globalisation is seen as the efforts done by the state to reduce the tax quotas (most times this is done in correlation with the inlargement of the tax base) because it is trying to attract as many activities as possible.

In the last years the majority of the European Union countries, especially in the context of the inlargement of the union – the last 12 countries adhered, have changed or have in view of changing their tax quotas: Austria has diminish the tax rate from 34% in 2004 to 25% in 2005, Irland has moved from a maximum tax rate by 40% in 1994 to one by 12,5%in 2003, Romania has decrease the tax quota from 25% in 2004 to 16% in 2005,Germany has as scope the decrease of the total fiscal expenditures levied on the firms (29,83% in 2010 in comparison with 38,6% in present), the Czech Republic has diminish the profit tax from 24% to 21% in 2008 and in 2009 it will be 19%, as for the dividend tax Poland is using a tax of 19%, Romania 16%, Bulgaria 5% and there are countries where this revenue is tax free like Croatia, Hungary, Slovakia.

This phenomenon has not only positive effects (increase of the gross domestic product, of the added value, decrease of the unemployment rate and the development of the small and medium businesses sector, the increase of the national and international competitiveness) it has also negative effects like: imposing the revenues of the plusvalue obtain atfer selling goods, public deficits and others.

This phenomenon is directly connected with the brain-drain phenomenon, the emigration of the high educated "brains" who are choosing to leave the origin country and to develop an activity in another one who is more suitable to their fiscal and public choices. The brain-drain phenomenon has both negative and positive effects – negative or positive externalities – in the origin country where the individual has been educated and in the receiving country where the individual is developing his activity. Most times these externalities are monetary based.

We can assert that in the European Union the aim is not to harmonize the national fiscal systems because a loyal competition will contribute to the development of the countries, to the stimulation of the small and medium businesses sector who will take into account not only the characteristics of the fiscal system when it comes to locate their activity but also the geographical position, the labour cost and the infrastructure quality.

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VEHICLES TAXATION IN ROMANIA: A COMPARATIVE APPROACH

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Abstract: The taxes on vehicles are a very controversial issue nowadays, especially in Romania. The actual registration tax was much contested and, as a result, new projects were proposed by government authorities. The present paper makes a comparative analysis of the three versions, trying to see if the new versions are within the European Union requirements and to make some recommendations in order to improve the actual assessment of the tax.

Key words: vehicles taxation, comparative analyses, progressivity of taxation, solutions for improvement

JEL Classification: H20, H 21, H 23

The recent tax on passenger vehicles raised a lot of controversies, which have culminated with a recent petition addressed to the European Parliament signed by approximately 120.000 Romanian citizens, which was the biggest (in terms of number of people who had signed) in the entire history of the European Union. In spite of some issues that must be considered in order to judge the opportunity of such an initiative, it is a fact that the so-called "tax on first registration" represents a major issue of fiscal and environmental policy in Romania. Enacted at the 1st of January 2007 when Romania had became a full member of European Union, the tax had two major objectives: to provide revenues to the Romania state budget to offset the abolition of customs duties and partially of VAT in commercial relations with the other member states and to prevent the massive imports of used passenger vehicles in order to improve the age structure of the vehicles in circulation.

The criticism of measure was very intense. The amount of tax can range from 0 EUR/cm3 (for hybrid cars) to 2 EUR/CM3 (for non-euro vehicles). There are also, correlation coefficients that vary in accordance with the years of service and the depreciation of the vehicle. The formula used for calculating this tax is:

$Tax = A * B * C * ((100-D)/100$ (1),

A = cylindrical capacity (cm3)

B = unit of taxation (EUR/cm3) varying on pollution level;

C = correlation coefficient depending on the years of service of the vehicle;

D= depreciation coefficient depending on the years of service of the vehicle

The main critics of the assessment of this tax consist in its discriminatory characteristics, because it affects only imported second-hand cars, leaving indigenous second-hand cars untaxed and also in restricting the possibility of replacement of the old car, which is a non-desirable situation when the old car is more polluting than the "new" car. The European Commission had also criticized this measure, claiming its inconsistency with the European requirements. The registration taxes on vehicles put some problems like: double taxation, administrative procedures and extra costs, which creates obstacles to the free movement within the Community. In a recent paper[92], I have made some recommendations in order to improve the design of such a tax:

- the introduction of the CO2 based element in the assessment of tax;
- the implementation of a refund system in order to avoid double taxation;
- the gradual abolition of registration tax until 1st of January 2016 (Directive of the Council of European Union (2005/0130));

[92] Lazăr S. - „Registration Taxes on Vehicles: Evolutions and Trends in The European Union and Romania", Annals of Oradea University, Economics Series. Oradea, 2007;

On the other side, the partisans of such a tax considered that it has a positive impact on environment protection, and contributes to the development of indigenous automotive industry due to the prevalence of small cylindrical capacity vehicles in our domestic production.

Due to the numerous critics of the registration enacted on 1st January 2007, the authorities have came up with a new project of the tax[93], called now "vehicles pollution tax", meant to eliminate the inconsistencies with the EU requirements. The proposed formula used for the tax is:

Tax = A * B * (100-C)/100 (2),

A = cylindrical capacity (cm3)

B = unit of taxation (EUR/cm3) varying on pollution level;

C = diminution coefficient depending on the years of service of the vehicle, medium annual mileage, technical condition and optional equipments;

A starting point of analyses of the complying degree with the European normative is to reveal what European rules stipulate. In the field of registration taxes, there are few common rules that may be taken into account when it comes to tax the cars put in circulation. Nevertheless, a recent Directive of the Council of European Union (2005/0130) stipulates that every member state shall abandon any registration tax by the 1st January 2016. Nevertheless, in order to respond to environmental targets, the design of the registration tax must take into account the CO2 emissions as the main pillar of assessment. The reform of registration tax means that by 1 December 2008 (the start of the Kyoto period) at least 25% of the total tax revenue from registration taxes (but also from annual circulation taxes) should originate in the CO2 based element of each of these taxes. By 31 December 2010, at least 50% of the total tax revenue from both the annual circulation tax and the registration tax (pending its abolition) should originate in the CO2 based element of each of these taxes[94]. The proposed formula of the tax takes into consideration the CO2 emissions, but only indirectly, through the emission standards of vehicles and cylindrical capacity. But, too often such indicators do not reflect the real level of CO2 emission, due to the alteration of the nominal car specifications. Also, the new formula eliminates the depreciation coefficient (D) that was depending on the years of service of the vehicle and proposes new intervals of years of service for used cars. One major critics of the proposed project is the excessive taxation of new cars compared to the taxation of the same cars in the previous situation. For new cars that posses Euro 4 engines, the tax will rise by 2.614379 for capacities below 1600cm3 and by 1.24183 for capacities above 3000cm3. This will influence the selling of new vehicles in Romania, especially of those with lower power, but more environmentally friendly, greatly affecting the domestic producers which have the majority of the their cars below 1600 cm3.

Recently, Romanian authorities have come with the third version of the tax, which was under public debate, until April, the 10th. The major change consists in the introduction for Euro 4 and Euro 3 vehicles of a CO2 based element in the assessment of tax, in order to comply with the EU recommendations. For the rest, the tax is assessed in the same way, the only difference being the introduction of a supplementary interval of taxation for the vehicles with cylindrical capacity between 1401 and 1600 cm3. For Euro 4 and Euro 3 vehicles, the tax is determined as follows:

Tax = A * B *30/100 + C * D *70/100 * (100 – E)/100 (3),

A = CO2 emission (g/km) as mentioned in vehicle identification document;

B = unit of taxation (EUR/g CO2) varying on quantity of CO2 emitted;

C = cylindrical capacity (cm3)

D = unit of taxation (EUR/cm3) varying on emission standard;

E = depreciation coefficient depending on the years of service of the vehicle

The first term of the tax is taking into consideration the quantity of CO2 emitted by the vehicle, counting for 30% of the amount of the tax, while the second is taking into consideration the emission standard and the years of service of the vehicle, counting for the rest of 70%. The unit of taxation D was also changed, being now more progressive for Euro 2, Euro 1 and Non-euro vehicles (see figure no. 1). The 30 percents allocated to the CO2 emission may be questionable, but nevertheless it must be taken into consideration

[93] Available at http://www.mmediu.ro/proiecte_acte.htm;

[94] COMMISSION OF THE EUROPEAN COMMUNITIES - Proposal for a COUNCIL DIRECTIVE on passenger car related taxes, Brussels, 5.7.2005, COM(2005) 261 final, p. 8, available at: http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0261en01.pdf;

that the CO2 emission is just one of the pollutants generated by cars, along with nitrogen oxide, hydrocarbon and particulate matters which are more polluting, but do not generate global warming. The CO2 is the major source of the global warming, but the global warming is not the only concern when it comes to fight against pollution. The specific tax related to the CO2 emission (B from equation 3) is presented in table no. 1

CO2 emission (g CO2/km)	Specific tax (euro/g CO2
<=120	0
121 - 150	0,5
151 - 180	1
181 – 210	2
211 – 240	4
241 – 270	6
>=271	8

Table No. 1 The specific tax related to the CO2 emission

Source: http://www.taxapoluare.audieripublice.ro/view_page.php?hash=9d828cc97915a651d29106b8e49bb60e

It is clear that the specific tax is progressive, the amount paid for every gram of CO2 increasing dramatically along with the amount of CO2 emitted. Thus, for a vehicle that emits less than 120 g CO2 per km there is no tax to pay, for a vehicle that emits 280 g CO2 per km the tax will be 2240 EUR and will generate 672 EUR in the general formula of tax (30% as specified in equation 3). The amount of tax generated by the CO2 emission is presented in figure no. 1

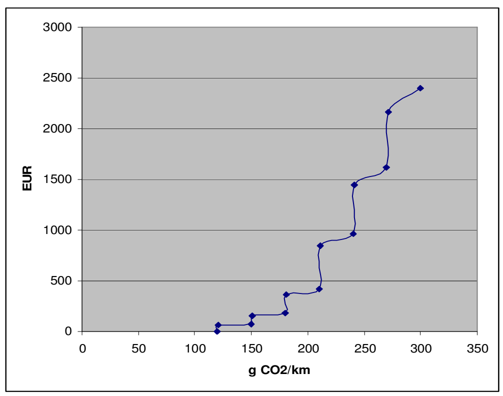

Figure no. 1. The amount of tax generated by the CO2 emission

The progressivity of taxation is obvious and one could appreciate it as being exaggerate. The simple progressive rates have the major inconvenient that they tax excessively the lower limit of an interval comparative to the higher limit of the previous interval. Thus, for 150 g CO2 emitted per km the tax will be 22.5 EUR (75 EUR * 0.3), but for 151 g CO2 emitted per km the tax will be 45.3 EUR (151 EUR * 0.3), more than twice as much. So, for just 1 g of CO2 emitted, the owner of the car will pay 22.8 EUR in extra taxes. Even though the partisans of this draft proposal must claim that such a solution of taxing the CO2 emission may discourage the acquisition of high polluting vehicles, the marginal taxation of an extra gram of CO2 emitted is, in our opinion, ***extremely progressive***. A solution may consist in imposing of a system based on ***compound progressive tax rates***, designed as follows:

CO2 emission (g CO2/km)	Specific tax (euro/g CO2)
<=120	0
121 - 150	0,5
151 - 180	75 EUR + 1 EUR for every g of CO2 emitted above 150 g
181 – 210	105 EUR + 2 EUR for every g of CO2 emitted above 180 g
211 – 240	165 EUR + 4 EUR for every g of CO2 emitted above 210 g
241 – 270	285 EUR + 6 EUR for every g of CO2 emitted above 240 g
>=271	465 EUR + 8 EUR for every g of CO2 emitted above 270 g

Table No. 2 The alternative specific tax related to the CO2 emission

Source: http://www.taxapoluare.audieripublice.ro/view_page.php?hash=9d828cc97915a651d29106b8e49bb60e

Graphically, the alternative specific tax may be represented as follows:

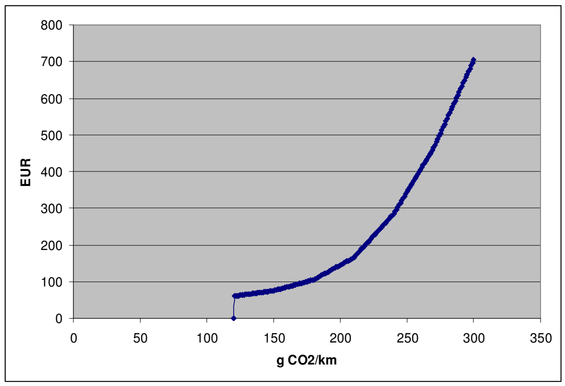

Figure no. 2. The amount of alternative tax generated by the CO2 emission

Such a taxation eliminates the situation in which for an extra gram of CO2 emitted, the owner has to pay much more in taxes. Also, we must take into consideration the fact that ***the quantity of CO2 emission is not a precise amount, being subject to numerous variations***, such as driving conduit or outside temperature. Nevertheless, almost everyone knows that consecutive tests on CO2 emissions may result in different results, an error of 1 g of CO2 being almost negligible. These are the reasons for which we plead for compound progressive tax rates and not for simple progressive tax rates as the authorities have proposed. The other part of the tax, the one that counts for the rest of 70 percents for Euro 3 and Euro 4 vehicles is related to cylindrical capacity, emission standards and depreciation of the vehicle. For Euro 2, Euro 1 and Non-Euro vehicles, this formula counts for the entire amount of tax (100%). The specific tax is denominated in EUR per cm3 of cylindrical capacity and it is presented in figure no. 3 by comparison with the actual variant (equation 1) and the precedent proposal (equation 2).

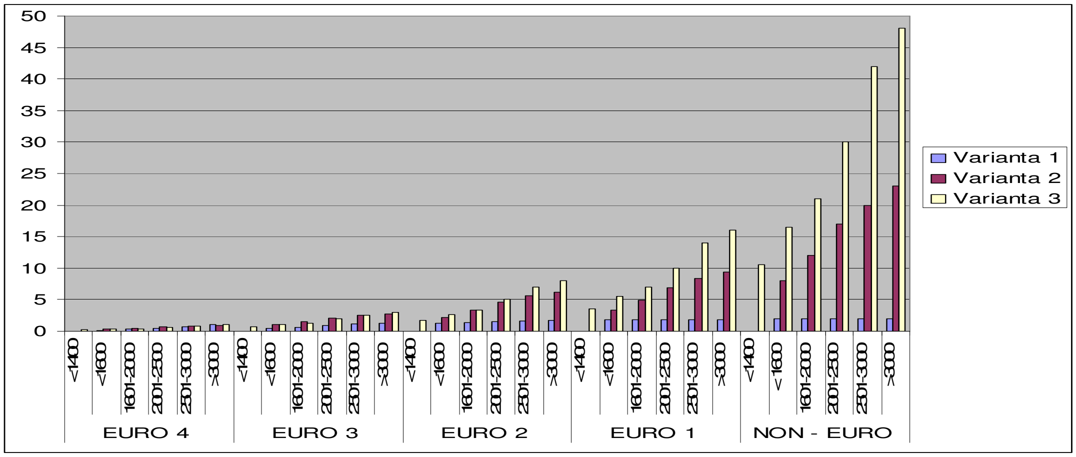

Fig. No. 3 The unit of taxation (EUR/cm3) for the three versions of the tax

The level of taxation is the highest for the last proposal (variant 3), especially for the Euro 2, Euro 1 and Non-Euro vehicles, when this form of taxation counts for the entire amount of tax (not just 70% as for Euro 3 and Euro 4 vehicles). Also, in the last proposal it has been introduced a new interval for cylindrical capacity, the one for engines below 1400 cm3. The tax rate has increased dramatically especially for Euro 1 and Non-Euro vehicles which are the most polluting in accordance with the "polluter pays" principle.

Another major critics that was tackled consists in the depreciation factor that has to be in accordance with the years of service of the vehicle, the average annually mileage, the technical status and the level of equipment. So, the actual proposal takes into consideration these factors, proposing new coefficients of depreciation better corresponding to the period of service of the vehicle, as seen in table no. 3.

Period of service	Depreciation coefficient (actual variant) (%)	Depreciation coefficient (proposal) (%)	Period of service	Depreciation coefficient (actual variant) (%)	Depreciation coefficient (proposal) (%)
new	15	0	6 - 7 years	47	49
< 1 month	15	3	7 - 8 years	47	55
1 - 3 months	15	5	8 - 9 years	47	61
3 - 6 months	15	8	9 - 10 years	47	66
6 - 9 months	15	10	10 - 11 years	47	73
9 months - 1 year	15	13	11 - 12 years	47	79
1 - 2 years	25	21	12 - 13 years	47	84
2 - 3 years	32	28	13 - 14 years	47	89
3 - 4 years	32	33	14 - 15 years	47	93
4 - 5 years	43	38	>15 years	47	95
5 - 6 years	43	43			

Table no. 3 The depreciation coefficient in actual variant and proposal

Source: http://www.taxapoluare.audieripublice.ro/view_page.php?hash=9d828cc97915a651d29106b8e49bb60e

By comparison to the existent scheme, the proposal takes into consideration much more intervals for the years of service of the vehicles, and the coefficient is rising up to 95% for cars of more than 15 years of service. Also, for new cars the proposed depreciation coefficient is zero, as it should be. The comparative evolution of the depreciation coefficient in the actual scheme and the proposal can be seen in the figure no. 3.

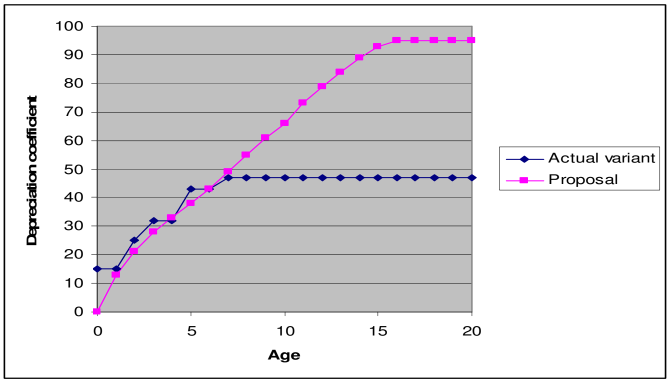

Figure no. 4. The comparative evolution of the depreciation coefficient

In the case of the proposal, the depreciation coefficient rise constantly with every year of service of the vehicle, reaching the maximum level of 95% for vehicles of more than 15 years of service. The increasing of the coefficient is more accelerated in the first years of service, as it can be seen in the figure no. 3. Another major critic of the registration tax, respectively the double taxation was tackled by instituting a ***procedure of reimbursement*** of the tax when the car is taken out from the domestic park of vehicles. The value to be refund is set to the residual value of the tax which represents the tax that would have been paid if the vehicle has been registered at the moment of the taking out. So, if a Romanian resident registers a car of two years of service, he pays the tax accordingly, and if he sells the car abroad (in the other member state) after four yeas, he is entitled to a refund calculated for the same car but with 6 years of service. This mechanism requires the tax to decrease along with the years of service, in order to avoid situations when the owner of the car receives more than he had been paid when he first registered the car. The new tax that will replace the actual one will not be a revenue for the state budget, but it will represent a revenue for the special fund for environment, thus, ***being dedicated to the financing of the specific environment preservation actions***, emphasizing the ecological characteristics of such a tax. The public debates did not change in any way the draft proposal of the authorities, but it is still to be seen the final form of the tax after the European Commission consultation, which could improve the assessment of the tax, by applying the ***progressive taxation using compound tax rates.***

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7. *http://www.taxapoluare.audieripublice.ro*;

FINANCING, INNOVATION AND KNOWLEDGE MANAGEMENT DEFINING ELEMENTS FOR BUSINESS INCUBATORS

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Abstract: Having in view the importance of creativity, innovation, financing and knowledge management in the entrepreneurial activities, this paper is focused on underlining some aspects regarding the structure of the creative and innovative approach and the business incubators which are the best background to activate creativity and innovation. Because many business incubators stopped their activity, we try to find solutions for them.

We present knowledge management as a new type of management for incubators, innovation indicators and the modern innovative structures which are the optimum background to apply knowledge-based strategies.

Keywords: Innovation, SME (small and medium enterprises), Business incubators, Knowledge management, Financing, Indicators

1. The structure of the creative and innovative approach

Creativity is very important in the entrepreneurial activities. A creative process involves four stages [1] :

1st stage – The storing of knowledge

Successful entrepreneurial activities are generally preceded by explorations and documentations in order to provide the storing of knowledge. Among these we can count: reading informative materials from different domains, professional groups' reunions and research on internal and external published works concerning the subject of interest, the development of a specialized bibliography.

2nd stage – The incubation process

The incubation process takes place while people that have already covered the first stage detach from the question in study to let the subconscious work. The incubation process can take place while: thinking of the problem during the moments of relaxation and meditation; embarking upon routine and entertaining activities.

3rd stage – Experiencing the idea

The evolution from the second to the third stage often takes place unconsciously because, after the incubation process, the idea can suddenly emerge, but reflecting on it will define more clearly the idea.

4th stage – The evaluation and the implementation of the idea

Thinking on the idea will determine a re-processing and refinement that would lead to the creation of an original final idea.

Building a successful entrepreneurial activity supposes making a connection between creativity and innovation.

But innovation supposes a systematic approach, it also implies science, technology, economical – financial principles, spirit of initiative, management and it transforms creative ideas in realities with noticeable modifications.

Innovation is materialized in the transfer of a brand new idea or of a new concept until the final stage of a new product, process or service activity accepted by the market. [2]

Any form it could take, innovation must offer an increased value and a technological development to the new product to such an extent that could also ensure commercial success.

The innovations generated by inventions are also known as product innovations and those generated by the implementation of new techniques and technologies, in order to get a highest quality, are known as process innovations.

2. Business incubators – the best background to activate creativity and innovation

In Romania, the small and medium sized enterprises (SME) sector emerged on an immature market and that situation was the source of great difficulties in finding the resources but also of lot of opportunities as a result of the clients' unsatisfied demand.

The main problem that the private entrepreneur faced was determined by the great number of public institutions that had to work together but also the insufficient entrepreneurial and management training.

The vulnerability and the social and economical costs induced by the failure of such enterprises led to the clear conclusion that they must by supported by the government. That is why the contemporary time is appreciated as being the time of creativity and of the powerful implication of the government to develop the small and medium sized enterprises. Therefore, by the implementation of START program, the government offered the opportunity of developing the entrepreneurial abilities among young people. For the period 2006 – 2009, the procedures of implementation of the national multi-annual program for supporting the SME access to training and consulting services and for exportation development were also approved (Disposition 55/2006 and Disposition 52/2006).

An important help offered to the companies immediately after their establishment is represented by the business incubators for which The SME (the small and medium sized enterprises) and cooperatives National Agency set up a "multi-annual establishment and development program (between 2002 – 2009) for technological and business incubators".

Nowadays, in Romania, there are few incubators, with weak impact that can not satisfy the special needs of the new or already functioning SME. With a low outliving rate, number of incubators stopped their activity because they didn't have enough financial support that could offer them the required viability until self-support. Their creation wasn't based on partnerships that could support the financing after financial discontinuation.

The activity and the success of an incubator depend on the choice of goals and distinct strategies but also on a initial financing supported later by an adequate financial discipline.

Consequently, nowadays, the creation of a business incubator must comply with new requirements regarding:

- The creation and development of innovative SME that use efficiently the resources existing in the research system and technology and that create new jobs;
- The creation of an efficient relation between the technological and entrepreneurial potential;
- The improvement of access for incubated SME to information, consulting and also to services and specific research equipments;
- The use of facilities, of human resources and materials existing in that area.

At this time, the only business segment where the innovation degree is higher in Romania than in the European Union is the one in which these SMEs feel the competition pressure to enter the international market, i.e. the textile, leather and shoes industry.

In Romania, small enterprises come with few innovations, in comparison with big enterprises. Even if small enterprises, theoretically, should be the main promoters for innovation due to their internal flexibility and adaptability, they don't have the financial power to innovate, they are not open to risk and the most of them are found in non-innovative domains as retail trade.

Placing the SME under the protection and monitoring of an incubator would generate the background capable to establish politics that could determine the development of their innovative potentialities and that could help them penetrate domains with high added value.

3. A new type of management for incubators – knowledge management

Efficient managerial systems to manage the new ideas and knowledge are also necessary in order to develop the activity of the SME included in a business incubator.

The old saying “knowledge means power” proved ineffective because life proved that the real power comes not from the existence of knowledge but from the ability to implement this knowledge by means of an efficient management.

It has been proved that excellence ensuring the competitive advantage depends, mainly, on the knowledge management. The totals of knowledge existing in a company represent the intellectual capital and the aim of the entrepreneurs and managers is to develop this capital.

The intellectual capital includes four categories of intangible assets [3]:

- Market assets: trade marks, market shares, order reserves (as far as the production process could cover them), chains of distribution, license of franchising agreements, etc. These assets generate the competitive advantage.
- Infrastructure assets: technologies, work systems, specific technical procedures that make a company run efficiently. These assets represent the culture of the organization indicating the ways the employees work and communicate what management systems are used in the company.
- Intellectual property assets: patents, software, brand-marks, product-marks, service-marks, copyrights, etc.
- Human values: the employees’ talents and professional abilities, the experiences, leadership, the capacity to state and to solve problems. These values have synergic effect because their sum can be larger than the sum of the parts if the companies managed to set up communities where the creative capacity is stimulated.

In a business incubator, knowledge management means adopting a new attitude towards intellectual capital development within the framework of companies.

Knowledge management will become a reality when the incubator or the structures including an incubator moves from the spirit of competition to the one of co-participation and partnership.

4. The modern innovative structures – the optimum background to apply knowledge-based strategies

The transition to the knowledge-based economy implies stronger relations between companies and relations between companies and the education and research-development institutions, etc.

The creation of connections between the business incubator and such institutions will generate the creation of complete innovational networks. In the framework of such structure, knowledge management has two distinctive tasks: to facilitate the creation of new knowledge and to organize the way the employees of the companies helped by the incubator and those of the education and research-development institutions communicate their knowledge to be applied in concert.

There is a strong relation between the innovation associate and the knowledge production. In such a context, the companies stimulate the production of new knowledge by means of accepting audacious visions on economic strategies, meanwhile promoting the values and knowledge already existing in the company.

The application and the use of knowledge suppose that they circulate among the component structures of the innovational network.

Innovation and knowledge management imply the application of some distinctive strategies. “Knowledge-based strategies rely on two new elements that generally can not be found in classic strategies: knowledge becomes the most important strategic resource of the organization, and learning represents the most important capacity of any system” [4]. In these conditions, one can speak about new strategies as it follows:

- qualification
- standardization
- personalization
- vision-based strategies and strategies based on emergent studies which are able to generate competitive advantages on national and international level.

5. Innovation indicators

The performance indicators considered in present as relevant for the SMEs activity evaluation it is proved more useful in the performance evaluation from the past and less useful in the performance evaluation from the future.

A list of innovation indicators proposed by different institutions (such as the Ministry of Small and Medium Sized Enterprises, Commerce, Tourism and Liberal professions and others) was analyzed using the innovation criteria.

The indicators analysis permit the selection of the most suitable indicators for the SMEs, thus became a system of indicators that evaluates the SMEs performance in innovation. This system of indicators has:

a) Input indicators

(Indicators which are under direct control of the SME management)

b) Output indicators

(Indicators which make the results evaluation on medium or short term, the consequence of the taken measures regarding the innovation)

c) Indicators for measuring the efficiency of the activity

(Indicators which are due only partial to innovation, but they make references to the general objectives of the business):

1. General results
- Survival (for example years)
- Increasing of profitableness
- Number of new work places
2. Products and processes
- Market quota at regional level
- Market quota at national level
- Market quota at european level
3. Focus on client and extern image
- Clients satisfaction determined by mail, phone or direct contacts
- Sales for the new customers
- Benefits from sales to the new customers
- Extension of brand or name promotion of the SME
- Number of references in mass media regarding the SME in cause, such as example for good practice in the field of innovation.

Because the performance indicators list seems always to be extended, it is necessary for each SME to select a set of adequate indicators to the specific situation, indicators which constitute “the board table” of the SME performance in cause.

6. Conclusion

Like a set of conclusive considerations, it is noteworthy that in the case of Romania, there are few incubators, with weak impact that can not satisfy the special needs of the new or already functioning SME. The activity and the success of an incubator depend on the choice of goals and distinct strategies but also on an adequate financial discipline.

Efficient managerial systems to manage the new ideas and knowledge are also necessary in order to develop the activity of the SME included in a business incubator. Life proved that the real power comes not from the existence of knowledge but from the ability to implement this knowledge by means of an efficient management.

Knowledge management will become a reality when the incubator or the structures including an incubator moves from the spirit of competition to the one of co-participation and partnership.

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STRUCTURAL MUTATIONS INTERVENED IN THE SOCIAL INSURANCE SYSTEMS

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Social insurance doesn't stand much chance of survival to the wave of globalization. Principles, such as inter- and intragenerational solidarity or the redistribution of the national wealth are gradually replaced by completely different or even opposite ones, such as individualism and capitalism, which are closer to the mercantile spirit of the globalization movement. The principle of solidarity is dangerous to the promotors of globalization because it creates a sense of unity and empathy between people and this diminishes the effect of the "divide et impera" policy which needs to be applied even on the individual level. Actually we are witnessing a process of atomization of the society by the autization of the individuals. We can say that one of the tendencies of today's world manifesting itself in a striking manner in the social domain is represented by the convergence of social systems towards the North-Western social model which, in the absence of a credible alternative, expands rapidly to a planetary level.

social insurance, globalization, pensions

Introduction

The social domain doesn't stand a chance to the wave of globalization, its economic component having probably the greatest influence on the changes in the social policies of the states in the recent years. Social principles, such as generational solidarity and the redistribution of the national wealth were replaced in the last two decades by others which are totally different, for example individualism and saving, and these are closer to the mercantile spirit of the globalization movement. The main financial institutions leading this process, The World Band and the IMF (International Monetary Fund), realized that the social sector, which handles an important part of the wealth of a country, can become a suitable domain to the involvement of the private capital in the purpose of gaining significant profit. On the other hand we also have to take into consideration the fact that imposing the laws of private economic competition in a sector which may represent the largest function of the nation-state at this moment, namely the protection of the citizens against some social risks, led to the considerable reduction of the role of the state.

We can say that one of the tendencies of today's world manifesting itself in a striking manner in the social domain is represented by the convergence of the social systems to the Norh-Western social model which, in the absence of a credible alternative, expands rapidly to a planetary level. It hasn't been implanted in all the regions of the planet yet because the local societies of some geographical regions are not "modern" enough to implant it. But when we talk about the modernization of regions like this, about rising their level of civilization, their living standards and the quality of the lives of their population, we take into consideration their advancement within the framework of the coordinates of the neo-liberal model[95]. From this point of view the globalization consists of the "export" of this model from the "central" states to the ones on the outskirts, as well as the "import" of the model and eventually its adoption, implantation and adaptation to the local requirements[96].

1. The controversies of the involvement of the private sector in social insurance

The debates connected to the degree of involvement of the private sector in financing and handling the social services began when the first forms of social insurance appeared because this is, in fact, the main difference between the models of insurance: the degree of involvement from the state in protecting its own citizens and the social risks that the private firms should cover. This balance changed in time depending on several economic, social and especially political factors because the social insurance systems are organized in most states by central public institutions. If at the beginning of the operation of the systems the targeted

[95] Roth, A., *Modernity and social modernization*, Polirom Publishing House, Iaşi, 2002, p. 64.
[96] Maliţa, M., *Ten thousand cultures, a single civilization. Towards the geomodernity of the 21st century*, Nemira Publishing House, Bucureşti, 1998, p. 20.

risks were few and the degree of the population coverage was not important, involving only certain social categories, with the development of the society the complexity of social needs increased considerably because the state tried to protect the citizen during his whole life and the services were extended practically to the level of all social categories. This development of the social insurance systems led to the increase of financial resources handled by these systems and also to a growth in the interest of private investors in taking over the handling of some of their components.

The involvement of the private capital in the social sector is not based on social reasons, its purpose is, like in any investment, the profit. This is an almost certain profit because the targeted problems (health, old age) affect every inhabitant of the planet, no matter their living standards or geographical region, so they become certain customers of the offered services. The private capital undoubtedly produces an evolution in the quality of "the social products" because the competition between the supplying firms is beneficial and they have to innovate and develop continuously the offer they promote. In this way innovations appear in medicine, new treatment methods and medicine for diseases which were previously untreatable are discovered, the private hospitals provide better conditions for treatment and recovery, in the domain of pensions a better income is promised at an old age and the concept so dear to the western society of individual property over the contributions to the private system is promoted (unlike the public one where the funds were distributed on the level of the whole society). All these aspects may seem as a positive evolution of the human civilization and up to a point they are. But the problem that such an evolution implies is that it eliminates exactly the notion "social" from the system, the beneficiaries of all these innovations are only those who can afford to pay the asked price and those with a difficult financial situation and in the biggest need of this type of services are left out of the system.

The more and more significant intrusion of the private capital in the domain of social insurance in the recent years is due to the phenomenon of economic globalization, to the increase of the role of transnational firms to manage financial flood on the world market and their need to identify new directions of investing the enormous capital they hold. The clear intention of acquiring the social domain is illustrated by Bill Gates' statements at the beginning of 2007 in which he says that "the private money is going to make the policy of the industrialized states more effective in the direction of assistance for development" and there is a need for "the planning of charitable actions according to strict managerial criteria". It is to be seen how the economic efficiency can be applied in the social domain in which we do not deal with merchandise or production units any more but with people and their needs which have to be met because some of them are elementary and not artificially created.

One of the effects of the increased involvement of the private capital is the diminished importance of the public institutions in managing some social aspects, the role of the state becoming a residual one, of solving the problems of the lower stratum of the population which doesn't have enough income to be able to contribute to the privately managed funds and to be attractive to the private firms. The exclusion of this population category (which in some cases adds up to a considerable percentage) is realized by imposing some minimal limits to the contribution to the private pension funds or determining prices for the medical services which are inaccessible to this category. So the efficiency of the private system is not so much due to the efficient methods used but more to the fact that the system doesn't take over the population percentage with difficult financial situation and it doesn't make transfers between population categories, from those with higher income and financial capability to those with very low income or without any income because this would reduce a part of the benefits enjoyed by the former and also the efficiency of the system.

The privatization of social services also has an important political consequence: it reduces the dependence of the population on national governments. One of the most attractive features of public social systems, as far as full coverage within the pension systems is concerned, is the dependence of the majority of the population on the system. Thus those who politically control the system can manipulate the electorate to reelect them by promising the elderly a stable annual income which could increase the value of the pensions. But as in the case of economic monopoly, the phrase according to which "competition destroys power" is valid also in the public sector.[97]

The descentralization of the system by privatization leads to the existence of more systems which are in competition, to different products and policies which determine the redistribution of the power centres

[97] Biedenkopf, K., *The Privatization of Social Security*, in *The Geneva Papers on Risk and Insurance*, vol. 24 nr. 3 (July 1999).

within the social security systems. The effect is the substantial reduction of the state monopoly and its power and the appearance of new players on the market of social services (the transnational firms), some of them even more powerful than the state. The positive results should be felt at the moment of the payment of the social benefits where the efficiency of the private capital constitutes a premise for the superior results than with the public methods. But this efficiency comes from the elimination of the unpredictable and unquantifiable factors which can affect the operation of financial transactions so that the mecanism can work without obstructions. And one of these factors is the social, human factor. The results achieved by the private pension systems (if they prove to be viable) will be beneficial only to those with high income during their active life, while the taxpayers who paid less, because of different objective or subjective reasons, will have a less quiet old age. The private capital will try to take over everything that can become a source of income, that can be exploited from the social sector leaving the latter the residual role of managing the difficult, unlucrative situations which consume financial and human resources.

2. The multipillar model of pensions proposed by the World Bank

The most important changement in the social insurance systems in the last decades occurred in the domain of pensions and it was the implementation in the whole world, in a relatively short period of time (approximately 20 years), of the multipillar model of pensions proposed by the World Bank.

Starting from a series of punctual data referring to the evolution of some pension systems in certain countries of the planet and from some estimates referring to the aging of the world's population in the period between 1990 and 2030, in 1994 the experts of the World Bank made up and published a report entitled "The prevention of the crisis of the third age" by which they wanted to draw attention to the potential danger represented by maintaining the existing systems and the necessity of the introduction of the privately administrated component within these. Thus the World Bank proposed a system in which the function of the redistribution of the pension systems would be separated from the function of saving and more than that, the latter would pass over from the public administration to the private one. In other words this work was going to become the textbook with the promotion, the acquisition, the implementation and the usage instructions of a product which was presented as an aid to the social services but which had nothing to do with this domain.

The main causes[98] which (in the opinion of the WB experts) determined the reorientation in the conception of the social security system models in the case of the elderly were the following:

- the ageing of the population;
- the resources saved by the publicly administrated funds are often wasted because of the bad management;
- governmental pensions are rarely increased in the rhythm of the inflation so the workers are poorly protected at an old age;
- due to the wide diffusion of medical knowledge and the decline of fertilily, the developing countries age much faster than the industrialized countries did, so they will have old demographical profiles reported to the levels of individual income which is much lower than those in the developed countries;
- the demand for health services grows as the countries (nations) get older because the health problems and the expensive medical technologies appear within the ranks of the elderly. As the expenses on the health and the pensions grow together, they both burden the resources of a country and the governments' budgets can exponentially grow with the ageing of the population;
- the high taxes distort the labour markets and reduce the economic growth;
- the governmental expenses which are raised with the social security of the elderly reduce the resources given to other public goods and services;

[98] *Averting the Old Age Crisis*, A World Bank Policy Research Report, Oxford University Press, 1994

- in developed countries the workers who retired in the first 30 years of the existence of the public system were given important transfers, while those who will retire in the future will get less than they would get from other investments and they will get back less than they gave;

The key recommendation of the report is that a national social security programme of the elderly should focus on all the three functions of the system, namely the functions of saving, redistribution and insurance, but with a very different role of the government for each of them:

- *the saving* implies the uniformity of the income during a person's life: people postpone a part of their consumption when they are young and their income is higher to be able to consume more than they could afford with their reduced income when they are old;
- *the redistribution* implies the movement of a lifelong income from one person to the other, maybe because if the workers with low income saved enough money to afford to live normally when they are old, it would mean for them to live as poor people when they are young;
- *the insurance* implies protection against the possibility that recession or badly made investments could cancel the savings, that the inflation could erode the real value, that people could live more than they saved for or that the public programme could fail;

The report recommends the separation of the function of saving from the function of redistribution within a system and their placement in different financial and administrative arrangements, in two different obligatory components-a publicly administrated and tax financed one and another which is entirely financed and administrated by the private sector-supplemented with an optional component for those who want more. Thus the new model based on three pillars was built, with the following features:

A) the public component -compulsory- would have the limited task of diminishing the poverty of the elderly and of coinsuring against a multitude of risks. Supported by the power of taxation of the government, this has the only ability to grant services to those who get old a short time after the introduction of the plan, to redistribute the income to the poor and to coinsure against long periods of obtaining small profits from the investments made, the recession, the inflation and the fall of private markets.

The public component could assume three alternative forms in the opinion of the WB experts: a) a part of a functional income programme for the poor of all ages with criteria of eligibility which should take into consideration the diminished working ability of the elderly and with levels of services which should take into consideration the tipical needs of this age; b) it could grant a minimal pension which is guaranteed by a compulsory component of saving; c) it could supply a uniform universal service or one connected to the employment of the labour force which could affect a larger group of people.

Whichever the chosen variant would be, the WB states that it should be of a modest size to leave place to the other components (the private ones) and to avoid the problems usually associated with the public administration of national supplying funds. A clear and limited objective for the public component would substancially reduce the rate of contribution to the system and the fraud, as well as the pressures to overspend and intra- and intergenerational transfers.

B) the second component, also compulsory, should be *managed on private bases* and there are two alternative forms for this: *personal savings* or *occupational plans.* The explanation for the necessity of the presence of the private management in this component lies in the fact that the majority of the publicly supplied and managed schemes would produce poor results as public funds usually have to invest in governmental guarantees or the bonds of the quasi-governmental entities which frequently have levels of interest under the markets'. Because of this, public funds would produce less than on the open market and they would have to collect higher rates of contribution or grant lower services than they could do in other cases. On the opposite side would be the private schemes managed on principles of competition which are rarely in the situation of accepting reduced profit, under the level of the market. These are stimulated to invest in shares and bonds which offer less risky combinations and they can take advantage of the possibilities offered by international diversification and the competence in administration. Beside the higher profit brought to the taxpayers, the privately managed compulsory pension schemes can offer a series of advantages to the whole economy. They can constitute a part of a national policy of creating new financial institutions and intesifying the capital markets by the mobilization of economies on a long run and their distribution to more productive ways of usage. For these reasons the WB report firmly recommends the private management of the compulsorily supplied component.

C) the third component could be represented by *the optional occupational plans* or *the personal savings* which could supply an additional protection to those who want higher income for when they are old.

3. Critical thoughts about the WB model

Although it was mentioned that a good combination of the components is not identical in every moment and every place, the WB recommendation is that "all the countries should start planning the reforms now" (the call was made in 1994). This planning must take into consideration the objectives of the country, its history and current conditions and most of all the importance given to the redistribution opposed to the economy, the financial markets and the regulatory and taxation capacity. When giving all these pieces of advice and recommendations *the WB takes no account of the possibility that some countries may not need such a model of pensions* and it states that this model has to be imposed on a world level, the necessary type of reform and the rhythm of introduction will vary from fast in the countries with high and medium income whose systems have serious problems to slow in countries with low income which should avoid making the same mistakes.

The social insurance systems are disintegrated and threatened with privatization, the pensions, the health and education are on their way to be transformed into merchandise. We consider that the model of pensions based on three pillars proposed and spread by the WB and which is seen as a product of the neo-liberal economic model is the best example to support this statement.

Firstly it is a "custom-made" luxury product for the world market in limited number (for the countries that implemented it or they are going to implement it in the following years). Like any luxury product, it has a high price, both on the financial and socio-economic level. In order to be able to purchase it, a government needs to bear a considerable sum which cannot be paid in one instalment so it needs to identify supplementary sources of income. The handiest and fastest of these is the international loan which is generously offered by the producer of the good, namely the World Bank.

Whether the countries need this product or not is not important because usually the luxury products are not strictly necessary, the need for their demand and consumption is artificially created, not pre-existing. The same phenomenon occurred in our case. *Starting from the 90s the bigger or smaller national governments were "convinced" that they needed this kind of model.* The reports of international financial institutions, the IMF experts and the WB "demonstrated" that the world was going through a severe demographical crisis and even if it wasn't, this crisis would occur in the following 50 years and the governments were not ready to solve the socio-economic problems that would arise from it. The saving solution is "the acquisition" of the WB model which can be applied, with some modifications, to any social structure. The problem is that, once purchased, the product will start to show the first results only in 20-30 years without a guarantee that the expected results will be achieved and the economic, social and demographic situation predicted in the present will show the expected trend. But this aspect is less important because in case of a malfunction, there is a clause in "the selling contract" which states that the one who will bear the expenses of repair is the buyer (the national government).

Another problem raised by the promotion and spreading of this product is that, although it appeared as a "necessity" of the present difficult situation, it doesn't solve in any way the present problems of the redistributive pension systems. Actually by promising welfare to those who will retire in 20-30 years, the implementation of the model financially burdens even more the systems which already face difficulties in balancing the financial resources of the budgets of the public social insurance. The persons who are pensioners today and those who will fall in this social category in the next 20-30 years will entirely stay in the state's care, which, beside the huge costs of implementing the new model, will be forced to identify supplementary resources to grant at least satisfactory social services.

An aspect that we consider important to approach is that of *the marketing and advertisement that this product had.* Tested in the South-American laboratories, its successes were not as resounding as they were presented. The well-known and promoted Chilean model represented a relatively singular success in that part of the world as the other South-American countries which accepted the model obtained results much below the expectations or even disastrous ones and they had to reconsider a new system of social security. In these cases the responsible were identified within the given state and the national institutions and the persons who implemented the model were accused of lack of professionalism and corruption. Although these factors may have caused the failure, *the reality proved that the WB model cannot work unless elementary conditions of the existence of a viable market economy are met, with a powerful and transparently controlled capital market.* Without local experts in the given domain and with consultants of international financial institutions who were not familiar with the economic, social and political facts in the given countries, the model was implemented with the same proportions even when the existing conditions were different. This situation may be compared with the acquisition of a TGV (a train of great speed) by a country with a railway infrastructure which is technologically exceeded (for example Romania). Nobody can deny how useful that means of transport would be and how many benefits it would offer to the passengers. But the TGV cannot run yet because the infrastructure existing at the moment of its acquisition doesn't allow it to do that. This aspect is not an inconvenience: the important thing is that it has to be purchased and there is plenty of time to build the necessary infrastructure until the fairly high price for this technological innovation is paid. Yet there are three problems: firstly the TGV doesn't have 3rd class seats and the people belonging to this category can travel by it only if someone (maybe the state) provides them, by different means, the necessary resources to purchase the travel fares for the superior classes; secondly if the infrastructure is not well built there is a chance that the train derails when it starts to gain speed and thirdly there is a chance that after 20-30 years from the acquisition, due to the evolution of the technology, the buying government will realize that the newly built infrastructure doesn't meet the demands of the society at the moment when it is put to use. In the case of the WB the risk doesn't come from the development of the economy but from its involution, because the possibility that a major crisis appears on the financial markets of the world in the next years is growing.

The model was accepted in Europe probably because of the pressures of the financial institutions and due to the need of making homogenous the multitude of social security systems which were extremely heterogenous within the European Union. Its successes were not resounding and the model underwent some significant changes, a series of concessions were made especially as far as the importance and the proportions of the public pillar was concerned. Unlike the developing countries which had a less evolved social security system, the European countries had more powerful and traditional social models and the experts in this domain did not accept the implantation of the WB model without a fight. This explains that, with a few exceptions, the introduction of the new model was realized but the importance of the public pillar was maintained and the role of the state remained much more significant than the WB would have expected. But this is just a temporary compromise, the direction of evolution has already been indicated: *we are heading toward a privatization of the social services and especially of the pension systems.*

Conclusions

It is to be seen how beneficial the replacement of the public systems with private ones will be in the next 20-30 years but we can already ask a question: what will happen if the private management of the social domain will fail in the countries which are implementing this component now? The guarantees offered by the state do not cover even the nominal value of the sums transferred by the population and there are no sanctions or payment obligations for the managing firms in these situations. This private construction is built on a less safe ground which is periodically shattered by powerful earhtquakes (financial crises) and these can considerably affect the value of social services and the very existence of the system. There are not very many solutions to prevent such situations but we think that the internal legislations should force the private firms to guarantee for the managed sums (at least in the case of those obligatorily collected) at the value of the deposits, actualized with the percentages of the inflation, because these are not speculative investements that a person risks in order to obtain a large profit but the resources which will assure his living standards in the last period of his life.

The principle of solidarity which is at the base of social insurance is dangerous for the promotors of globalization because it creates a sense of unity and empathy between the people and that can lead at a given time to a sense of aversion, of rejection in a nation or a significant geographical region (for example Europe) towards some necessary elements of the process of globalization. *This aspect may lead to the diminution of the effect of the "divide et impera" policy which is promoted under the mask of global unity and this division needs to be applied even on the individual level via state-nation-society.* **Practically we witness a process of atomization of the society by the social autization of the individuals,** in other words their detachement from the problems of society and the inoculation of the concept of inequity of the solidarity and redistribution as modalities of solving these problems.

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THE MAIN COORDINATES OF THE FISCAL AND BUDGETARY ROMANIAN POLICIES: PRESENT CHALLENGES

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The fiscal and budgetary construction developped at national level is focused on the maintenance of the macroeconomic stability process in order to achieve the nominal and real convergence criteria concerning the membership of the Romanian economy to the European Union integrated monetary space. The orientation of the fiscal and budgetary national policies is subdue to some major constraints regarding their capacity of ensuring the external sustenance, of developping the non-inflation process, of forming and consolidating the financing resources necessary to the accomplishment of the post-adhesion engagements assumed by Romania as a member state of the European Union.

Fiscal policy, fiscal administration, budgetary policy, nominal and real convergence

Economic policies and actions that will be realized by authorities in the year 2008 are sub amount to the context of fulfilling the objectives assumed as part of the process of European integration, ensuring the nominal and real convergence with member state of the European Union. The projection of the main macroeconomic indicators will reflect, as follows, a performing and stable evolution that will allow the consolidation of the macroeconomic equilibrium already existing, maintenance under control of the budget deficit and continuation of the disinflation process.

The following coordinates characterize the internal and external macroeconomic frame, in which the Romanian economy will evolve during 2008:

- maintenance of favorable evolutions regarding economic increase, which proved to be robust, sustainable and of long period, sustained by structural reforms and of initialization of a sector convergence of European type;
- evolution of the international frame is favorable to financial stability in Romania, the following evolution being forecast:
- economic increase is estimated for the entire Union at 2.7% and for the Euro zone at 2.5%, Japan and China will continue to have favorable results, meanwhile emergent economies will maintain their robust trend;
- public finances in European Union, which beneficiated from 2006 of a significant economic bending, as well as an upturn regarding fiscal elasticity, reflected especially in fiscal vivacity of the companies will register in the future an improvement of their sustainability, forecasting for the year 2008 a deficit of Euro zone of 0.8% and for the entire Union of 1% from the Gross Internal Product;
- attentive supervising of some macroeconomic variables to avoid some eventual side-slip like:
- the level of the deficit of current account (estimated at 13.3% in 2008), which represents a major challenge, even if sustainability will be endured, as follows, by direct investments and capital transfers;
- the level of inflation and wage increase over the growth in productivity.

1. The main coordinates of the fiscal and budgetary policies

The configuration of the fiscal and budgetary policy in 2008 integrated in a context consistent with the economic tendencies and based on the Government determination to warrant the rapid convergence to the European Union standards, is defined by some major features:

- maintenance of a performing approach and oriented on the priority sector policies to ensure the continuity and consolidation of the macroeconomic equilibrium and continuation of the disinflation process;

- ensuring and consolidatin of necessary financial sourcing to support commitment which derives from integration in the great European familiy;
- formulation of a budget of development, positioned in a vision on long term, which will encourage investments and absorption of European funds.

The key elements of the fiscal and budgetary construction in 2008 are centered on:

- the maintenance of a stimulating fiscal policy, fiscal stability without precedent, characterized by maintenance of main taxes, no introduction of new taxes and without increasing the existing ones;
- the reduction of contributions of social insurances during 2008 with 6 percentage points, gathered (employee and employer);
- the observance of the conditionalities of the Maastricht Treaty, especially the one regarding the consolidated deficit of the general budget situated under 3% from the Gross Internal Product, given the conditions that the budgetary revenues have 39.3% and budgetary expenses represents appreciatively 42% in the Gross Internal Product, in order to maintain the forecast inflation target in 2008 under the controllable limits;
- attentive orientation of the budget funds to those sector policies that are considered priority and that observe the increase of the efficiency of public funds: education, health, social insurances, infrastructure, regional development, agriculture, research and innovation, defense;
- consolidation of conditions for the absorption and functionning of structural instruments, resource of which Romania will take advantage as part of the European Union in order to reach the objective of long-lasting increase. In this sense, it must be mentioned the approval of the National Strategic frame of reference that facilitates the projection of budgetary policies on multi annual basis, formed of seven operational programes financed by the European structural instruments and national funds.

The consolidated general budget, formed by a unitary system of budgets, the main instrument of orientation of the economy, generally and of diverse governmantal politics is formulated for year 2008 at a level of revenues of 39.3% from Gross Internal Product, increasing with 2.4 percentage points in comparison with 2007, the highest level from the past years and a level of expenses of 42% from the Gross Internal Product, increasing with 2.4 percentage points in comparison with 2007, with a budget deficit estimated at 2.7 % from the Gross Internal Product, under the limit of 3% forcast by the Maastricht Treaty - the same as one registered in 2007, reflecting thus a continuous process of fiscal consolidation.

2. The objectives of the fiscal and budgetary policies

The vision of the actual Government in the field of fiscal polices is centered on ensuring a stimulating role of taxes and charges, with the purpose of consolidation of economic increase and development, of fiscal consolidation, and of their stability. The reform process of the fiscal policy started at the end of 2004, aimed at the stimulation of productive activity by introducing the unique percent of taxation of work incomes. Romania is thus one of the countries with the highest level of attractivity for investments that will allow a sustained modernization and increase, which will get us near the medium level of European development, as soon as possible.

The main coordinates of the fiscal policy in 2008 are the following:

- maintaining the unique quota that had multiple advantages such as re-launching the economy, reducing the underground economy, generating higher revenues for enterprising, generating higher revenues for employees;
- reducing contributions of social insurances with 6 cumulated percentage points (employer and employee);
- continuous perfection of the legislative frame to respond to criteria of harmonization of communitarian legislation;
- improvement of fiscal administration characterized by the following values: increased transparency, equal treatment of taxpayers, relation of superior quality with citizens, services

adapted to their needs, responsibility and adhesion of employers at the objectives of the National Agency of Fiscal Administration.

The great line of evolution ruling the activity of the fiscal administration in the following five years, are the following:

- Improvement of the collecting process of budgetary revenues;
- Improvement and extension of services offer to the taxpayers;
- Modernization of the fiscal control. Application of techniques of informatics control. Modernization of selection techniques of taxpayers (based on the risk analysis) and the inspection procedures;
- Consolidation of custom control, simplification of procedures and their modernization;
- Professional development of employees;
- Impelling the strategic planing and control of results. Improvement of the instrument of strategic and operational planning (management on objectives). Delimitation of the risk areas;
- Extended international presence.

The budgetary policy in 2008, formulated in the context of the implementation of the policies assuring the macroeconomic stability, takes into account a budgetary deficit under 3% from the Gross Internal Product, target that will be respected on the 2009-2011 reference horizon, in order to contribute to:

- reducing the excessive aggregate demand and continuing the disinflation process;
- intensifying the stability and long term economic increase according to the particularities of the Romanian economy.

The national authorities formulated the budgetary policy for 2008 in the context of:

- continuation of the reform process that will be realized through horizontal consolidation of economic policies, improvements of the budgetary programming on medium term and increasing transparency of this process, observing the perfection of the budget based on objectives, results, performance;
- reformation of the budgetary philosophy, in the sense of supporting economic sectors with high added value, as well as those based on knowledge. The intervention of state, in conformity with the communitarian rules, will avoid the support of these non-viable economic sectors or social measures of protection that endanger the insurance of durability of development and prove to be vulnerable in front of competition and challenges of globalization. Development of competitive advantages will take into account the advantages and opportunities offered by the Internal Market;
- financing the priority public policies, as a correct approach of Romania in front of the challenges of European integration and globalization, under the conditions ensuring coherence and complementarities with already existing strategic-programmed instruments (National Plan of Development 2007-2013, National Program of Reforms 2007-2013, National Strategic Frame of Reference 2007-2013.

The main objectives of the budgetary policy in 2008 could be synthesized as follows:

- Direction of the budgetary resources to those sector policies considered priority: education, health, support of social insurance, transports, environment, regional development, research-innovation and development – essential objectives of the Strategic of Lisboan, agriculture and defense. This objective must be situated in the context in which:
- Since the 1st January 2007, Romania, as a member state of the European Union applies the provisions of the Social European Charter, which anticipates the right of the old persons to social protection. During 2008, pensions point will represent only 37.5% from the gross medium wage. Support for realization of this objective is given by the economic increase forecast for 2008 to 6.5% estimated to reach 5.8% in 2011, the improvement of the collecting of the budgetary revenues, the legislative modification from fiscal field and the one of social insurances.

- The new approach of the elaboration of European Union budget forecasts for 2008 the allocation of about 44% of the funds to the economic increase and occupation of force labor, indicating a major change that demonstrates the Union volition to concentrate funds on general economic welfare. Important is the fact that common agricultural policy and administration of natural resources passed on second place, in the sense that funds allocated to programs of continuous rural development to increase, while the direct payments for farmers are decreasing.
- Development of the concept of strategic planning which will allow the consolidation of the connection between planning of public policies and elaboration of budget and increasing efficiency of coherence of public funds.

Starting with 2007, the stage of strategic planning was introduced as part of the process of elaboration of budget for 2008, as first stage of the process of elaboration of the annual budget project. As part of this project, public policies that are financed through budget must be found in the priorities of the Governing program, the National Plan of development and programmatic documents issued in Romania's position as member state of the European Union.

A major advantage of the phase of strategic planning is given by the fact that even from the beginning of the budgetary process, the connection between priority public policies, their objectives and medium term budgetary resources will be realized.

The expected result of the strategic planning phase consists in the development and consolidation of the budgetary approach, based on programs. Thus, the public budget for 2008 includes a number of 236 programs, in comparison with 194 programs registered in 2007, representing about 76.2% from the total expenses of the public budget. From the 50 main credit officers, a number of 25 presented budgets entirely based on programs.

- Ensuring the amounts for co-financing of the projects financed from the European funds and the contribution of Romania to communitarian budget, in the condition of a deficit situated under 3% from the Gross Internal Product. The European structural financing instruments have the role of stimulating the economic increase of the member states, of reducing the disparities between regions, and require, according with the additional principle, the participation of public sources of the member states, in certain fields being also necessary the private financial contribution.
- Increasing the economic and financial discipline in ministries and governmental agencies, as well as in units under their subordination, being observed the efficient and attentive addressed allocation of the budgetary funds, the reinforcement of mechanism of control of public expenses, the increase of responsibility and managerial performances, the elimination of registered dysfunctions, the risk identification and monitoring.

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EXPECTED DEFAULT FREQUENCIES FOR THE COMPANIES LISTED AT THE BUCHAREST STOCK EXCHANGE

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This paper uses the structural models methodology to estimate the credit risk for the Romanian companies that are listed at the Bucharest Stock Exchange. Under the new Basel Capital Accord that is also spreading to the capital markets, financial institutions are allowed to report using internal ratings. We present a methodology for computing the probabilities of default on the Romanian capital, which constitutes the first part of the development of a rating system based on market values.

Cuvinte cheie: Expected Default Frequencies, Structured Credit Risk Model, Romanian Capital Market,Credit Rating

Introduction and Objective

This paper uses the structural models methodology to estimate the credit risk for the Romanian companies that are listed at the Bucharest Stock Exchange. Under the new Basel Capital Accord that is also spreading to the capital markets, financial institutions are allowed to report using internal ratings. We present a methodology for computing the probabilities of default on the Romanian capital, which constitutes the first part of the development of a rating system based on market values.

Generally the defaults occur when the firm is unable to meet its financial obligations. Here, the models are based on the timing of the event that causes the default. Most of the time, these models depend on the balance sheet interpretations. In other words the default occurs when the assets are too small compared to the liabilities.

The first developers of models in this area were Black and Scholes (1973) and Merton (1974). In these models default occurs at the maturity date of the debt, and when the condition of assets of the issuer is less than the face value of the debt is satisfied. In practice KMV corporation has developed estimated default frequency, which is based on this model and used for empirical estimator of default probabilities. Moody's also developed an estimator which depends on the balance sheet information for the same purpose.

The main idea of the structural models originating from Black-Scholes(1973) and Merton(1974) is to consider corporate liabilities as contingent claims on the assets of the firm. In other words the market value of the firm is the fundamental state variable (Giesecke 2002). Here, there is also the paper by Longstaff and Schwartz (1995) that we need to mention which is considered to be the second general methodology to price debt instruments subject to credit risk and also correlated interest rates and the credit risk.

In the classic papers Black-Scholes(1973) and Merton (1974), the contingent claims-based approach to valuing the corporate debt assumes that the interest rates constant and the default risk was modeled by means of option pricing theory.

The unrealistic part of the approach was that the default only occurs when the firm exhausts its assets. This point was taken into account by Black and Cox (1976) and they allowed default to happen when the assets of the firm reaches a specified level of threshold. This new addition of default condition enabled Black and Cox to construct a model where credit spreads would be consistent with the ones existed in the corporate debt markets. However, they carried the same assumption as before and, took the interest rates constant. This would make the calculation of the risky fixed income securities very difficult.

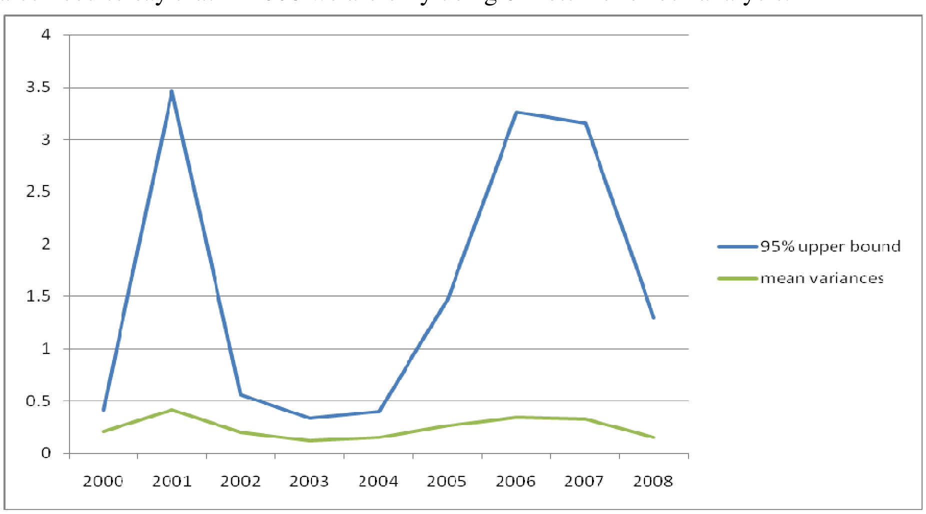
The importance of the Longstaff and Schwartz (1995) is to extend the Black and Cox (1976) Model in order to generate a new basic model for valuing risky debt where they combined default risk and interest rate risk and added the possibility of deviation from strict absolute priority. One of the most important results of the study was that; if there is different correlation between the assets of the firm and changes in the interest rates, there can be significant variations in the credit spreads of the firms whose default risks are similar. By the same token, they answered the existence of the different credit spreads of the bonds with similar credit ratings in different sectors.

Data and Methodology

We used data from the Bucharest Stock Exchange website and the first task was to organize it so that we can compute daily variances for each year. The variances were multiplied with square root of the number of observations that we had for each year for each stock in order to have annual variances. The Matlab software was used for all the computations. We obtained 77269 data for closing prices of all the stocks listed at the exchange from the 5th of January 2000 until the 29th of April 2008. For the days in which we lacked prices (due to holidays or days when the respective stock was not traded) we considered returns to be equal to zero. In this case we are aware that we reduce the variance for the respective days, by using introducing higher constancy into the data, but, on the other hand, the possible jumps, which would eventually happen at the next trading day, will sometimes compensate this fact. On the other hand, the usual interpolation techniques do not seem reasonable for the movement of the returns, as they showed to have low autocorrelation in previous studies. One way to extend the analysis would consist in fitting a GARCH process to the movement of the returns for each stock, but, we also had in mind the fact that we are only concerned with finding one statistic that proxies the volatility of the logarithmic returns for the entire year, so in the end we would have also had to average the volatilities out.

The variances that we obtained for each stock were computed as the variance of the daily logarithmic returns multiplied by the number of observations in each year. One part of the work we developed was to build a vector with all the working days in the respective time interval and fill in returns for each day, so the number of observations was considered to be the same for all the stocks in our sample.

The variances were computed for 62 stocks for each year from 2000 until 2008. As we can see in the following graph, the variances at the beginning of our period were relatively high, with respect to the rest of the period. The blue line shows that the average returns were not so important but their dispersion among the stocks taken into account was quite impressive. The same thing can be observed in 2006 and 2007 and we can observe that the dispersion of the stocks around the mean variance is reducing towards 2007. We also need to say that in 2008 we are only using 84 returns for our analysis.



Average variances and the 95% upper bound for all the stocks in each year

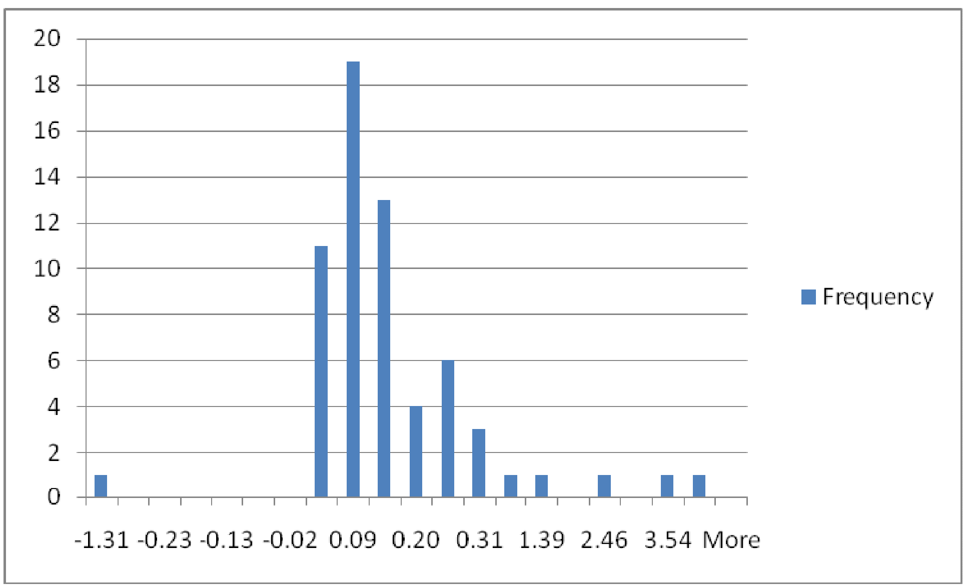
As shown in the following table, the number of companies is increasing from 2000 until 2008, mainly due to the fact that we focused on characterizing the credit risk for the companies that are now listed at the Bucharest Stock Exchange, many of which were not traded such a long time ago.

Year	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
Mean variance	0.209	0.418	0.205	0.121	0.154	0.263	0.348	0.328	0.155
Standard deviation of variances	0.105	1.519	0.180	0.110	0.123	0.609	1.453	1.413	0.570
95% upper bound	0.420	3.456	0.566	0.341	0.401	1.481	3.254	3.154	1.296
Number of stocks	42	45	46	46	49	54	56	59	62

Dynamics of the yearly variances from 2000 until 2008 for the Romanian listed securities

The reduction of the variances, followed by the reduction of the dispersion of the variances among the Romanian stocks, might be interpreted as a period of reduced risk. An interesting analysis might consist in checking for the relation between the dispersion of the variances among stocks and the market efficiency or the application of the standardized models of analysis. We can observe that the change in the mean variance is not linearly connected to the dispersion of the variances – in 2002 until 2004 the mean variance was the smallest from our analysis, and a very small movement in this mean created an impressive dispersion in 2005 until 2007 as well as in 2000 until 2002. We can conclude that a small change of the mean variance determines an important change in the dispersion of the variances among stocks. Also, one might look at the similar movements of the mean variance and its upper bound in the other countries in the region.

We also computed the values for linear trends for all the stocks taking as input the movement in variances in all the 9 years.



Histogram of the linear trends in the variances for all the listed stocks

As can be seen in the histogram, the trends of the variances are dispersed very much around 0, so we could not say much about the average trend in the variance – the largest part of the trends are focused in the interval from 0.04 to 0.2, which means a very slight increase in the variance in the year to come.

All this information about the variance will provide important perspective as far as risk of the companies is concerned. As previously mentioned, our focus here is not to analyze the variance but to compute the risk-neutral default probabilities for our listed stocks. Consequently, the next step was to collect information about the market capitalization of our stocks as well as the book value of assets and total debt. We obtained information about these financial indicators by consulting the website www.ktd.ro, which contains electronic versions of financial reports for the stocks under analysis. We obtained annual reports for years 2000 until 2003 and quarterly reports for the years 2004 until 2007. Despite the information provided in the public sources we were not able to compute reliable figures for total assets, which made us, in the end, to reduce our analysis to the years 2005 until 2007 (we did not include any reports for 2008 being mainly preliminary computations of the indicators).

Our main focus was to match the variances computed in the first part of the study with the information provided by these reports. We needed the total assets and the market capitalization at the moment of the reports as well as the variances and the risk free rates for each year. As proxy for the risk free rates we computed the average of the ROBID and ROBOR for the annual rates from 2000 until 2008 using the quotes supplied by the Romanian National Bank. The average rates are to be used in the Black Scholes Merton equation in order to find the market value of assets and the variance of these values.

In order the find the two factors we had to solve the system of two nonlinear equations containing two unknowns[99]. As in Delianedis and Geske (1999) the equations are the following:

$$S = VN(k + \sigma_v\sqrt{T-t} - Me^{-r_f(T-t)}N(k) \qquad (1)$$

where

$$k = \frac{\ln\left(\frac{V}{M}\right) + \left(r_f - \frac{1}{2\sigma_v^2}\right)(T-t)}{\sigma_v\sqrt{T-t}}$$

and

S = current market value of the stock (in our case the market capitalization of the company);

V = current market value of the firm (the market value of the assets – variable we need to find);

M = face value of debt (total debt considered to mature in one year);

rf = the theoretical risk-free rate of interest (average of the ROBID and ROBOR rates in each year);

σv = the instantaneous variance of the return on the firm's assets (the variance of the market value of assets, the other variable we need to find);

t = current time;

T = maturity date of the debt (one year into to future);

N(.) = univariate cumulative normal distribution function

The second equation relies on the relation between the variance of the market value of assets and the variance of the stock returns, as follows:

$$\sigma_s = \frac{\partial S}{\partial V}\frac{V}{S}\,\sigma_v \qquad (2)$$

From equation (1) and (2) we need to find the values for σ_v and V, considering that we know all the other data (σ_v is computed as the mean variance of the daily log-returns multiplied by the number of observations in each year). We computed the first part of equation (2) as the changes in the values of the market capitalization divided by the changes in the values of the market values of assets from one year to another. Sometimes, in cases where we did not have information about one of the variables, we had to consider these changes to spread over many years. As previously said, equation (1) provides a setting in which the shareholders have the option to pay the debt (assumed to mature in one year[100]).

The two variables will help us to find the risk-neutral probability of default, expressed as the probability that the company will not have enough resources to cover for the debt they have to pay until the end of the year, in a world where all the investors are risk-neutral. As shown by standard theoretical developments, initiated by Black, Scholes and Merton, the risk-neutral world is a theoretical setting under which all

[99] The Matlab setting consisted in building a function that contains the two equations and then use the "fsolve" function to find the solution in an optimization manner – the values for our unknowns were found at the level where the value of the function was closed to 0

[100] The assumption is not so strong as we know that Romanian companies usually use short term debt.

investors are satisfied with the risk-free rate as a compensation for their investments (no risk-premiums), which means that the utility functions are linear (not concave, as in the case of risk-aversion, neither convex as in the case of risk-lovers). If we decide to assume risk-aversion, which is usually the case in most of the markets (risk premiums are positive) it can be shown that the risk-neutral probabilities of default are larger than the real probabilities of default, which means that, in all the cases, this methodology provides a rather conservative and not at all flawed measure of the credit risk. We estimated this as the probability that the market value of assets to be lower than the face value of debt in the following year.

Results

Our estimates of the risk neutral default probabilities were computed for the available information concerning the value of assets and the face value of debts for years 2005, 2006 and 2007. Due to the lack of space, the data for each stock in each year is not going to be shown here but it can be presented upon request.

As shown in the following table, the probabilities of default seem to be relatively low, but we need to notice that about half of the companies in our sample have default probabilities in the extremes – around 20% very close to 0% probability of default and about 20% close to 50% probability of default. In between these extremes the values for the risk of default seems to be relatively constantly dispersed.

Intervals	2005	2006	2007
0.00	9.52%	21.43%	19.05%
0.05	14.29%	16.67%	11.90%
0.10	7.14%	4.76%	4.76%
0.15	9.52%	0.00%	4.76%
0.20	0.00%	0.00%	7.14%
0.25	4.76%	4.76%	0.00%
0.30	7.14%	16.67%	0.00%
0.35	11.90%	4.76%	7.14%
0.40	7.14%	9.52%	2.38%
0.45	9.52%	7.14%	19.05%
0.50	19.05%	14.29%	23.81%

The frequency of the risk-neutral probabilities of default

We can also notice that the trend shows n increase in the risk of default as the percentage of companies with low values for the default probabilities is decreasing close to the 0 probability tail while on the other tail the probabilities are increasing – a higher percentage of companies with higher risk neutral probabilities on the 50% extreme.

Concluding remarks

Our paper aims at providing a framework for a methodology to use market date of the listed companies to find estimates of the probabilities of default. The setting is interesting if we have to take into account the fact that it could provide a methodology to establish a rating system for the Romanian companies listed at the Bucharest Stock Exchange.

Using the methodology of Merton and Delianedis and Geske (1999) we estimated risk-neutral probabilities of default considering a one year horizon for the total payment of the actual debt. We found that the market estimates for the probabilities of default are very much concentrated on the extremes of very close to 0% and close to 50%, for 42 Romanian companies.

The next step that we can envisage consists in finding proper thresholds for possible ratings. We aim at developing a matrix for the probabilities of transition of the companies from one rating to another, in a setting similar to Moody's KMV methodology. The challenge resides in finding the proper method to obtain steady ratings using the structural models.

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CANTITATIV DETERMINATIONS OF THE STOCK CAPITAL EVALUATION

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Abstract: Since this capital gains tax liability is associated with the appraised value of the corporate assets, it is typically called the built-in gains (or BIG) tax liability. The asset-based approach analysis is often performed using the asset appraisal premise of value of: value in continued use, as part of a going concern. This premise of value assumes that the subject corporate assets would be sold as a going-concern business. The Company frequently furnished operators for the equipment that it rented to its customers, charging for both equipment and operators on an hourly basis. For example, a significant portion of the Company's revenues resulted from the renting of large cranes, both with and without operators.

Key words: decision, stock,market.

Introduction

The valuation of the stock of a closely held business is an integral component of the formation, financing, contribution, and redemption phases of an employee stock ownership plan (ESOP). In the case of an ESOP formation, the closely held business may be a family-owned or other privately owned corporation that is sold (in total or in part) to the trust. Or, the closely held business may be a division or subsidiary of a publicly traded corporation that is being divested through an employee buy-out.

In any event, due to the ERISA adequate consideration requirements, employer corporation stock that is sold to or purchased from the ESOP must be independently valued. In addition, the employer corporation stock owned by the ESOP must be independently valued at least annually.

In compliance with both Internal Revenue Service and U.S. Department of Labor guidelines, analysts use three generally accepted approaches to value the securities involved in ESOP transactions. These three approaches are called the income approach, the market approach, and the asset-based approach. Analysts typically synthesize the quantitative value indications of two or more of these analytical approaches in reaching a final ESOP stock value conclusion.

The income approach values a corporation as the present value of the future income expected to be earned by the owners of the business. The most common income approach business/stock valuation methods are (1) the direct capitalization method and (2) the yield capitalization (or discounted cash flow) method.

The market approach values a corporation by reference to market-derived pricing multiples extracted from actual sales of comparative companies or securities. The most common market approach business/stock valuation methods are (1) the guideline merged and acquired company method and (2) the guideline publicly traded company method.

The asset-based approach values a corporation by reference to (1) the current value of all its assets (both tangible and intangible) less (2) the current value of all of its liabilities (both contingent and recorded). The most common asset-based approach business/stock valuation methods are (1) the net asset value method (where total corporate asset appreciation is estimated collectively) and (2) the asset accumulation method (where the company's individual tangible and intangible assets are separately identified and valued).

The big tax liability issue

In the asset-based approach, the analyst estimates the value of the corporation's assets either in aggregate (the net asset value method) or individually (the asset accumulation method). In any event, this appraised value (either aggregate or individual) is typically in excess of the income tax basis of the subject corporate assets. This is almost always the case with regard to the corporation's intangible assets. This is because these intangible assets typically have little or no income tax basis.

If the company's assets were sold in a fair market value transaction (i.e., the conceptual premise of the asset-based approach), the corporation would have to pay capital gains tax. The amount of the capital gains would be based on the appreciation of the company's assets that is, the assumed fair market value sales price of the assets less the income tax basis of the assets. The capital gains tax liability would be based on (1) the amount of the capital gains (i.e., the asset appreciation over income tax basis) and (2) the corporate capital gains tax rate.

Since this capital gains tax liability is associated with the appraised value of the corporate assets, it is typically called the built-in gains (or BIG) tax liability. The asset-based approach analysis is often performed using the asset appraisal premise of value of: value in continued use, as part of a going concern. This premise of value assumes that the subject corporate assets would be sold as a going-concern business.

However, such a hypothetical sale would, in fact, trigger the BIG tax. This conceptual issue ultimately relates to a basic procedural question: how should the analyst account for the BIG tax liability in an asset-based business/stock valuation?

There are three possible answers to this procedural question. First, the analyst can ignore the BIG tax liability. Historically, this is the procedure that many courts (and many analysts) have adopted.

Second, the analyst can estimate the amount of the BIG tax liability that corresponds to the appraised corporate asset values. Then, the analyst can adjust this gross BIG tax liability by an estimated probability reflecting (1) whether the subject company actually will sell its assets and (2) when that asset sale will take place. Because of perceived conceptual inconsistencies in this alternative, most analysts have not adopted this procedure. However, in recent years, many courts (implicitly or explicitly) have applied this probability-adjustment procedure.

Third, the analyst can estimate the amount of the BIG tax liability that corresponds to the appraised corporate asset values. Then, the analyst can adjust (i.e., reduce or "discount") the total net asset value by the full amount of the tax liability. Based on the facts of each individual analysis, this last procedure appears to represent the developing consensus of the business valuation community.

This valuation issue has not been specifically addressed in an ESOP-related addressed over the years in several federal gift and estate tax court cases. Recently, the Fifth Circuit weighed in on this valuation issue (based on an appeal of a U.S. Tax Court estate tax case). While this recent Fifth Circuit decision does not relate specifically to ESOP matters, it does provide important professional guidance to valuation analysts who practice in the ESOP arena.

Case Summary

In the *Estate of Beatrice Ellen Jones Dunn, rev'g and rem'g*, the U.S. Court of Appeals for the Fifth Circuit accepted the taxpayer argument that C corporation stock valuations should be adjusted for the potential BIG tax on appreciated corporate assets. Prior gift and estate tax cases have held that a C corporation holding company valuation may be adjusted (i.e., discounted) for the potential BIG tax liability. However, the valuation discounts allowed by the courts in these previous holding company valuation cases typically did not reflect the full 34 percent corporate capital gain tax rate.

The *Estate of Dunn* provides practical guidance on two issues related to the application of the BIG tax discount. First, the Appeals Court upheld the taxpayer position of a BIG tax valuation discount on appreciated assets based on the full 34 percent corporate capital gains tax rate .

Second, in addition to allowing a valuation adjustment for the full BIG tax liability, the *Estate of Dunn* is significant because of the type of business enterprise involved. The subject corporation in the *Estate of Dunn* is an operating company, not a property holding company. The previous judicial precedent related valuation discount all involved property holding companies. Such companies included real estate development companies or companies that just owned a portfolio of marketable securities.

The facts of the case

On the date of her death, Beatrice Ellen Jones Dunn (the decedent) owned a block of stock in Dunn Equipment, Inc. (the Company). Dunn Equipment, Inc., was incorporated in Texas in 1949. It was a family-owned business throughout its existence. The Company operated from four locations throughout Texas. In 1991, the Company had 134 employees, including three executives and eight salesmen.

Dunn Equipment, Inc. owned and rented out heavy equipment and provided related services, primarily in the petroleum refinery and petrochemical industries. The personal property rented from the Company by its customers consisted principally of large cranes, air compressors, backhoes, manlifts, and sanders and grinders.

The Company frequently furnished operators for the equipment that it rented to its customers, charging for both equipment and operators on an hourly basis. For example, a significant portion of the Company's revenues resulted from the renting of large cranes, both with and without operators.

The Company was consistently profitable. Historically, however, the Company's stock return on equity was lower than contemporaneous rates of return on various risk-free investment instruments.

The Tax Court further concluded that, in addition to lacking a super-majority herself, Ms. Dunn would not have been likely to garner the votes of additional shareholders sufficient to constitute the super-majority required to instigate liquidation or sale of all assets. This was because the other Company shareholders were determined to continue the independent existence and operations of Dunn Equipment, Inc., indefinitely.

The Service's Position

In the Tax Court proceeding, the Service valued the decedent's stock ownership using an asset-based valuation approach and, specifically, the NAV method. The Service, however, did not apply a valuation discount related to the potential BIG tax liability on the Company’s appreciated assets.

At the Tax Court trial, the Service argued that a BIG tax valuation discount was not an appropriate methodological procedure in an asset-based business/stock valuation analysis. In addition, the Service argued that there was no plan to liquidate the profitable company or to actually sell the appreciated corporate assets. Therefore, the Company would not actually have to pay the BIG tax liability in the foreseeable future.

However, the Service did not present an independent valuation expert at the Tax Court trial. Instead, the Service presented its position through legal argument and rebuttal testimony. The Appeals Court did not find this strategy convincing. In its decision, the Appeals Court stated the following regarding the Service's presentation of evidence:

Indeed, at trial, the Commissioner did not favor the TaxGourt with testimony of an expert appraiser, even though the Commissioner had affirmatively proposed his own, geometrically higher value for the decedent's block of stock—values that started out higher than the ones reported on the estate tax return and that were then multiplied, by virtue of the Commissioner's amended answer, to almost four times the Estate's figures. Yet instead of supporting his own higher values (for which he had the burden of proof) by proffering professional expert valuation testimony during the trial, the Commissioner merely engaged in guerrilla warfare, presenting only an accounting expert to snipe at the methodology of the Estate's valuation expert. The use of such trial tactics might be legitimate when merely contesting values proposed by the party opposite, but they can never suffice as support for a higher value affirmatively asserted by the party employing such a trial strategy. This is particularly true when, as here, that party is the Commissioner, who has the burden of proving the expanded value asserted in his amended answer.

Using such tactics remains the prerogative of the Commissioner and his trial counsel, at least up to a point. But when his choice of tactics is viewed in the framework of the substantive valuation methodology urged by the Commissioner in the Tax Court, his posture at trial is seen to be so extreme and so far removed from reality as to be totally lacking in probative value.

The taxpayer's position

At the Tax Court trial, the taxpayer's valuation expert estimated the value of the decedent's stock ownership using two business valuation approaches. First, the taxpayer's expert used the income approach and, specifically, the direct capitalization of income method. In this expert's application of the direct capitalization method, the income was measured as net income, not as net cash flow.

Second, like the methodology proposed by the

The appeals court's decision

The Appeals Court started its review of the subject valuation issues by quoting the authoritative literature regarding business/stock valuation, as follows:

The Appeals Court ultimately assigned (1) an 85 percent weight to the income approach value indication and (2) a 15 percent weight to asset-based approach value indication. Within the asset-based approach value indication, the Appeals Court rejected the Tax Court's 5 percent BIG tax valuation discount. Rather, the Appeals Court applied a BIG tax valuation discount based on the full 34 percent corporate capital gains tax rate.

Commenting on this valuation issue, the Appeals Court decision states:

No one can dispute that if Dunn Equipment had sold all of its heavy equipment, industrial real estate, and townhouse on the valuation date, the Corporation would have incurred a 34% federal tax on the gain realized, regardless of whether that gain were labeled as capital gain or ordinary income. The question, then, is not the rate of the built-in tax liability of the assets or the dollar amount of the inherent gain, but the method to employ in accounting for that inherent tax liability when valuing the Corporation's assets (not to be confused with the ultimate task of valuing its stock).

The Appeals Court reasoned that the asset-based business/stock valuation approach should not consider the likelihood of a corporate liquidation in determining the corporation's NAV. Rather, the Appeals Court concluded that the estimation of the BIG tax liability is an integral component of a corporation's value as derived by an asset-based approach valuation. Regarding this fundamental valuation issue, the Appeals Court decision stated the following:

Bottom Line: The likelihood of liquidation has no place in either of the two disparate approaches to valuing this particular operating company.

Reiterating the position that it took in the *Estate of Jameson,* the Appeals Court stated:

In our recent response to a similarly misguided application of the built-in gains tax factor by the Tax Court, we rejected its treatment as based on "internally inconsistent assumptions."

The Appeals Court reached this overall conclusion regarding the Tax Court's decision in *Dunn* v. *Commissioner.*

We conclude that the Tax Court erred as a matter of law in the valuation methodology that it selected and applied to facts that are now largely uncontested by virtue of stipulations, concessions, and non-erroneous findings of that court. This legal error produced an incorrect valuation and thus an erroneous final Tax Court judgment as to the Estate's tax deficiency, requiring remand to that court.

The Appeals Court specifically describes the perceived errors in the Tax Court decision as follows:

The Tax Court's fundamental error in this regard is reflected in its statement that for purposes of an asset-based analysis of corporate value a fully-informed willing buyer of corporate shares (as distinguished from the Corporation's assemblage of assets) constituting an operational-control majority would not seek a substantial price reduction for built-in tax liability, absent that buyer's intention to liquidate. This is simply wrong: It is inconceivable that, since the abolition of the General Utilities doctrine and the attendant repeal of relevant I.R.C. sections, such as 333 and 337, any reasonably informed, fully taxable buyer (1) of an operational-control majority block of stock in a corporation (2) for the purpose of acquiring its assets, has not instituted that all (or essentially all) of the latent tax liability of assets held in corporate solution be reflected in the purchased price of such stock.

We are satisfied that the hypothetical willing buyer of the Decedent's block of Dunn Equipment stock would demand a reduction in price for the built-in gains tax liability of the Corporation's assets at essentially 100 cents on the dollar, regardless of his subjective desires or intentions regarding use or disposition of the assets. Here, that reduction would be 34%. This is true "in spades" when, for purposes of computing the asset-based value of the Corporation, we assume (as we must) that the willing buyer is purchasing the stock to get the assets, whether in or out of corporate solution. We hold as a matter of law that the built-in gains tax liability of this particular business's assets must be considered as a dollar-for-dollar reduction when calculating the asset-based value of the Corporation, just as, conversely, built-in gains tax liability would have no place in the calculation of the Corporation's earnings-based value. [Pratt et al., *Valuing a Business, at 47* ("Tax consequences of ownership and/or transfer of stock . . . usually are quite different from those of ownership and/or transfer of direct investment in underlying assets. These tax implications often have a significant bearing on value.").]

The Appeals Court also presented a strong opinion of the conceptual position—and the trial tactics of the Service in the *Dunn* v. *Commissioner* case:

Consequently, the Commissioner's insistence at trial that the value of the subject stock in Dunn Equipment be determined exclusively on the basis of the market value of its assets, undiminished by their inherent tax liability—coupled with his failure to adduce affirmative testimony of a valuation expert—was so incongruous as to call his motivation into question.

Regarding the Service's position in the *Estate of Dunn* appellate case, the Fifth Circuit stated the following: The Commissioner's abrupt change of position on appeal is so inconsistent and irreconcilable with his pretrial and trial positions that all of his urgings to us are rendered highly suspect. We keep this duplicity in mind as we proceed to examine the Tax Court's valuation methodology.

Summary and conclusion

Valuation analysts typically use income and market approach methods (more commonly than asset-based approach methods) in business/stock valuations for ESOP purposes. However, the asset-based approach is a generally accepted approach for ESOP valuations. And, the asset-based approach is applied often enough so that the BIG tax discount conceptual issue should be resolved. There appears to be a growing consensus in the valuation community regarding this issue. The asset-based approach assumes that the subject company sells the business in an asset (versus a stock) transaction. The corporate assets sell, as a going concern, at the total of their appraised fair market values. All business/stock valuations are based on hypothetical sales transactions. In the market approach, there is a hypothetical saie of the corporate stock (in either a public market or in a private transaction). The fact that the company does not actually sell its stock does not invalidate the use of the market approach. Likewise, the fact that the company does not actually sell its assets does not invalidate the use of the asset-based approach. In a hypothetical sale of the corporate assets, a hypothetical BIG tax liability would be paid.

The *Estate of Dunn* concluded that a company's NAV should be adjusted (discounted) for the amount of this hypothetical BIG tax liability. The Appeals Court concluded that this adjustment should be made regardless of (1) whether or not the company plans to actually sell its corporate assets and (2) whether or not the company is an operating company or a property holding company. The *Estate of Dunn* provides important professional guidance to valuation analysts on two issues. First, when the asset-based approach-and specifically the NAV method is used to estimate business/stock value, the *Estate of Dunn* supports the calculation of the BIG tax valuation discount at the full capital gains corporate tax rate. According to the *Dunn* decision, the estimated BIG tax liability should not be reduced by an estimate of the probability of a near-term corporate liquidation.

Second, the *Dunn* decision indicates that the BIG tax adjustment I should be considered in the asset-j based valuation of any going-concern j business and not just in the valuation of property holding companies. The estimation of the potential BIG tax liability on appreciated assets is an integral methodological step in any asset-based approach business valuation. The consideration of the capital gains tax on revalued assets is a function of the selected valuation approach (i.e., the use of an asset-based approach valuation method). The consideration of the capital gains tax is not a function of the type of subject business enterprise (i.e., operating company versus holding company).

Although the *Estate of Dunn* does not have legal precedent value in an ESOP controversy, it does provide practical professional guidance to valuation practitioners. This is because the BIG tax valuation adjustment is as relevant an issue to ESOP business/stock valuations as it is to gift and estate tax business/stock valuations.

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STOCK PURCHASE VERSUS DIRECT ASSET INVESTMENT

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Abstract: In its review of the Tax Court decision in Jameson, the Fifth Circuit noted that the stock value for estate tax purposes depends on the timberland's fair market value on the taxpayer's date of death. Any sale of the subject company shares would cause a transfer of the timberland which would trigger the built-in capital gains tax liability. The estate's valuation experts noted that the only sound economic strategy for a hypothetical willing buyer of the holding company would be an immediate liquidation of the timberland. This discussion will summarize the various issues related to the valuation of a C corporation with appreciated underlying assets. This discussion will also present a practical framework for quantifying the appropriate valuation adjustment (if any) related to the capital gains tax contingent liability related to such corporations.

Key words: decision, stock,market.

Introduction

The valuation of a C corporation is a common valuation assignment. Experienced analysts routinely value 100 percent of the stock of a C corporation for such purposes as: merger and acquisition pricing; estate and gift tax planning and compliance; shareholder buy-sell agreements; ESOP formation and ERISA compliance; transaction fairness analysis; and shareholder disputes and other litigation matters.

The valuation of a C corporation with appreciated underlying assets is also a common valuation assignment. A C corporation will have appreciated underlying assets when the market value of its owned assets exceeds the income tax basis of its owned assets. This is a common phenomenon for C corporations whether the company is (1) an operating company or (2) an investment or holding company.

When the C corporation owns appreciated assets, a question arises as to how the analyst should consider the built-in capital gains tax liability. This is the tax liability that would be paid if (and only if) the C corporation liquidated (i.e., sold) its underlying assets at their current market values. The built-in capital gains tax is determined by (1) the amount of the gain on the sale of the assets multiplied by (2) the corporation's capital gains income tax rate. Particularly with regard to the estate and gift tax arena, there is conflicting judicial precedent regarding the valuation effects (if any) of the built-in capital gains tax liability of a C corporation with appreciated assets. Some courts have allowed a valuation adjustment (i.e., a valuation discount) of 100 percent of the estimated built-in capital gains tax liability in arriving at a business value. Other courts have allowed some valuation discount—but less than 100 percent of the subject company's estimated built-in capital gains tax liability.

This discussion will summarize the various issues related to the valuation of a C corporation with appreciated underlying assets. This discussion will also present a practical framework for quantifying the appropriate valuation adjustment (if any) related to the capital gains tax contingent liability related to such corporations.

Recent judicial precedent

The *Estate of Helen Bolton Jameson,* is the most recent federal taxation precedent with regard to this valuation discount issue. In *Jameson,* the taxpayer died owning the shares of a personal holding company. The main asset of that company was timberland. The Service and the taxpayer's estate disagreed on how the built-in capital gains taxes (which would be incurred on the sale of the timber or on the sale of the land) would affect the value of decedent's interest in the corporation.

At the trial level, the Tax Court allowed a valuation discount for the capital gains tax liability that the holding company would incur but only the capital gains taxes from its ongoing timber sales. The Tax Court disallowed a valuation discount based on the immediate sale of the timberland. Instead, the Tax Court concluded that a willing buyer of the timberland would operate it on an ongoing business. The taxpayer appealed the Tax Court decision to the U.S. Court of Appeals.

In its review of the Tax Court decision in *Jameson,* the Fifth Circuit noted that the stock value for estate tax purposes depends on the timberland's fair market value on the taxpayer's date of death. Any sale of the subject company shares would cause a transfer of the timberland which would trigger the built-in capital gains tax liability. The estate's valuation experts noted that the only sound economic strategy for a hypothetical willing buyer of the holding company would be an immediate liquidation of the timberland, thereby triggering the 34 percent capital gains tax.

According to the Appeals Court, the Tax Court should not have assumed that there was a strategic buyer for the timberland that could have continued to operate and produce timber. Instead, the Fifth Circuit stressed that a fair market value analysis depends on a hypothetical (instead of a specific) willing buyer. Therefore, according to the Fifth Circuit, the Tax Court erred in disallowing a 100 percent valuation discount for the built-in capital gains tax liability.

Lesson from judicial precedent

A review of the relevant judicial precedent indicates that, recently, federal courts are consistently allowing a valuation discount for the built-in capital gains tax contingent liability. The critical issue in most recent court cases is not: *if a* valuation discount should be allowed. The critical issue is: *how much* of a valuation discount for built-in capital gains tax should be allowed.

Acquiring the stock of a c corporation with appreciated assets

Certainly, buyers are willing to make stock acquisitions of C corporations with appreciated assets. Of course, these buyers recognize that the target C corporations come with an associated built-in capital gains tax liability. Such acquisitions are consummated if the transaction purchase price is sufficiently discounted to reflect the economic impact of the built-in capital gains tax liability.

In fact, if the transaction purchase price (i.e., the C corporation value) is appropriately discounted for the effect of the capital gains tax on the target company appreciated assets, the acquirer will realize the following economic benefits from the acquisition:

1. The acquirer (a) buys control of the target company appreciated underlying assets at a price discount and (b) earns investment returns based on the discounted purchase price; this has the same economic effect as an interest-free loan.
2. The "effective interest-free loan" is contingent—that is, it does not have to be "repaid" (the acquirer does not actually pay the corporate capital gains tax to the Internal Revenue Service) to the extent that the acquired appreciated assets decline in value (to their income tax basis) over time.

Therefore, some valuation analysts have argued (and some court decisions have held) that the value of a C corporation should be greater than the subject company's net asset value adjusted (i.e., discounted) for a full 100 percent of the built-in capital gains tax liability.

Stock Purchase versus Direct Asset Investment

The economic differences (1) between acquiring 100 percent of the stock of a C corporation and (2) making a direct investment in the underlying asset (through the use of borrowing) are:

1. The direct investment in the underlying asset requires the payment of cash interest expense during the investment holding period, a factor in favor of the acquisition of the C corporation stock.
2. The debt associated with the direct investment in the underlying asset is (a) fixed and (b) not contingent on earning any particular rate of return on the underlying asset, a factor in favor of the acquisition of the C corporation.
3. The direct investment in the underlying asset has a greater tax basis (i.e., $1,000) than the investment in the C corporation stock, a factor in favor of the direct investment in the underlying asset.

4. The acquisition of the C corporation stock means that all of the investment returns will be subject to double taxation (i.e., once at the corporate level and once at the distributee/shareholder level), a factor in favor of the direct investment in the underlying asset.

There is a potential economic disadvantage of acquiring the C corporation stock (with the built-in capital gain liability) relative to a direct investment in the underlying appreciated assets. This relative economic disadvantage depends on whether (1) the amount of the built-in capital gains tax liability of the C corporation is less than (2) the avoided cost of debt service from the direct investment in the underlying asset.

Valuation adjustment illustrative example

In the following discussion, we will present the comparative after-tax results of these two investment alternatives: (1) the acquisition of C corporation stock versus (2) underlying appreciated assets. We will analyze these two investment alternatives over a 10-year investment holding period.

It is noteworthy that our illustrative example assumptions present the most favorable case for measuring the economic advantage of the acquisition of the C corporation stock (relative to the direct purchase of the underlying asset). For example, all of the analyses assume that (1) the inside tax basis of the C corporation assets is zero and (2) the avoided cost of borrowing (i.e., the debt interest rate) is equal to the expected rate of return on the asset investment.

Adjusted base case scenario

Considering the put options, the asset purchase debt is arguably risk-free to the lender. This assumption supports an 8 percent interest rate spread. In the analysis presented in Table III, the direct asset investment alternative clearly generates a greater after-tax benefit than does the purchase of the C corporation (Target Company) stock.

In the direct asset purchase alternative, Buyer can cover this contingency by purchasing a put option. The put option will have a strike price equal to the market value of the security in an amount equal to the value of the security times the corporate tax rate. The intrinsic value of the put option would exactly offset the amount by which (1) the return on the investment in the C corporation exceeds (2) the return of the direct investment under any combination of tax assumptions and basis assumptions.

Where Target Company has any positive tax basis in the purchased assets, we assume that the sale at a loss will generate an income tax benefit equal to (1) the income tax rate times (2) the amount of the loss. To the extent that there is no "inside" income tax benefit available from the loss, the put strategy should be correspondingly adjusted.

Put option strategy

Whether or not the direct asset purchase alternative is more attractive than the purchase of Target Company stock depends on (1) the price of the put relative to (2) the financial advantage of the direct asset purchase.

We should, therefore, adjust the amount of the year 10 value to a present value. The discount rate for this calculation is adjusted to reflect the fact that the excess of the year 10 benefit of the direct asset investment alternative is after individual income taxes.

The rate of return assumption is, therefore, adjusted to reflect the fact that the year 10 benefit is after tax. This adjustment is based on individual income tax rates. The present value of the after-tax amount of excess return is the maximum amount the direct asset investor would pay for the put option.

The maximum price of the put option using "real world" assumptions amounts to approximately 53 percent of the value of the underlying asset. Based on "real world" assumptions, Buyer would pay no more than 53 percent of the asset value of the direct asset investment alternative for the put option.

Subchapter Selection

Accordingly, let's expand the analytical model to allow for the avoidance of the capital gains tax entirely. This assumption regarding the deferral/avoidance of capital gains tax makes the acquisition of the C corporation stock more attractive than the direct purchase of the underlying assets.

However, the price that Buyer will pay for the C corporation stock is affected by the illiquidity of the S election. That price reflects the fact that the asset cannot be sold—and therefore lacks marketability—for the statutory 10-year holding period. A sale of the appreciated asset within the 10-year holding will generate a lower rate of return than a direct purchase of the underlying asset.

The lack of marketability impact is measured by setting (1) the after-tax terminal value of the C corporation alternative equal to (2) the after-tax (post-debt) terminal value of the direct asset purchase alternative. By solving for the beginning dollar amount of the stock required to be inside the C corporation, we can estimate the amount of stock necessary to provide an equivalent rate of return to the direct asset purchase alternative.

It would be a lesser amount because both (1) the cost of borrowing and (2) the built-in capital gains tax are avoided. The amount, however, has a bearing on whether or not Buyer is willing to "lock up" the asset ownership position—that is, to forgo marketability, for 10 years.

Simplifying assumptions

For purposes of the analysis , we made the following simplifying assumptions:

- Transaction costs are ignored. 88 Dividends are assumed to be zero.
- The price of a 10-year put option is estimated using market volatility, current risk-free rates of return, an assumption of zero dividends, and a 10-year duration in the Black-Scholes option pricing model.

The Black-Scholes option pricing model may not be the best analytical procedure for estimating the price of a long-term option. Moreover, the price of a series of put options covering the interest component of the direct asset investment alternative is ig no red.

If we assume the cost of these options was the same as the put on the principal (which is probably overstating the case), then the basic conclusion remains the same.

- The price of put options is not considered in the estimate of the discount for lack of marketability. This discount is used in measuring the rate of return on the direct asset investment in order to set it equal to the C corporation asset. This assumption does not change the basic conclusion.
- Income taxes are estimated as follows:

1. The income tax benefit of the interest deduction is simply considered an addition to tax basis in year 10, and the individual capital gains tax rate is used. To the extent that a current interest expense deduction is available at ordinary income tax rates, it is an economic benefit to the direct asset investment alternative.
2. The income tax basis in the put option is ignored in all calculations
3. The proceeds from the exercise of the put option is assumed to offset the loss on the underlying asset. The income tax benefit of the loss is calculated at the assumed individual income tax rate.
4. Losses at the individual taxpayer level are assumed to generate an economic benefit equal to the income tax rate times the amount of the loss.
5. Losses inside the Target Company C corporation are assumed to generate income tax benefits equal to (a) the corporate income tax rate times (b) the amount of the loss.
6. State and local income taxes are ignored.

Summary and Conclusion

Each S corporation valuation depends on its unique set of facts and circumstances. However, there appears to be no financial advantage to (1) the stock acquisition of a C corporation with built-in capital gains relative to (2) the direct purchase of the underlying assets and a put option. Accordingly, no willing buyer would pay a price premium for the acquisition of the C corporation stock over the tax adjusted net asset value of the target. company. No willing buyer would pay a price premium over the target company tax-adjusted net asset value, and no willing seller would accept less than the target company tax-adjusted net asset value.

The principal reason for this outcome is the fact that 100 percent of the gains inside the target corporation are subject to double taxation. This double taxation offsets the apparent financial benefits described in the introduction. No rational tax adviser will advise a client to structure his or her transactions in a way that will subject investment returns to double taxation if it can be avoided.

The apparent economic advantage of (1) buying the C corporation stock and (2) electing S corporation status is more than offset by the fact that the underlying assets become non-marketable for a 10-year holding period.

Any asset holding period of less than 10 years will cause the direct asset purchase alternative to generate a greater after-tax rate of return than the acquisition of C corporation stock alternative.

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L'EQUILIBRE FINANCIER ET DES DEVISES ET LA DETTE EXTERNE

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This paper focuses on the synthetic analysis of the financial-currency equilibrium and the external debt. The major problems of humanity such as poverty, diminishing of the natural resources, the external debt crises, etc., showing global dimensions, cannot be solved but with common efforts, while others having specific features can be solved only within the national framework, which has to get to a specific decisional autonomy.

The main function of the global financial market is to direct the capital fluxes from the producing resources to the most efficient locations, confirming the adequate rentability, and the less risky placement. The world development of the financial market is not uniform, as a result of the various economic evolutions. Forming the capital within the developed areas, and the placement of the necessity for financing within the developing areas leads the financial fluxes towards an opposite direction than that of the beginnings of the economic increase, when the countries 'natural resources, very poor now, sustained the development of the rich countries.

Key words: financial fluxes, currency equilibrium, external debt, deficit, and current account

L'apparition des flux financiers est déterminée par les activités de commerce extérieure et des transfères de capital. Dans le cas des importations et des exportations se crée un mouvement des devises en contrepartie qui peut être immédiate ou décalée dans le temps. Les flux de capital apparaissent sous forme de crédits financiers et d'investissements qui entraînent de futurs engagements monétaires. Les entrées et les sorties monétaires d'un pays s'imposent à être gérer d'une manière satisfaisante afin d'assurer l'équilibre financier et des devises. La différence de volume et de temps où se manifestent les flux de sens contraire conduit, selon le cas, à un état de déficit ou excédent externe. L'apparition de ces décalages est déterminée dans des conditions normales par la stratégie de développement adoptée par chaque pays. La croissance économique impose dans une première étape, l'attraction d'un volume élevé de capitaux externes, après quoi se produit une inversion des flux qui, au final, conduisent à l'équilibre avec l'extérieur. L'équilibre des devises représente une composante de l'équilibre général d'un pays qui, synthétiquement, peut être exprimé de la sorte:

$$\boxed{PIB + M = E + I + Ci}$$

Où : M – valeur des importations; E – valeur des exportations;

I – volume des investissements; Ci – consommation interne

L'accélération des mouvements des devises et financiers dans les conditions de la croissance du degré d'intégration des économies nationales dans l'économie globale a imposé l'élaboration d'une méthodologie unitaire pour l'expression de l'équilibre externe par chaque pays sous la forme de la balance d'encaissements et de payements en devises. Celle-ci est couramment connue sous le nom de la balance de payements externes qui comprend tous les flux induits par des opérations commerciales, non-commerciales et financières d'un pays avec l'extérieur pendant une certaine période, d'habitude un an. A son tour, la balance de payements externes est formée par plusieurs balances qui exprime l'état de chaque domaine : balance commerciale, balance des services, balance du capital et balance des mouvements internationaux des ressources de devises. La réalisation de l'équilibre des devises se suivit au niveau général, le déficit d'une sous-balance étant compensé par l'excédent d'une autre. En fonction des termes échéants des flux financiers ceux-ci sont groupés en deux chapitres : le compte courant et le compte de capital et financier.

Le compte courant comprend les encaissements et les payements résultés à la suite du commerce de marchandises et de services , des revenus du mouvement international des facteurs de production, ainsi que des transfères courants sans équivalent. Conformément à la méthodologie F.M.I., le prix utilisé pour l'inscription dans la balance des marchandises est FOB, c'est-à-dire celui qui existe à la frontière de l'exportateur. Les frais effectués dans le parcours externe pour le transport, les assurances, les manipulations etc., sont inclus dans les services. Le moment de l'inscription de la valeur d'un bien ou d'un service est celui où se fait le transfère de propriété. L'importance majeure de ce chapitre est détenue par le commerce de marchandises.

Le compte de capital et financier a comme fonction principale l'équilibre du compte courant. Le déficit courant est compensé par le compte de capital par l'attraction des ressources financières externes, et l'excédent courant suppose des placements externes par le même compte. La position active du compte courant crée une situation favorable pour le pays possesseur qui peut choisir indépendamment les variantes de placements, parmi lesquelles les plus importantes sont:

La réalisation des investissements directs à l'étranger, qui valorise les avantages offerts par le pays hôte. Le chiffre d'affaire des firmes remplacées à l'étranger contribue au croissement du Produit National Brut, et par le rapatriement du profit au maintient de la situation excédentaire du solde courant.

- L'acquisition de titres de valeur émis par autres états par lesquels on assure un rendement supérieur aux placements monétaires. L'avantage obtenu par l'investissement dans des titres négociables est donné par la mise en valeur supérieure et le maintient d'une liquidité élevée, ceux-ci pouvant être vendus à tout moment.
- L'approbation des crédits à l'étranger, publiques et privés. Ceux-ci sont porteurs de d'intérêt et, en plus, créent une position favorable pour le pays créditeur par rapport au pays débiteur.
- L'achat de devises pour l'augmentation des réserves propres et pour la réalisation d'une structure adéquate au portefeuille de devises.

Les pays ayant un déficit de compte courant essaient de trouver les modalités les plus avantageuses pour le recouvrir. Les principales sources de recouverte sont:

- L'attraction des investissements étrangers directs par l'approbation de facilités pour les investisseurs étrangers. L'avantage de l'attraction de capital sous cette forme consiste dans le fait que les investissements ne génèrent pas de dette externe, et leur implantation crée de nouveaux circuits économiques par lesquels se met en valeur les facteurs de production internes. La réalisation de biens et de services de l'exportation contribue à l'équilibre du compte courant du pays ôte, tout comme la rapatriement du profit a un effet inverse.
- L'engagement contractuel d'emprunts par l'émission de titres de valeur (obligations, chèques de trésorerie) porteurs d'intérêt, mais qui gérés dans une certaine manière désirée par le débiteur peuvent distribuer les obligations de celui-ci dans un intervalle de temps correspondant pour pouvoir les acquitter.
- L'engagement contractuel des crédits bancaires externes. Outre le fait que ceux-ci comportent des coûts , ils présentent le désavantage qu'ils génèrent des dettes externes. Outre certaines limites, la dette externe est difficilement à gérer.
- Crédits non remboursables. Cette modalité de financement du déficit est la plus avantageuse, mais leur poids est très réduit dans le total des ressources attirées.

La recouvertes des déficits de certains pays par les excédents des autres représente la modalité de circulation internationale des capitaux qui manifeste la tendance d'uniformisation mondiale. L'emploi des ressources externes d'une manière rationnelle pour l'assurance d'une augmentation économique équilibrée et dans de hauts rythmes, permet aux pays débiteurs de réduire les décalages qui les séparent des pays développés et résister aux obligations de payement externes. La Roumanie, en tant que pays en transition vers l'économie du marché, a enregistré, après 1989, de grands difficultés réfléchies synthétiquement dans l'évolution de la balance des devises. Dans les dernières années, s'est réalisée une stabilisation au niveau macroéconomique qui a permis un équilibre de même en ce qui concerne les rapports avec l'étranger.

L'analyse comparée du compte courant présente la situation suivante:

Indicateurs	2004	2005	2006	Variation (%)		
				2005/2004	2006/2005	2006/2004
a) Solde balance commerciale (biens)	-5.323	-5.908	-7.748	-10,99	-31,14	-64
- exportation (FOB)	18.935	21.754	26.133	14,89	20,12	38
- importation (FOB)	24.258	27.662	34.495	14	24,70	42,20
b) Services. net	-213	-184	370	13,61	300	371
c)Revenus. net	-2.535	-2.101	-2.519	17,12	19,89	0
d) Transfères courants	2.972	2.786	3.133	-6,25	24,55	5,41
Solde compte courant	-5.099	-5.223	-7.748	-2,43	-48,34	-51,95

Tableau nr.1. Evolution du compte courant

Source: www.bnr.ro

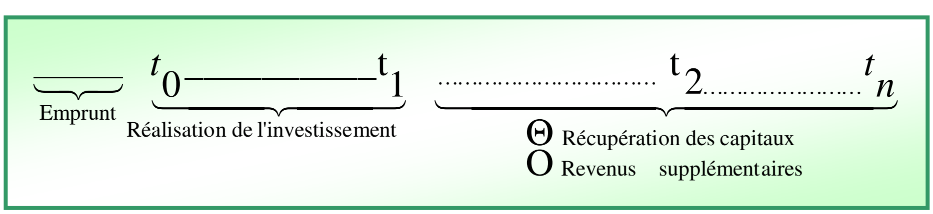
Le solde du compte enregistre une augmentation du déficit annuel avec un ralentissement en 2006. Le plus important facteur d'influence est la détérioration de la balance commerciale. L'accentuation du déficit commercial est due à la croissance du décalage en faveur des importations commencée pendant la seconde partie de l'an 2004. Les causes principales se retrouvent dans le manque de compétitivité des exportations et en faveur des importations par la tendance d'appréciation de la monnaie nationale. L'exportation de biens a augmenté dans la plus grande partie (trois quarts) grâce à l'augmentation des prix externes. Des modifications favorables se sont également produites en ce qui concerne le volume et la structure des exportations.

Le problème de fond est que l'économie n'est pas encore en mesure de produire des biens à valeur ajoutée élevée et les importations en complètement qui se retrouvent dans les marchandises exportées occupent un poids élevé d'environ 70% . Les importations ont augmenté grâce à la croissance des prix externes pour les ressources et les biens à longue utilisation mais aussi sur le compte de l'extension du crédit non gouvernemental . Le degré de couverture des importations par des exportations s'est réduit du 78,6% en 2005 à 75,8% en 2006. Les services enregistrent en 2006 pour la première fois en trois ans un excédent sur le compte du tourisme et d'autres services notamment d'informatique.

L'accentuation du déficit de la balance des revenus est due au rapatriement des non résidents des profits, à la retraite des capitaux spéculatives sur le fond de l'appréciation du leu , à la diminution des intérêts et à la création de conditions favorables de placement aux Etats-Unis. De même, l'augmentation du volume des intérêts payés dans le compte de la dette externe a accentué le déficit des revenus. La seule position ayant un solde positif dans le cadre du compte courant est celle des transfères. La valeur des excédents est due aux flux monétaires venus de l'extérieur notamment des ouvriers roumains en Ouest. Le financement du déficit de compte courant a été fait, en 2006, intégralement par des investissements étrangers directs en comparaison avec 81% dan l'année antérieure.

La prise en considération d'un horizon de temps d'un an dans le cas de la balance de payement externe, ne permet pas l'évaluation correcte des relations financières et des devises internationales.

La prise en considération d'une période moyenne de temps est imposée tant par les termes de remboursement que par la distribution temporelle des revenus à l'intermédiaire desquels les dettes s'éteignent. Le comportement rationnel du débiteur suppose qu'il fasse des emprunts au moment actuel pour réaliser un projet d'investissement qui constitue à l'avenir la source pour l'augmentation économique propre ainsi que pour la restitution de l'emprunt.



Le problème le plus astringent dans la gestion de l'équilibre financier pour les pays en voie de développement et sous-développés est celui de la dette externe. La dette externe d'un pays inclut les ressources financières attirées de l'extérieur sous forme de crédits et investissements de portefeuille. Une distinction doit être faite par le prisme des couts et des conditions de mise en accord entre les sources de financement externe. Les emprunts sur le marché de capital sont faits conformément aux exigences de celui-ci concernant le niveau des intérêts, des garanties, des termes etc. . Les coûts sur le marché de capital sont sous l'influence décisive de la classe de risque où est inclus le pays. Autre source d'emprunt international est représentée par le soit-disant financement officiel qui se déroule entre le gouvernement ou un pays et les organismes financiers internationaux. Ces emprunts nommés concessionnels peuvent avoir une composante non remboursable de petite valeur et qui n'est pas incluse dans la dette externe et une composante majeure qui revet la forme classique d'un crédit. La différence consiste dans le fait que pour le crédit officiel le taux de l'intérêt est plus réduit que celui sur le marché financier et les termes de remboursement sont plus grands ce qui conduit ç un degré plus réduit de charge du service des dettes externes pour le pays débiteur. Actuellement, pour les pays en voie de développement et sous-développés on parle d'une vraie crise de le dette externe qui doit être abordée sous deux angles:

- l'efficacité de l'utilisation des crédits externes par les pays endettés,
- les pratiques des pays créditeurs en ce qui concerne les conditions d'approbation des prêts.

Dans le premier cas, la comparaison entre les pays de l'Asie de Sud-est et ceux de l'Afrique peut être éloquente.

Après la seconde guerre mondiale, le volume des financements orientés vers les deux zones a été égal. Tandis qu'en Asie, pays comme Indinésie, Taiwan, Hong Konf, Corée de Sud ont investi la grande partie des crédits obtenus en économie, en Afrique ceux-ci ont été détournés de leur destination naturelle. Toujours dans le sens de l'utilisation non efficiente des crédits a actionné l'instabilité politique militaire dans beaucoup de pays en voie de développement. En même temps, les conditions dans lesquelles ont été accordés les prêts ont été pesantes en ce qui concerne le niveau des intérêts et des termes de remboursement.

Pendant la dernière décennie, le volume échéant de la dette externe a augmenté vertigineusement, en diminuant durement les entrées nettes de capitaux dans les pays en voie de développement approximativement de 70 %. La conséquence est qu'une série des pays ayant de grosses dettes et une situation économique précaire ont été obligés à interrompre les payements dans le compte des dettes externes, ce qui a conduit à l'augmentation du volume des arriérées externes par incapacité de payement. Pratiquement, ces pays sont sortis du circuit financier international et les effets négatifs se sont reflétés sur l'économie par la restriction de la production et de l'activité de commerce extérieure.

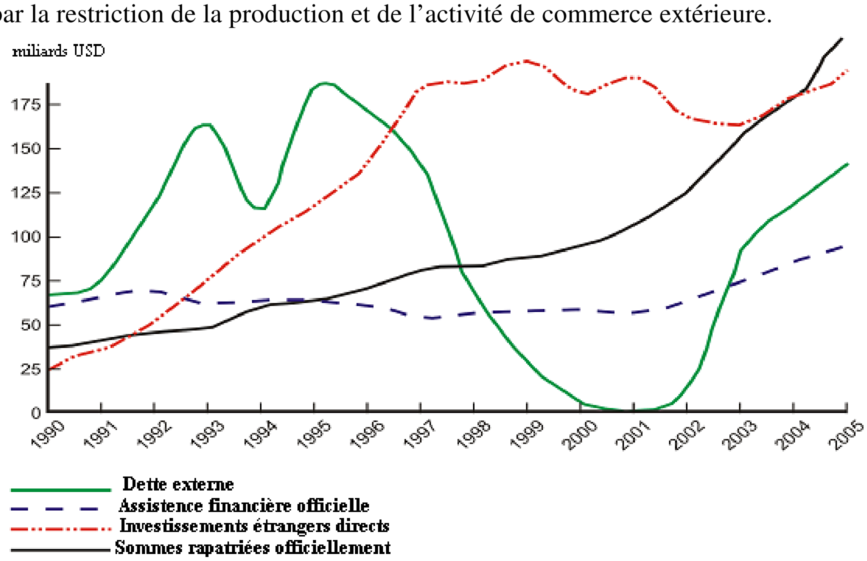


Diagramme nr.1. Les flux financières internationaux vers les pays en voie de développement

Source: Banque Mondiale

Une gestion rationnelle des créances et des dettes internationales suppose des conditions acceptables pour l'assurance d'un rendement convenable du placement de capital ainsi que pour l'obtention d'un minimum d'efficience des investissements internes. Il semble que, après la déclaration de l'insolvabilité d'une série d'états aux grosses dettes, cette chose a été comprise par la communauté financière internationale. Dans ce sens, on a créé in programme international d'assistance financière externe pour développement – A.F.E.D. - qui prévoit des opérations de rééchelonnement des dettes, des donations, des crédits non remboursables etc. Une autre mutation, beaucoup plus importante est celle du remplacement du crédit classique par des investissements directes étrangers qui, au présent, représente plus de la moitié des placements externes de capital. Les avantages pour les pays qui enregistrent des déficits est que ceux-ci ne sont pas partie de la dette externe et conduisent à l'augmentation de l'économie nationale. En même temps, est éliminée la suspicion concernant la non utilisation efficiente des crédits par l'emprunteur, les unités économiques réalisées par ces investissements étant dans l'administration directe des propriétaires de capitaux.

A l'équilibre de la balance externe de ces pays, une contribution de plus en plus importante est, pendant les dernières années, celle représentée par le rapatriement des revenus réalisés à l'étranger par les résidents. La tendance de ce flux financier est de dépasser toute autre forme d'entrée de capital : investissements, crédits aides etc. Il y a des pays comme la Moldavie où ces sommes représentent 27 % du PIB. La crise des dettes externes se manifeste par l'arrêt des payements, par le transfert inverse de ressources financières , par la décapitalisation des économies endettées par la vente des actives réels dans le compte de la dette externe etc. donc par une accentuation de la pauvreté et des difficultés avec lesquelles se confrontent les pays affectés. Le dépassement de la crise de la dette externe suppose la prise des mesures coordonnées à l'échelle planétaire.

La situation de débiteur net est caractéristique aux pays au niveau économique bien réduit, pays qui ont contribué, pendant les deux derniers siècles, à l'augmentation économique des pays du groupe des pays développés. Moralement, ces derniers sont obligés à manifester plus de compréhension dans les relations avec le reste du monde. Et sous l'aspect économique, un changement de l'attitude s'impose bien.

L'entrée dans le circuit mondial basé sur les principes de l'économie du marché des pays ex-communistes et des pays de l'Asie, avec plus de deux milliards d(habitants, a créé un immense marché de vente et d'opportunités particulières pour le placement du capital. L'ajustement économique et l'application des mesures de réduction des décalages économiques sous la coordination des institutions internationales constitue la prémisse essentielle pour l'élimination des crises et des contradictions mondiales.

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MARKET NICHE IN AGRICULTURAL INSURANCES

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As the negative effects of climatic warming are more and more obvious, the demand for insurance solutions to cover the costs resulting from weather whims shall increase in direct ration with risk exposure. Although the situation might be interpreted as a business opportunity, in order to be able to offer the proper cover it is necessary to comply with fundamental demands regarding the weather risk insurance. Thus, when conceiving viable insurance solutions of the consequences intervened in case of a catastrophic event generated by harsh weather conditions we must take into consideration factors such as measurement possibility of the respective risk, in order to decide if this can or can not be accepted. Thus, in this item we tried to illustrate some elemental aspects connected to agricultural insurances perspectives.

Keywords: agricultural insurance, weather insurance, weather derivative.

1. The existing background of agricultural insurances

The experience of economically developed countries revealed the fact that without a stable development of *agricultural insurances,* there is no chance for high performance agriculture. The investment necessary for working the field by means of an intensive technology is too important to disconsider the climatic risks whose manifestation may ruine the entrepreneurs. The agricultural field of activity confronts with climatic risks which acquired lately a frequence and an intensity of manifestation unknown for us. In our country, calamities produced in agriculture, such as the drought, the hail, very low temperatures (under the limit of biological stand for crops and large farms), rainstorms causing indirect effects: overflowing, flooding, landslides etc., are very known due to their wide broadcasting.

A world classification of the flooding risk was undertaken, taking into account the quantification of 26 variables, within it Romania occupied the 49th position[101]. According to the statistics, during the years 1960-2003, 1.923.000 hectares of agricultural surface were damaged by flood.

Concern for risks that stifle investment and contribute to vulnerability of the rural poor is a driving force behind various types of agricultural insurance. Insuring small-scale farmers against crop losses to adverse weather or other hazards has attracted public sector involvement in the provision of agricultural insurance in many countries among which Romania. With few exceptions, such interventions have encountered severe problems owing to high administrative costs, moral hazard, adverse selection etc. Government interventions should be aimed at improving the accessibility and quality of private sector insurance. This will require the establishment of a framework for responding to severe systemic events affecting agricultural production, and establishing an appropriate regulatory environment to foster private sector innovation and investment in services for less catastrophic events.

2. Limits of the classical agricultural insurance

“The collaboration between public authorities and the insurance industry is necessary for the implementation and the operation of a protection strategy for insuring against disasters”, represents one of the conclusions formulated by ICAR Forum 2006[102]. The implementation of strategies of managing natural disasters leads to the diminution of the total cost allocated to damages. But, most of the time, it is impossible to implement similar strategies in different countries.[103] In this situation, the political will is determined within each country, different targets being followed.

In Romania, especially during the development process existing at present in agriculture, the public-private relationship is still absolutely necessary due to the failure proved by small farmers in dealing with multiple

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[101] Source: Water Careful Management Laboratory, Hydrology and Water Careful Management National Institute – www.hidro.ro

[102] The International Catastrophic Risks Forum, 3rd edition, held at Bucharest on 2nd -3rd of October 2006.

[103] As Alberto MONTI, Principal Administrator (Insurance), Financial Affairs Division, EOCD (European Organisation for Cooperation and Development) mentioned in his presentation held within ICAR Forum 2006.

issues (the partitioning of fields, the lack of equipments and of a suitable infrastructure, new European rules, climatic changes generating effects which become more and more disastrous etc.). A long term and serious involvement of the government may cause negative consequences.

The governmental involvement on any market presents the possibility to exclude the particular sector. For this reason, the agricultural insurance market does not constitute an exception. The governmental aid in managing the risk in agriculture is materialized in the support allocated to the insurance premiums for certain categories of policies and risks and in the financial and material aid previous to the manifestation of risks considered disasters.

The damages alloted by the government are received only by those who have already concluded an insurance, even the utmost simple one, such as the insurance against the hail – it is the cheapest one. Then, the authorities are forced to declare by Government Decree, (according to the existing pseudopolitical interest) as a "calamity-stricken area" any surface affected by nature caprices, because of the large sums of money paid in this purpose. Such a conduct leads to an uneven environment, where the private insurers' interest decreases gradually, in a proportional manner to the lack of interest proved by possible customers of private insurances.

Private insurance companies may be no longer interested in making an offer of agricultural insurance if the rules of the game are not known from the beginning. It is necessary to be informed upon the previous establishment of the intervention level (of the sum) to which the government interferes in order to offer assistance. If the governmental acts and decisions are clear and transparent, the insurance providers will prove much trust working on the agricultural market.

One may conclude that the governmental involvement in managing the risk within the agricultural sector explains the possibility of dealing with an increased risk affecting the producers' activity.[104] Generally, farmers should not count on the aid offered when dealing with a disaster, as long as they are not applying all the measures meant to control the risk. An important way in the evolution of the agricultural insurance system, as it is shown by the experience of economic developed countries, is to combine the classical type of insurance with the deriving products.

The traditional agricultural insurance which may be multi-risk (it considers a variety of risks) or uni-risk (it refers to the manifestation of one single risk), presents a series of limitations, that is why it is more and more avoided by the possible customers. The main limits of the classical agricultural insurance may be:

- informational asymmetry;
- denatured stimulation;
- unfavorable (adverse) selection;
- administrative costs;
- moral hazard.

3. New types of agricultural insurance

During the last few years, at the international level, a variety of new financial mechanisms present the capacity of solving many issues related to the traditional projection of agricultural insurances. New instruments operate based on the configuration of the insurance indemnity payment, thus it will be paid when it reaches a certain level determined by statistic calculations and designed as the "index".

The international practice registers two types of agricultural insurances based on the index: weather insurance depending on the index and surface insurance depending on the index. The use of the two types of policies for the insurance against natural disasters intensified the access to insurance services for the poor persons living to the country. The "release mechanism" (the index) may be verified in an independent manner, thus the vulnerability to political interaction and the manipulation of the loss registered by farms reduce. Reduced administrative and transactional costs together with other profits force the private sector of agricultural insurances to offer to possible customers' unsignificant subsidies or no subsidies.

I. Weather insurance based index – the insurance indemnity will be paid by the insurer under the circumstances of reaching a release mechanism previously established, called the "index".

[104] Mahul, Olivier - "Optimal Insurance against Climatic Experience." *American Journal of Agricultural Economics* 83(3), 2001, pp. 593–604.

The index may consist of a variety of weather indicators, such as: rainstorms volume, temperature, humidity, wind intensity or the number of sunny days, each indicator is confirmed by a independent third person and mutually related to individual damages registered as a result of the event manifestation.

II. Surface insurance depending on the index – the payment of the indemnity is completed when the cropped surface is reduced (the output too) under a certain percentage determined according to climatic characteristics of the area, as a result of the manifestation of a disaster (drought, flood etc.).

The insurance is sold using standard devices (for example, currency units or "units") corresponding to a policy or to a certificate for each bought unit. The insurance premium is the same for each buyer, providing an equal indemnity if the insured event takes place. Buyers are free to purchase as many insurance units as they want.

III. A weather derivative represent a contract between two parties which stipulates the value of the payment taking into account meteorological conditions manifested during the period of the contract.

Weather derivative is a financial instrument used by companies to reduce the risk associated to unfavorable or unpredictable weather events evolutions[105]. The derivative seller accepts the risk by cashing a bonus (derivative price). If the event doesn't take place, the seller makes a profit, but if the event takes place, the buying company cashes a preliminarily agreed amount. In USA, Europe and Australia, temperature, snowfall quantity, freeze expansion and rainfall quantity are key conditions for which corporations buy weather derivatives. The cost of a weather derivative depends on the probability of weather negative impact upon the business and duration of the contract concluded between the bank and corporative entity.

A weather derivative is defined by many elements, as it follows:

Reference weather station. All contracts of weather derivative type are based upon weather observations accomplished at one or more specified weather stations, accomplished by an entity certified by national weather authority of the state on which territory there are the respective stations. Most part of the dealings are based upon only one station, but some contracts are based upon a combination of reports from many stations, and others upon differences between the values noticed at two stations.

Index of a weather derivative defines the weather parameter which establishes when and how the payments agreed by contract shall be accomplished. The indexes most frequently used are Heating Degree Days (HDD) and Cooling Degree Days (CDD) – which measure the cumulated variation of daily average temperature comparing to the level of 18°C (65 Fahrenheit degrees) along a season. We must mention that other basic temperature levels may be adopted, for instance in Great Britain these are of 15,5° C.

The arithmetic expression used in order to determine the HDD and CDD is the following[106]:

$$HDD = \sum_{i=1}^{N} \max\left(0, 18^o C - T_i\right)$$

$$CDD = \sum_{i=1}^{N} \max\left(0, T_i - 18^o C\right)$$

were,

N represents the number of days for which a contract is developing;

T_i - arithmetic average of maximum (T_{max}) and minimum (T_{min}) thermic temperatures of day *i.*

For instance, the daily accumulated CDD number is equal to the difference between the average temperature of the day and the value of 18°C (65 Fahrenheit degrees), if the temperature is over 18°C and to zero if the temperature doesn't exceed 18 Celsius degrees. If the average temperature of the day is under 18°C (T_{base}), then the difference between 18°C and average temperature of the day leads to HDD number, CDD and HDD values are never negative, being at least equal to zero.

As a consequence, if T_i shall be of 10 °C when the HDD value for that day is of 8 (18 °C - 10 °C = 8 HDD), instead, if T_i shall be of 20 °C, then the HDD value is 0. In the same way there can also be determined the CDD value. If T_i shall be of 20 °C, then the CDD value is 2 (20 °C - 18 °C = 2 CDD), and if T_i shall be of 10 °C then the CDD value is 0.

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[105] http://en.wikipedia.org/wiki/Weather_derivatives

[106] Lixin Zeng, *Weather Derivatives and Weather Insurance: Concept, Application, and Analysis*, Bulletin of the American Meteorological Society, Vol. 81, No. 9, September 2000, pp. 2075 -2082.

During a month there can be accumulated both CDD (during the days with average temperature over 18 degrees – days with high temperature) and HDD also (during the days with average temperatures under 18 degrees – days with low temperatures). The weather (options) derivatives are defined on HDD or CDD accumulation over a specific period.

A wide range of indexes is used for the dealings restructuring which offer the most adequate hedging mechanisms for the users from different economic fields. Many dealings are based on the so-called event indexes, which count the number of days when the temperature exceeds or drops under a defined limit, during the contract. Similar indexes are used for other variables; for instance the rainfall accumulation or the number of days when the rainfall accumulation as snowfall exceeds a defined level.

Term. All contracts have a defined day of beginning and termination, which define the period for which the specific index is calculated. The most frequent market terms are 1st of November - 31st of March for the winter contracts and 1st of May - 30th of September for the summer contracts. However, there has been noticed an increasing level of contracts for a month or a week, along with the market development. Certain contracts also specify various calculation proceedings of the index in the agreed term - such as weekends exclusion or the double share for the specified days – in order to meet some individualized exposures.

Structure. Weather derivatives are based on standard structures of the derivative financial instruments, such as put, call, swap, collar, straddle, strangle. The key attributes of these structures are:

- Strike – meaning the specific index value when the contract begins the payment;
- Tick – meaning the paid amount per growing unit of the index over strike;
- Theoretical limit or value – meaning the maximum payment stipulated by contract.

Premium. The buyer of a weather option pays a premium to the seller that is typically between 10% and 20% of the theoretical amount of the contract. Still, the bonus may significantly vary depending on the risk profile of the contract. In order to exemplify, we may take into account a common shape of weather derivative, meaning the put option which offers protection to the effects of a warm winter.

There are two commonly used forms of weather derivatives: call and put.

A. "Call" contracts imply the existence of a buyer and of a seller who agree over the period of the contract and over a weather index (W) considered the main element of the contract. For example, the W may be the total amount of rain-fall during the entire period of the contract.

From the beginning, the seller receives a premium from the buyer. At the end of the contract, if the W is more important than the planned step sensitivity (S), the seller is obliged to pay to the buyer a sum $P = k(W - S)$, where k is the predetermined constant factor which sets the value of the payment according the weather index unit. The step sensitivity (S) and the k factor are known as the "stike" (the approved price previously determined or the exercise price) and the "tick" (the minimum fluctuation of price) of the contract. The payment planification of the sum (P) may be dual or linear (the fixed sum, established in the contract - P_0 – will be paid if the W is more important than the S, if this condition is not fulfilled then the payment does no longer take place) .

B. "Put" derivatives are similar to "call" products except the fact when the seller pays to the buyers the sum P if the W is lower than the S. This sum is determined considering the following formula $P = k(S - W)$. "Call" or "put" products represent the equivalent of an insurance policy: the buyer pays a premium and receives the indemnity pledge in exchange, if a previous defined condition is accomplished.

A generic weather derivative contract can be formulated by specifying the following seven parameters:

- contract type (call or put);
- contract period (e.g., from 1 Nov 2006 to 31 May 2007);
- an official weather station from which the meteorological record is obtained;
- definition of weather index (*W*) underlying the contract;
- strike (*S*);
- tick (*k*) or constant payment (*PO*) for a linear or binary payment scheme;
- premium.

The parameters mentioned above determine the payment sum (P) for a linear payment planification:

$P_{put} = k\max(S - W)$ where $(S - W)$ is at least 0

P_{call}= kmax(W – S) where (W – S) is at least 0

The function max(*x, y*) returns the greater of values *x (S)* or *y (W).*

For a binary payment scheme:

$P_{put} = P_0$ if $W – S < 0$; $P_{put} = 0$ if $W – S \geq 0$

$P_{call} = P_0$ if $W – S > 0$; $P_{call} = 0$ if $W – S \leq 0$

The payment diagrams for a linear “call” and “put” contracts are presented as it follows:

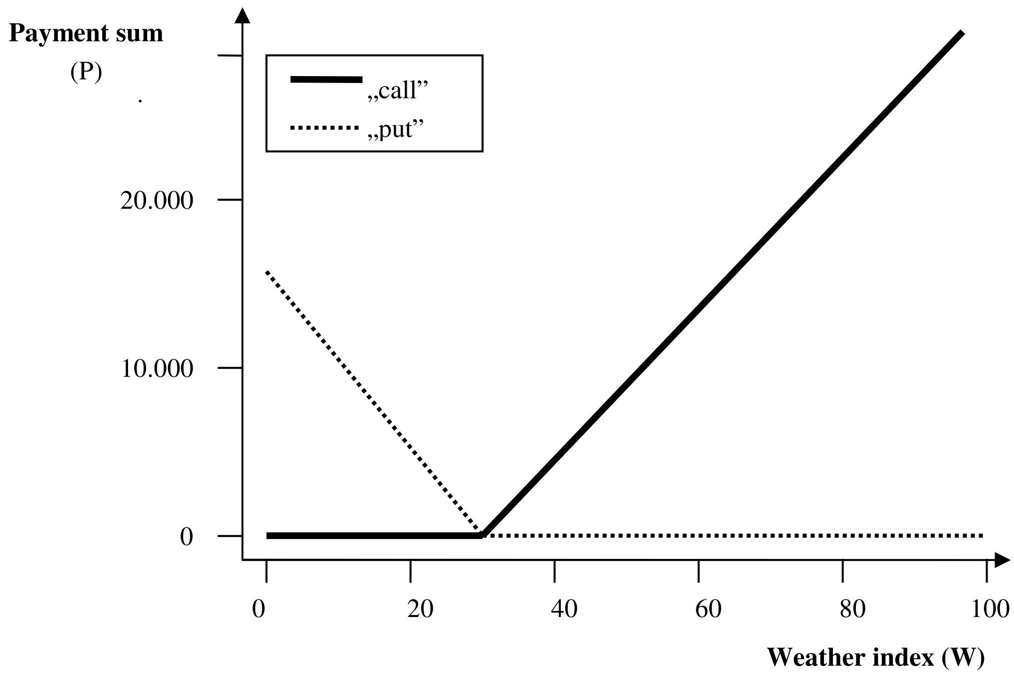

Figure no.1 – The payment diagrams for a linear “call” and “put” contracts

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CORPORATE INCOME TAXES. EVOLUTIONS

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Abstract: taxing the income of the companies has been an important issue for the last two decades, from the point of view of the budget and of the influence of the tax on the economic environment and on the society in general.

Key words: tax, evolution, conciliation of the result

With the Law of the commercial companies - nr.31/1990, the state enterprises turned into commercial companies and autonomous public corporations, and the small enterprises partially became commercial companies.

The corporate income tax was conceived to be a progressive one, composed by a rising fix amount and an amount calculated by applying increasing tax rates. Tax rates were between 5% and 77%. One may say this law affected the enterprises by an excessive taxation. This taxing method was lively criticized, and the HG[1)] 804/1991 introduces a new way of calculating income tax as a proportional tax, calculated with a 30% rate for the taxable incomes of less than 1 million ROL and a proportional tax of 45% for more than 1 million, the tax base being thus split in two.

This taxing method brought a fiscal pressure of about 40% for an income of 3 million ROL whereas the first method brought this average fiscal pressure only when the taxable income reaches 100 million ROL. Although it seems that the method of the two-rate tax aimed to increase the neutrality of the tax, this principle was distorted by the fiscal facilities granted. In this period, the number of private commercial companies increased vertiginously, not as a consequence of the raise in the economic potential, but mainly because of the fiscal facilities granted. Granting fiscal facilities meant to create a healthy private sector and to attract foreign capital. Temporary tax exemptions were granted, differentiated on objects of activity, to encourage creation of new private commercial companies; but many of the newborn companies were really taking on the activity interrupted in the companies that no longer benefited from the temporary exemptions.

Also, deductions of the tax base were granted, for the incomes used to improve quality of products and to advertise and promote, a deduction of 50% was granted for the tax on the profit that is reinvested to get supplementary profits; this deduction expired in two years time if the goal wasn't reached.

A 25% deduction was granted to foreign capital companies that imported energy and fuel for their activity, used Romanian equipments for investments, created at least 50 new jobs through investments or through modernization of their activity, made exports, and performed research.

Although many of these facilities had a contradictory nature, such as the acquisitions of Romanian equipments that on one hand generated a new investment, and on another limited performance in some fields, yet the goal was to increase the productive potential. As any advantage, these facilities generated discrimination – the domestic capital companies had not the same advantages. A deduction was granted to the income tax for the companies that employed physically disabled people, depending on their percentage in the total number of employees.

All these facilities created difficulties in the calculation and registration of the fiscal obligations. They proved to be encouraging for the commercial companies, but only partially. Too many advantages and feeble results, maybe also due to too many exceptions from the basic rule, which caused discriminations more important than the advantages received.

Beginning with January 1st 1995, through the OG[2)], the income tax was rearranged as a proportional tax with a rate of 38%, some exception being made – 25% for taxpayers whose income came more than 80% from agricultural activity, 80% for the BN.

Two additional rates were created, one of 22% applicable to the taxpayers whose income came for more than a half from gambling, the other of 6.2% for the foreign legal entities that developed commercial activities in our country.

For the small taxpayers, the taxable income is calculated by adding to the result of the exercise the non-deductible expenses and subtracting the legal deductions.

OG[2)]/1994 does not revoke the tax facilities of HG[1)]804/1991, thus: the exemption periods remained the same for the companies established before January 1st, 1995, that had been granted these rights. We find these facilities under the name of tax credit, a denomination that includes the deductions for the employers of disabled persons, for the reinvested profit, as well as the external tax credit.

The external tax credit represents the tax paid abroad, it will work in a way to avoid the double international taxation – the common credit procedure.

For the big taxpayers, the taxable profit is calculated as the difference between the net assets at the end of the year and the net assets at the beginning of the year updated for inflation, plus the non-deductible expenses and the distributions paid to the owners during the fiscal year, less the tax deductions, all these also updated for inflation.

Thus, the income tax for the big taxpayers affects the variation of the increase of the assets in a fiscal year.

Tax payments are made monthly by the small taxpayers, and the big taxpayers have to make monthly for payments of their due annual tax.

It is also important to notice the different fiscal treatment of the tax deductible amortization for the big taxpayers and the small ones.

For the small taxpayers, fiscal amortization was the economic amortization included in costs, depending on the degree of utilization, without being updated for inflation.

Fiscally deductible amortization for the big taxpayers was calculated considering the six fiscal categories of the fixed assets, the settling of some rates of fiscal amortization, the updating for inflation of the existing fixed means and the ones acquisitioned within the year, these being influenced by their utilization rate during the fiscal year.

There is another discrimination between the two categories of taxpayers: for the small taxpayers, a 50% deduction on the profit tax is granted for the sums used in updating processing technology, enlarging the field of activity, and in environmental protection.

After 1997, the distinction between small and big taxpayers disappeared, as the technique of updating for inflation, the system of fiscally deductible and economic amortization as well as the differentiated periods of loss reporting became uniform, and the payment terms of fiscal obligations were modified. In fact, the technique of profit tax became almost identical to the one applied before with small taxpayers.

The deduction remained, and the additional rate of 22% for profit obtained from gambling, clubs and pubs would be applied only to the profit obtained from these activities, thus lowering the marginal tax rate for such activities of small importance in real economy.

In order to attain social finalities, the deduction on imports for the companies with over 250 employees and at least 3% disabled persons hired was maintained, proportionally with their share in the total number of employees.

The deduction of 50% on the income tax on exports aims to encouraging the companies to sell abroad; the same level of deduction is maintained for reinvestment of the profit in technology improving or modernization, in order to stimulate investments. The Budget Law of 1997 ended the deduction on exports for budgetary reasons.

Cumulated deduction cannot exceed 50% on profit tax calculated before the deductions, and this is a meant to ensure a certain level of the budgetary incomes.

Starting with 1998, expenses for advertising and promotion became deductible on the whole, and the losses reported were to be recovered in five years time.

These alterations of the Tax Law after 1997 regarding the amortization system, the treatment of the non-resident tax payers, the deduction system, marked a step ahead in profit taxation, but the issue of letting go of the "big taxpayer" attribute has other connotations too, beside the positive fact of simplifying the technique of tax calculation.

The object of the tax for the big taxpayers was the variation of their assets and this really showed the true evolution of the capital of the company and the quality of its activity, in inflation conditions; for the small taxpayers there was no more the matter of updating for inflation, and thus the evolution of their assets had no true representation. In inflation conditions, some elements of the costs are under-evaluated compared to the results that will be expressed in prices more or less of the day, overestimating the profit of the company, which represent the most important part of the tax base. Material consumptions will be evaluated at the historic price, moreover the labor expenses and expenses assimilated to salaries don't watch the prices evolution. On the other hand, prices are continuously rising and their evolution shift the evolution of the prices of production factors which are insured sometime in advance. Linear amortizations create the same phenomenon of over dimensioning the result and taxation of a false rising, and this means an arbitrary sanction of a part of the turnover which does not represent the true growth of the total assets.

If the elements of the tax base were updated in current prices supported by an inflation accounting system, a positive result would show the real net capital increase based on its fructification. Thus, we witness a hidden decapitalization on behalf of the taxation, very damaging both for the economic agent, for the state, and for the need for the capital and for investments is important in real economy.

Small tax payers are in such a situation nowadays although they get a positive accounting result, this is not a rise, a phenomenon which is best illustrated by the lack of liquidities (it has, however, other causes too). To lessen this negative influence, the net result should be at least at the level of such extra-accounting losses (capital evaporation), and the rate of the net profitability should be at least equal to the price index of the respective products. Thus the tax on profit turns into a punitive tax for the economic agents with positive results.

Beginning with the year 2000 this tax was recalculated to diminish the fiscal pressure. Thus, the base rate was reduced to 25% and a series of facilities have been granted to the investors for the investments made that year, part of which were deductions for the taxation base.

Through OG 70/1999, the tax on profit will again be recalculated and again through OG 414/2002, with major changes in the taxation base, regarding the number and the kind of the expenses fiscally non-deductible. Most interesting were the reglementations regarding the difference between the non-deductibility of the prices lower than production costs or than market prices for the goods, services and works implied.

The issuing of the Law 571/2003 – The Fiscal Code, fiscal legislation concentrated in a larger and unique source of information. This law has been modified more than once since it was issued.

That is, the use of OG (governmental ordinances) generated more adjustments of the Fiscal Code. In 2004, this document was modified by OG 83/2004, OUG (urgent governmental ordinance) 123/2004, OUG 138/2004. For theses changes and for others, Law 163/2005 was promulgated. In 2006m OUG nr. 21/2006 and Law 343/2006 were issued and, in 2007, OUG nr. 155/2007.

These legal adjustments brought about a lot of problems to be solved from the fiscal point of view, and from the point of view of the accounting result, the problems of the reconciliation of accounting and taxation rising several specific topics.

The relation between taxation and accounting is based on a tight connection and aims to their disconnection on one hand; accounting is a source of information; on the other hand, the two are based on different principles and rules.

Each tax payer as a legal person or as a authorized natural person, makes financial statements and fiscal declarations, as they are, moreover, obliged by the law in power in this field. Thus, item 12 from "Methodology for application of Law 571/2003 regarding the Fiscal Code", approved by HGM 44/2004, stipulates: "the incomes and expenses taken into account in establishing the taxing income are those registered in the accounting books, according to the accounting regulations in the Law of accounting nr. 82/1991 as any other elements similar to the incomes and expenses, diminished by the non-taxing incomes and increased by non-deductible expenses, as in art. 21 Fiscal Code".

The base of this relation is directly connected to the calculation of the taxing income as a taxing base for the tax on profit. As it is known, the legislation regarding the tax on profit changes at short time intervals, while accounting reglementations have a slower dynamic.

As the fiscal law differs even by the simple adjustments from the accounting one, the instrument of adjustment – reconcilement is the fiscal statement, through which the accounting result is adjusted at the level of fiscal requests.

Accounting, in its turn, offers a solution of reconcilement between the two results, by applying the IAS 12 – tax on profit. This standard presents the modality of reconcilement between the fiscal profit and the accounting one, and the instrument used in tax on delayed profit; also for intermediary reports, IAS 34, intermediary financial report is applied.

The accounting result is known to be determined by the closing of the income and expenses accounts, following recognition in the result of the exercise, according to the accounting regulations.

Yet, as a rule, fiscal results differ from account in results and in these cases to determine the tax on profit, the information from accounting registrations must be processed; this is made by a fiscal book which must contain all the adjustments of the accounting result in order to determine the taxing profit and, implicitly, of the due tax on profit.

In order to determine the delayed tax on profit, the economic agent must admit a debit or a credit, when it is possible that the recovery or repayment of the accounting value of an asset or of a debt may determine bigger or smaller future payments for the tax on current profit, that their would-be value if such a recovery or a repayment would not have fiscal consequences.

The accounting-fiscality reconciliation, in the context of this standard imply a certain treatment regarding the financial immobilizations, stocks, depreciations and provisions, own capitals, expenses with interests, incomes from differences in currency rate, accounting recordings of the tax on current profit and those of the postponed one and other linked to the assets and liabilities of the company.

The main goal of the scientific approach in this field is that of discovering and defining the connections that generate organizing potential and efficiency between the taxes of the present fiscal system and the connections between the parts of the fiscal authority and between the fiscal authority and the tax payers.

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THE FISCAL MECHANISM. INFLUENCES.

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Summary. Fiscal mechanism is part of the financial one , mechanism that refers to a large and difficult domain, namely the financial one. Fiscal mechanism' functionality is defined by two components, namely by the level of conception that outlines the structure of the mechanism and on the other side, by the influences of the environment in which it exists. Technical procedures , the instruments and the modalities of taxes administration, fiscal charge itself and the human action marked by ideologies, customs and subjective compulsions are fluctuations that determine the functionality of fiscal mechanism.

Key- words: mechanism, functionality of mechanism, fiscal charge.

Fiscal mechanism, as any other functional entity, is defined through its content and its working capacity. Modalities, procedures, rules, the legislative, technical , political, civic compulsions, instruments of the mechanism' endowing , fiscal politics, even ideologies are component parts of fiscal mechanism. Methods, technical instruments are outlined by the fiscal politics which reflects more or less the objective regularities, and also reflects the subjective wish of the executive power of those who propose the conception of mechanism. The influences from real economy , from society are important quantitatively but also important in content and even wasting sometimes.

Fiscal methods, modalities of taxes' administration, practices established along the time, social morality , ideologies are fluctuations of the fiscal mechanism and in the same time they are instruments or levers handled by those who direct and control the functionality of mechanism.

Fiscal technology is a special part of the budgetary process, a subject outlined as part of budgetary science or, fully, of public finances. Taxes and fiscal process improved in time, but not enough for this important source of incomes for public budget not to generate administration problems of those, namely: not cashing the taxes in time, defalcation from paying the taxes, syncopes in the relation between fiscal organ and the payer, problems of evidence and of following the payer , the absence of a beautiful and efficient relation between fiscal organ and payers and also concrete issues of informative evidence of taxes on their elements.

This subject has a scientific importance that is justified by the affiliation of this theme to financial science and especially to public finances, and by the need of the domain's improvement.

Administration of taxes is a well outlined issue , conceptually speaking , but also practically. Fiscal science and technique were outlined and delimitated in time by specialists' effort and experience in domain. Nowadays, fiscal technique improves itself continuously under the influence of informatic applications and of the literature of speciality at which we have access in present.

However, fiscal efficiency is generally low and we think that there are two reasons on the basis of this phenomenon, namely: gaps in general fiscal legislation and gaps of procedure and secondly, the management of taxes' administration. This last cause proposed to be examined by us, considering that this issue still hides more reserves and being analized , corrected it may praise the real capacities of fiscal mechanism and of taxes of our fiscal system.

The relations between taxes are of conceptual, technical and practical nature. All the taxes that function at a given moment in an economy and the relations between them make up the fiscal system.

Taxes established on settlements specific to fiscal domain generate, beside the relations between them, other influences on social environment.

Taxes, working of fiscal system , its relations with payers and the influences on economy are settled by juridic, subjective, specific laws.

Working of fiscal mechanism is influenced by the working of each submechanism for each tax partly.

Modern methods of calculation the taxes suppose a permanent relation with payer directly, at pay-office, on the phone, electronically, relations that are cultivated by fiscal organ who collaborates with the payers , giving up at his position of oppressing organ to an efficient relation's advantage.

If nowadays the decrease of fiscal pressure was realized both by deduction of taxes' level and by promotion of fiscal advantages , it seems that the last method is more performant from the viewpoint of effects on payer. Grouping together the fiscal advantages in deductions from subject of taxation and deductions from calculated taxes , these seem to be the main methods of deduction of the fiscal charge.

The main aim of scientific process in this domain is to discover and to delimitate the connections which generate organizational potential and efficiency from taxes that make up the actual fiscal system and connections between the components of fiscal organ and between this and the payers.

Choosing the most efficient relations and realization of a functional table would justify its forming in order for the specialists to chose easier the alternatives that generate organizational potential and fiscal efficiency.

Such a model could be capitalized twice , namely: practically for modernization of organizing the informational tide within fiscal organ and in his relation with payers , and theoretically, by putting at students and specialists ' disposal the models and the proposed structures.

Fiscal charge aims the efforts of all the persons and releases unexpected reactions even from some so-called non-payers of taxes, but who stands the effort under the effect of fiscal charge' impact.

It is known that taxes are a necessary evil , being indispensable a state form of social organization and that's why fiscal charge is accepted by payers till a certain level without too big oppositions.

From the moment when fiscal charge grows from different reasons, such as covering the budgetary deficit , this fact releases unexpected social interactions and still undiscovered totally.

If persons and collectivities have reasons of joy when it is contracted a public credit with destinations that bring social benefits, on the other hand, when it is time to reimburse these credits, when big taxes are asked, their reaction is reverse to the initial one, such budgetary measures suppose many changes within financial politics and implicitly on some indicators such as: rate of interest , of inflation, of consumption, etc.

If we are interested by the growing effects of budgetary incomes from taxes and implicitly from public expenses , growths which , if they are accompanied by growths in rates of interest , then they will generate a smaller growth in relative and absolute numbers in gross intern product, then we have to follow at least the following judgments.

It seems that this growth is influenced by the way of using the public resources, which are partly directed to unproductive sections and are generally fructified with a smaller rate than the medium interest rate . It results from these judgments that state will always spend worse its sources, in comparison with private sectors and that public sector should be divided such as to generate more rarely or at all such situation, such needs of financing by taxes' growth.

The benefic effects of incitations by taxes will have to be combined with suitable currency measures , which to generate an economic re-launching in conditions of maintaining the rate of interest under control or till a certain level.

The main aim of fiscal politics is to cover the budgetary needs and to assure the intervention of state through taxes in economy and society .As any other social environment , the fiscal one is negatively or positively influenced , both inside and outside, generating some secondary wanted or unwanted effects.

If we don't take in consideration some restrictions of fiscal politics such as: its correlation with financial potential of the society, correlation with monetary politics, social politics in general, assuring the standing degree of fiscal pressure , subordination of fiscal politics ' aims to economical politics in general , assuring the working of fiscal system, integration of national fiscality into the international fiscal trends, assuring an efficient informational system and many others of the same kind, then the secondary consequences are multiple and most of them will be negative.

The unwanted effects will be: reduction of the productive effort, amplification of swindle and fiscal evasion , stressing of inflationist process, deterioration of international competition and generally, a dereglation of economical and social values of the system.

If the fiscality rate exceeds a certain limit , this fact will dishearten the efficient work, will dishearten saving and investing. Possibilities of evasion and fiscal frauds will be looked , underground economy will take proportion , both regarding the mastership who wants a reduction of subject of taxation mass for its own incomes and fortune , and regarding the physical persons who will stand raised taxes in conditions of small net incomes in comparison with the level of gross income.

Taxes' increase implicitly generates prices 'increase with effects on inflationist process and on trade union politics who immediately looks salaries' increases and in this way the inflationist spiral goes on.

Such correlative conditions regarding taxes' increase can be identified in time, on longer periods, content in which a morality problem can be put, namely supplementary fiscal charge generated by reimbursing of public credits puts its stamp in time on future generations which , we don't know if they are disposed to such an effort. On the other side, we don't know if we have the right to mortgage a part of our children's incomes for aims considered to be necessary but unaccepted by all persons of the collectivity.

In social reality there are no recipes able to solve such frustrations , all these adding in time and sometimes, as history shows, they reveal as social reactions , even revolutions from time to time. The humanity' s history has such moments.

Many other social resorts can be identified in the relation of payer with the fisc , also in the credit domain, the assurances' domain , on financial market and in all the domains of social life.

Economy is practiced between people with the purpose of obtaining an extra- income which to assure a certain level of living and proceeding the lucrative activities. Such social relations generate ideas, theories, about economical science along the time. Most sciences generate applications, but the economical one has a special practical importance.

Its practical importance puts particular methodological problems , some of them being able to be solved objectively on the account of objectives and economical regularities , others are solved on the account of some ideologies more or less objective. In this context, economists have to chose between objective and subjective. We want to know if objective truths can be expected from the economists. Obviously, personal interests, values and ideology influence all the people , including the economists. We also want to know in what way economical science stands at the basis of political elaboration.

Swedish economist Gunnar Myrdal points in an article about the values of economical science that " politics is an art circumscripted from reality and possibility, and that's why it can appeal to economical science" .

The politicians can expect from the economists to explain real situations and to reveal the effects of different possible ways of action to initial situation.

Beyond this approach , the scientists don't have to venture. To give up the objective and abstract approach in the favour of some definite aims- reasons but that cannot be realized on the account of politics and some ideologies which rely more or less on economical regularities, this means not to recognize the importance of scientific approach and of objective truth.

The objective truths must be looked in people, all the more in economists. The philosopher D. D. Rosca in his work " Philosophical studies and essays " (Scientific Publishing House, Bucharest, 1970, p.160) points the role of the objective in this way: " the function that real intelligence has to accomplish in general economy of the spirit's life of civilized man is searching the objective truths, that are confirmed truths by practice and truths that impose themselves by interior compulsions of all good-faith spirits … at many of civilized men , exactly as to primitive men, intelligence can substitute muscles and teeth , with the difference that it learns them to hide, to dissemble" .

To dissemble in politics means to create ideologies which are not checked in reality , to dissemble in economy means to make an attempt on people's well-being.

The scientific approach, objective-abstract in economy doesn't let place to dissemble. To accept general ideas sometimes for fear of unconsideration ,sometimes lucidly, other times unconsciously, represents the degradation sign , sometimes even irreparable for person and devastating for economy.

Not to respect the economic regularities , recognized and checked in life means to create social paradoxes.

Economic science puts at the base of scientific approach the economic regularities depending on which were elaborated in time different economic theories; the best equilibrium, the best demographic, the accurate and just repartition of taxes, etc. But economic practice was sometimes dispossessed by checked theories in economic life , sometimes in time, other times in different parts of the world, depending on the ideologies practiced by politic powers.

If economic science doesn't go away from abstract approach and from objective values, it doesn't have to go away from society too, neither from its rules. To practice objectivity means a normal behaviour.

Objectivity and morality are implicit values in economic sciences.

Social morality can be found analytically in economic life , in relation between economic agents, in relation between generations , between state and payers , morality represents a behaviour modality, an aim, a politic objective, a cause.

The system of social and economic values generally keeps up by practicing the morality and conversely, lack of morality dispossess recognized social values.

Is it moral to transfer fiscal charge from one social level to another, from one person to another, from one generation to another? Is it moral to use instruments of objective economic science in order to promote subjective politics, ideological interests? Morality is practiced in this way too and it is understood also.

If objectivity and morality are implicit values of economic science , by their non-respecting appear paradoxes , blockings of economic mechanisms, implicit calculations with contradictory influences on real economy.

Actually, we practice economy through unfurling relations with our neighbours with only one purpose, namely to obtain a plus-value which to use to preserve our existence and eventually to raise our living level.

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THE LOCAL DECENTRALISATION AND THE ISSUES OF MUNICIPAL BONDS IN ROMANIA

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Abstract: This paper work analyses the connection between local financial decentralization and the potential of local public administration to sustain the local economic and social development by its own forces by taking part to the capital market. Next to the ordinary financial sources, which are the local taxes, the local collectivities resorted last years more and more to the loans, by issuing municipal bonds. As an effect of the local autonomy and financial independence, these kinds of financial instruments gave the chance to the local public administrations to answer all community needs in efficiency and efficacy terms. Very attractive for investors because of the rate of return offered, up to the level of the reference rate of interest fixed by the Romanian National Bank, the municipal bonds are used to reduce the risk of their portfolio.

Key words: local autonomy, financial decentralization, local public revenues, municipal bonds, local public administration, Hunter's index

1. The Financial Decentralization in Romania

The Romanian Constitution from 1991 recognizes the distinct existence of local collectivities as a part of the sovereign state, with particular interests and needs. These ones are organized as cities, municipalities and villages and are leaded by local public administrations[107] which principal task is to answer the citizens' demands (both social and politic ones) by specific public services, in accordance to the principles stipulated in law[108]. Each of their actions is supervised by the central public administration authorities[109].

Local financial resources[110] have a special role in local development, because they represent the base for a prompt replay, in optimal conditions, to the community needs. Banking on these kind of resources, it may be initiated every kind of plan in the community' interest, but with the condition to consult first the citizens, who have the right to debate the public problems and to suggest solutions[111].

Local administrative autonomy is conditioned by the financial autonomy, which assures the material support of first one's service[112] and offers the possibility to submit the local and national public services to the local specific demands and needs, in terms of efficiency and efficacy. This way, the specific problems which the members of the communities confront with may be better identified, especially the economic and social ones, and the appropriate solutions may be adopted.

Starting the financial decentralization expansion, the responsibilities of the local public administrations increased proportionally with the taxes/benefits ratio, the level of external effects and the scale economies

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[107] The Romanian Constitution from 1991, the article no.120;

[108] The law no. 273/2006 of local public finance, stipulates principles as fallows: the local autonomy, the decentralization of public services, the eligibility of local public authorities, the legality and the citizens consultancy in solving local problems, all of that above the power of the national, unitary and indivisible state of Romania;

[109] The Romanian Constitution from 1991, the article no.122;

[110] The Local Autonomy Book stipulates that the local public authorities, in the national economy politics context, have the right to possess proper financial sources, sufficiently and proportionally with their competences established by the law, which to dispose free to exert their attributions;

[111] The law no. 215/2001 of local public administration;

[112] Iulian Vacarel (coordinator), Finante publice, Didactica si Pedagogica Publishing House, Bucharest, 2003;

for the public assets[113]. To increase efficiency for local public expenses, these should be orientated to those programs with a few external effects and low scale economies, that meaning to consider only particular communities' objectives. This way, the social welfare reaches maximum, only if the public services are managed at the closer administration level to the citizen[114] and it's evident that "financial decentralization begins to work beyond the limit that suppose the area of using national public services and goods start to stint and the comparative cost of making decisions at the central level becomes very high" [115].

Financial decentralization refers to the right of the local public administration to collect its own revenues, in proportion to its needs, both from local taxes and complementary sources, like loans, only if the first category of incomes is not sufficient. In the same time, the financial decentralization supposes the freedom to select to which objectives to allocate the local finance (the ordinary ones, the borrowed ones and also the ones obtained by the public sources balancing process). The local autonomy gives the right to the authorities to decide the appropriate level of the local revenues but also the opportunity and necessity of the public expenditure from these sources.

2. Analyzing the Financial Decentralization Level in Romania

The public revenues of the local administrations registered an exponential growth between 1991 and 2005[116]. After the oscillation of the proper revenues in the years of 1991-2001, these ones established at 20% from all finance. Seeing the continuous and sustained growth of total incomes, we may conclude that even the percent of proper revenues is almost the same every year, it augment period by period, as a sign of local autonomy and financial decentralization development. We had the same conclusion by reporting the local budget revenue to GPD, from 3% in 1991, to 6.8% in 2005, on the background of an exponential growth of GPD[117]. Also, public revenues per capita enhanced continuously[118], even more starting the year 1998, when the local tax law improved. This moment marks the apparition of financial decentralization in Romania, being also cause and effect of the economic development of some regions.

Between the years 1999-2004, the biggest local revenues were registered by villages and municipalities[119]. For the villages, most of the finance (over 70% in the period we focused on) is transfers from other public budgets. That suggests a high level of financial dependence and also the concern of the public authorities to sustain rural development because of the inferior financial capacity of the population (given by the smallest medium income per capita as against the municipalities and cities) and the low tax collection level. For the municipalities, the situation is explained by the better economical and financial situation of the tax payers (because of the bigger tax basis) but also superior tax pursue and collection. This fact becomes relevant when we are comparing the big percentage (over 50%) of proper public local revenues in total local ones, that meaning a high financial decentralization level which offers independence in allocating the founds and flexibility seeing the financial sources for the local investment projects.

Globally, there is used a specifically index to measure the level of local financial decentralization, the Hunter's index.

$$H = 1 - \frac{Rnc}{Rt}$$

where:

H- Hunter's index;

Rnc- revenues not controlled by local public administration;

Rt- total revenues of the local public administration.

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113 Mosteanu Tatiana, Iacob Mihaela, Teorii, politici si mecanisme ale descentralizarii fiscale in Europa si in alte state, work paper presented and published in the volume of the International Conference from Sankt Petersburg, november, 2007;

114 Dascalu Elena-Doina, Sistemul bugetar in Romania, Didactica si Pedagogica Publishing House, Bucharest, 2006;

115 Iulian Vacarel (coordinator), Finante publice, Didactica si Pedagogica Publishing House, Bucharest, 2003;

116 The data we used have been obtained by processing the local budgets execution accounts, from the public informations offerd by the Romanian Ministry of Economy and Finance on its official website, www.mfinante.ro;

117 Idem 10;

118 Idem 10;

119 Idem10;

As the index result is higher, to 1, as the financial autonomy level is higher[120].

Practically, this index shows how much from the local public expenditure is based on revenues with absolute freedom for the destination[121].

After we analyzed the revenues and expenditures for all the districts of our country[122], we computed some values for Hunter's index as follows:

Table no.1 Hunter's index[123]

Year	Hunter–minimum level	District	Hunter–maximum level	District	Hunter-average
2001	0,34	Vaslui	0,79	Bucharest	0,48
2002	0,25	Vaslui	0,71	Bucharest	0,39
2003	0,25	Botosani	0,71	Bucharest	0,41
2004	0,19	Harghita	0,70	Bucharest	0,35

Source: calculations made by the authors, relayed on information from the official website of the Romanian Ministry of Economy and Finance

We may observe from the given table that the local public budgets are dependent of the state public budget, because the average indexes are very small. We may notice also the big dependence of the poorest districts which confirms our expectance (the poor districts have a population with small incomes, so taxation basis is as inexistent).

3. Municipal Bonds Issue-an Alternative Source for Financial Local Investment Projects

The local public administrations authorities have a legal right to complete their financial sources with other kind of incomes because the ordinary ones, from taxes, may be some times insufficient. One of these extraordinary revenues is the internal or external loans, used to sustain local public investments or to refinance the local public debt[124]. The law of public debt[125] imposes some restrictions (for example, the maximum level of the amount borrowed along with the interest and the commissions has to limit to 20% of current revenues of the local public administration) to prevent the insolvency. These loans may take forms as bank credits or bonds issues.

If until 1995 the local collectivities did not borrow money, after this year, the amount of loans registered a high percentage from entire local financial sources, with a top period in 1996, 1999 and 2004[126]. Staring the year of 2001, on the development of the capital market context, the local authorities identified a new source of financing in bonds. First issue was realized from Predeal city, having like objective the arrangement of a ski track[127]. Till nowadays there were listed 42 municipal bonds at Bucharest Stock Exchange. From all these, 16 did not reached their maturity yet. Many municipalities appealed to more than one bond issue (as Bacau, Alba Iulia, Lugoj, Timisoara, Oradea, Deva, Predeal, Sebes), as a sign of their success and opportunity. The objectives of the municipal bonds issues are looking to modernize some

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[120] The Institute for Public Politics, Bugetele locale-intre teorie şi practica, Bucharest, 2001;
[121] Bolos Marcel Ioan, Bugetul si contabilitatea comunitatilor locale-intre starea actuala si posibilitatile de modernizare, Economica Publishing House, Bucharest, 2006;
[122] Idem 11;
[123] We used only the data from the period 2001-2004 because of the next reasons: the informations registered before the year of 2001 are not comparable with the ones registered after; for 2005 the public informations for local budgets executions are incomplete; for 2006 and 2007 there are only informations seeing the budget projects, not execution accounts, which we need;
[124] Mosteanu Tatina, Buget si trezorerie publica, Universitara Publishing House, Bucharest, 2004;
[125] The law of public debt no. 313, Monitorul Oficial no. 577/2004;
[126] Idem 10;
[127] Informations from www.kmarket ro ;

principal roads in towns, cleaning water systems, way of access to turistic areas, extensions of water nets, sewerage, natural gas nets, modernizing districts etc. [128].

The revenues and expenditures of the municipalities who issued municipal bonds reveal a decentralization level superior to the average level. We have to notice Predeal, Bacau, Alba Iulia, Timisoara, Oradea, Cluj Napoca, and Navodari, which decentralisation level passes over 60% for all the period of research. From these ones, the municipality of Predeal got the top level, with a 90% decentralisation.

The bonds of Predeal municipality got the best rating BB+ from Bucharest Equity Research Group (BERG), a financial consultancy firm which initiated first rating service in Romanian financial market. The good marks which Predeal obtained bank on the fact that the proper revenues are highest than the ones received from the state budget and the city tries to get the financial independence[129]. On the other side we find Zalau bonds that got a 2C rating which shows the vulnerability in managing revenues and puts question mark on its capacity of assuming financial independence.

The marks are based on the information published by local authorities. The relevant indexes of the financial component of the rating were obtained by analyzing the local budgets' execution accounts, the financial data of local employers registered from the Romanian Ministry of Economy and Finance and the debts of the tax payer to the local budget. The economical component of the rating includes social–demographic data (like salaries, the population's aging, education and unemployment), their evolution and the structure of the economic activities and of the unpropitious or monoindustrial area risk. Also, the economic component gives importance to the stability and the political structure of local public administration and its capacity to increase the proper income percentage in entire revenues.

For the other municipalities we remarked in our study that the rating was as follows: Bacau B+, Cluj Napoca B+, Targu Mures B+, Alba Iulia B. This rating completes our conclusions seeing the level of local decentralization. Many from these cities issue more than one time bonds and they assume a higher maturity of the loan (until the year 2025 or even 2026). This fact suppose a risk increasing, both for investors (who will have to wait more to receive back the loan and maybe will register opportunity costs) and for municipalities, because the market medium rate of interest keeps growing up as a result of the Romanian National Bank's actions to stop the increment of inflation rate. The growth of the market rate of interest's level generates a supplementary financial effort to pay the variable coupon, lied to the rate of interest evolution[130]. To be able to take this risk, it supposes to be solvent and that is reach information about the local capacity and potential in finance area.

After we analysed step by step every municipal bond issue from Romania, our conclusion was that as the maturity is longer, as the extra remuneration up to the medium rate of interest decreases. That is a sign that local administrations try to prevent assuming debts bigger than their potential, because in the future may happen everything.

We computed the level of decentralisation for the cities which issued municipal bonds using Hunter's index. Generally, we discovered values up to the average level [131](excepting Camp lung, Zalau, Medgidia, Bistrita). That ones which registered a high level for this index (closer to one), so they are more independent financially, realized by now more than one issue on market. We have examples as Predeal (90%), Bacau (over 60%), Alba Iulia (between 50% and 60%), Timisoara (60%), Targu Mures (60%), Lugoj (about 50%), Sebes (over 55%). Their financial independence sustains and explains them as actors on the Romanian capital market.

4.Conclusions

Starting with the increasing transparence of the allocation and the use of budgetary state sources at the local level, set by the public finance law from 2006, but the changes in tax law brought by the Tax Code, the level of the public local administrations sensitively increased. These means bigger possibilities to collect proper revenues and to use it both with equilibration revenues received from other budgets the way they want to, according the real and particular needs. The increment of decentralization sustained the local development. Proper revenues, the equilibration revenues and the possibility to earn new sources from the

[128] Informations from www.kmarket ro ;
[129] Bursa Review, 12.05.2003;
[130] The formula used for computation, the generally one, is: (ROBID+ROBOR)/2 + X%;
[131] Idem 10;

capital market which to be managed by them selves gives endorsement to the local investments, which may be seen as a platform of a sustainable economical and financial growth. As the decentralization level increased, as the local investments initiatives took place. So, because of the finance needs, the local authorities asked for it using the capital market. Their demand is guaranteed by their solvency. The rate of interest is attractive and variable, fallowing the same tendency as the rate of interest of banks but in lower risk conditions (the municipalities' loans have only bankruptcy risk, and that in cases there are not guarantees from the state, and the market risk, much of it being annulated because of the sensitivity of the coupons at the market level of the rate of interest).

So we may conclude about the tendency of financial decentralization of the local public administration, fact sustained by their frequent appeal to the capital market, which comes to consolidate the local autonomy. The growth of decentralization level made possible the maturity of the loan to increase in terms of financial security. The investors are encouraged by the extra rate of interest given over the average rate of interest on market. The apparition of the municipal bonds on Romanian capital market offered a new instrument which may be used to diminish the portfolio risk, a viable alternative to the bank deposits, in lower risk conditions and much attractive as remuneration rate. So, the municipal bonds do play a double role, as well in Romanian capital market development as in the financial local autonomy increscent.

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THE NEED OF USING INDICATORS IN SIZING THE EFFICIENCY OF EXPENDITURE FOR EDUCATION

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Abstract: In order to be used in sizing the efficiency of expenditure for education, the indicators must reflect its specific aspects and their calculation must be needed and in accordance with the requests of the educational activity.

The need of using a system of indicators is imposed by the complex character of the efficiency of expenses for education, due to the fact that each of these indices takes a certain efficiency criterion, contributing to the development, implementation and evaluation of the educational policies.

Key words: indicators/indices, efficiency, expenditure for education.

Within an economy where the public needs claim public goods of high values, continuously augmenting and diversifying, on one hand, and on the other hand, the financial state resources not going up in a sustained rhythm, a gap is created leading mainly to the failure of resources needed for all the economic activities and implicitly, of education activities.

Based on these conditions, the decision makers proceed to sorting and ranking the social needs, respectively to sizing the public expenses, taking into account many criteria: priority, opportunity, efficiency and effectiveness, public services quality.

If we take into account the efficiency of the expenditure for education, its quantification can be elaborated either as a ratio between the obtained results by the education operation and the money spent for this action during a certain period of time, or as a ratio between the size of the efforts spent into the education activity and the size of the effects (results) obtained into the development of the respective activity.

The efficiency of the education must be expressed by indicators to reflect the quality of the education activity, comparing thus the effects and the effort spent.

In order to be used in sizing the efficiency of expenditure for education, the indicators must reflect its specific aspects and their calculation must be needed and in accordance with the requests of the educational activity.

The indices of the efficiency of the expenditure for education are used for underlining the effects obtained further to the education expenditure and for their size determination. On the basis of their analysis, there can be identified new actions in line with the improvement of the use of funds within education field.

The necessity of using a system of indices is entailed by the complex character of the efficiency of expenditure for education because each of these indicators takes a certain efficiency criterion.

Each indicator must answer to the calculation level: for example, indicators calculated at national, county or local level, indicators calculated on educational levels or on total education. But some indices are calculated only at national level, such as: public expenditure for education as a percentage from the Gross Internal Product, proportion of public current expenses on educational levels.

Other indicators are calculated at county level or on educational levels, such as: gross/net rate of schooling, rate of school years repetition, etc.

The calculation of indices must be based on real data in order to answer the scope of indicators use; these data refer to:

- measurement of progress registered at the education system level;
- assessment of policies impact within the field;
- setting out new priorities.

In order to assess the efficiency of expenditure for education there are used characteristic indicators for this field, which can be calculated both at macro-economic level and at micro-economic level. These indices have the role to underline the specific elements of the educational activity in evaluating the efficiency and expenses for education.

In order to better understand the usefulness of calculation of efficiency indicators of education expenditure, there can also be calculated social indicators, in physical or material form, some of them being requested for the understanding and analysis of the others while offering different judgment elements.

At the same time, in order to ensure the comparison of these indices and allow the analysis according to the time factor, they have to be calculated using updating methods. Thus, it can be established the moment when the ratio effort/effect is unitary and it is achieved the compensation of expenses from revenues.

Although the economic efficiency indicators of the education process lead to a comparison of the obtained results and consumed resources, they also have to take into account other defining elements, such as: the structure of resources and results, their quality, the abundance degree, the time factor insufficiency.

It is very important the detailed presentation of the calculation method with emphasize on formula, as there are indicators that can be calculated in different ways. Moreover, in each indicator presentation must be included the way of interpreting it in order to avoid confusions and to unify the methods of usage. In this paper, we present two indicators relevant for the efficiency of public expenses allotted to the educational process.

An indicator calculated both at national level and on education levels is the one for public expenditure for education as a percentage from the Gross Internal Product.

The goal of this indicator is to emphasize the proportion of the resources allotted to education by government from taxes and duties collected at budgetary level during one year.

The growth of public expenditure for education is mainly explained by the constant growth of the gross internal product during the last years. During 2000 – 2007 this indicator had the evolution presented in table 1.

Table 1

Public expenditure for education as a percentage from the Gross Internal Product

2000	2001	2002	2003	2004	2005	2006	2007
3,4	3,6	3,5	3,7	3,9	3,9	4,7	5,2

Source: Ministry of Public Finances, Ministry of Education and Research 2000-2007

We notice an increase of the expenses for education from 3,4 % in 2000 to 5,2 % in 2007. To this percentage (5,2%) there have been added 0,50 % from the gross internal product for research and 0,23% from gross internal product for insurance and social welfare. This indicator emphasizes both the education importance as compared to the other public services provided by state calculated on education levels and the priority of public funds allocation for a certain level of education. We have also studied the evolution of public expenditure for education indicator as a percentage from the total public expenditure during 2000 – 2006, when this indicator undergone little modification, as shown in table number 2.

Table 2

Public expenditure for education as a percentage from the public expenditure during 2000-2006

2000	2001	2002	2003	2004	2005	2006
8,1	8,3	8,3	8,2	8,2	8,3	8,4

Source: Ministry of Public Finances, Ministry of Education and Research 2000-2006

This indicator is calculated as a ratio between the total public expenses for education and the total public expenses from a financial year on the basis of data provided by Ministry of Public Finances, Ministry of Education and Research, National Institute for Statistics.

It is an indicator calculated both at national level and on education levels. This indicator emphasizes the proportion of expenses allotted by government for the educational sector development from the annual public expenditure.

It is important that the indices system for education should get together several conditions

- it has to be a multidimensional system so that it can be used in different circumstances, it can comprise not only data related to education but also the reports to the given context;
- it has to ensure comparison with the most well-known indicator systems used by international organizations and mostly by European bodies to which we report to;
- it has to cover the main domains of the educational policy;
- it has to allow multiple uses regarding the annual assessment of the education system (by basic indices), and the analyses both at central level and at regional level;
- it has to hold a certain information power to allow communication sizing and great caution in analyzing statistic data.

This insertion of indicators is justified by the need of monitoring and evaluating the degree of carrying out one of Lisbon priority objectives concerning the education quality development:

- education efficiency can be expressed by indices which must reflect the specific aspects of this activity and their calculation is requested and in accordance with the respective activity requests;
- the requested data for the calculation of indices have to be updated in order to answer the scope of their use;
- the use of indices for the education system assessment and the evaluation of achieving the educational policy objectives at national and local level;
- in calculating the efficiency indices of expenditure for education, the gap between the effort period for sustaining education and the result (effect) period for this action should be noticed (as a characteristic);
- the efficiency index system calculated for the educational activity has a certain information power, these indices can be transferred in certain situations and can be applied to different objectives of education policies.

It is necessary to identify new directions to act in line with the improvement of funds within education field, taking into account the fact that the indicators are not significant as information; they are important only reported to certain criteria related to the education objectives and to the end products of the system.

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CONSIDERATIONS REGARDING GROWING FINANCING CAPACITY OF SME`S

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Small and Medium Enterprises are very important part of both developed and less developed national economies. The European Union experience shows that it has a significant contribution to the GDP and to the reduction of the unemployment rate. In Romania, as in many countries in the area, there is still a long way ahead for reaching an adequate support for SME development potential. Romania has a sector which, although has recently followed a positive trend, it possess performances which are still low in comparison with the countries from European Union, including the countries which entered the European Union in May 2004. The paper highlights financing methods used by SME, the reasons for the present situation as well as the measures thought to be the best for its improvement. In order to amend the situation the Romanian SME are in, Romania must take multiply sided actions, the main role being assigned to government, banks and guaranteeing institutions, that must develop a series of transparent, efficient and correct instruments.

Cuvinte cheie: SME's, financing, credit, leasing, guaranteeing funds, structural funds

The challenges caused by regionalization and globalization of markets demand the compliance of SME to the competitive environment, by consolidating their market position and benefit from the economical opportunities. If traditionally, small and medium enterprises were considered economical operators belonging to the internal market, today a growing number of SME are managing to conquer the global markets. Approximately one fifth of the SME involved in the productive activity in the OCDE countries realize a proportion of 10 to 40% of the their turnover from international activities. SME contribute in a high proportion to the global industrial exports and increase the volume of foreign direct investments worldwide.

In the European Union, SME play an important role, their number being predominant: nearly 99% of the companies are SME, while 90% of them are micro enterprises. At the same time, European SME work force accounts for nearly 70% of the total confirming the social role of SME. In fact, all EU Member States have taken steps in stimulating entrepreneurial spirit. These measures widely vary and consist of loans and grants offering, on one hand, and, on the other hand, in offering support services, such as technical, juridical, managerial consultancy and information centers for setting up companies, training possibilities for potential candidates and new entrepreneurs and market studies.

In Romania, the role of SME is lower from the point of view of the turnover percentage or the added value created in economy, but, on the other hand, at their level, there exist 57% workers of the total number of employees. As for SME structure, there is a slight tendency of micro enterprises predominance and most of the employees may be found in the services sector.

Comparative definition between Romanian SME and European Union SME

Necessary conditions for situating within SME	Micro	Small	Medium
Romania			
Employees number	<10	<50	<250
Turnover (in millions EUR)	<8		
Other conditions (other companies 'shares/social capital)		25%	25%
European Union			
Employees number	<10	<50	<250
Maximum turnover (in millions EUR)	n/a	7	40
Maximum own capitals (in millions EUR)	n/a	5	27
Other conditions (other companies 'shares/social capital)	n/a	25%	25%

As we may see, the notion of SME is the same in the Romanian legislation and in the European Union; nevertheless, there are slight differences regarding turnover and their own capitals that insure equality conditions for Romanian SME on EU integration.

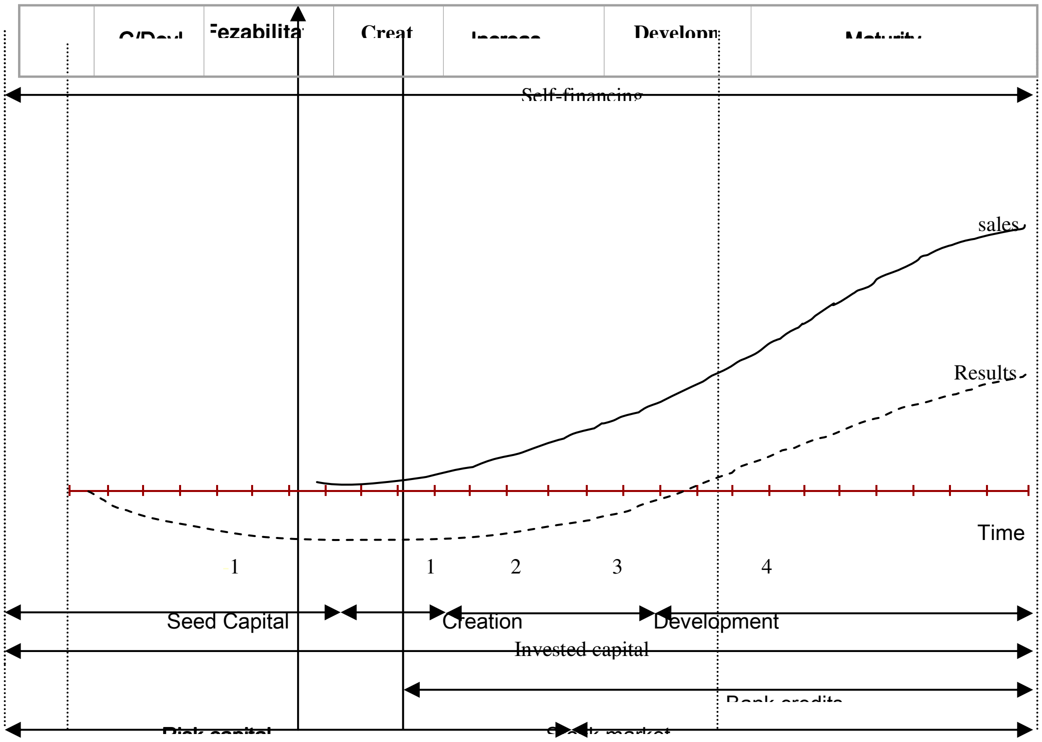
In spite of a positive dynamics, registered during recent years in the tendency towards productive sector as well as in the resources of the local entrepreneurial spirit, SME contribution at GDP still remains low; this fact proves the necessity of stimulating quantitative and qualitative increase of the SME sector. SME access to capital, technology and infrastructure is much beyond the extent that would allow using SME significant role in strengthening economic competitiveness, in particular adaptability to market demands and introduction of new processes.

In the context of competitiveness, most of the small and medium enterprises in Romania need financial support if we were to take into account that their productivity is lower than the big enterprises'. SME financing has gone a long way in the last 17 years in Romania. However, we still have to wait a little longer until we reach an adequate support for SME development potential.

We must bear in mind that, on their evolution, SME have to pass different business development stages, and that in each of these stages, there are needed other types of financing having different terms and conditions.

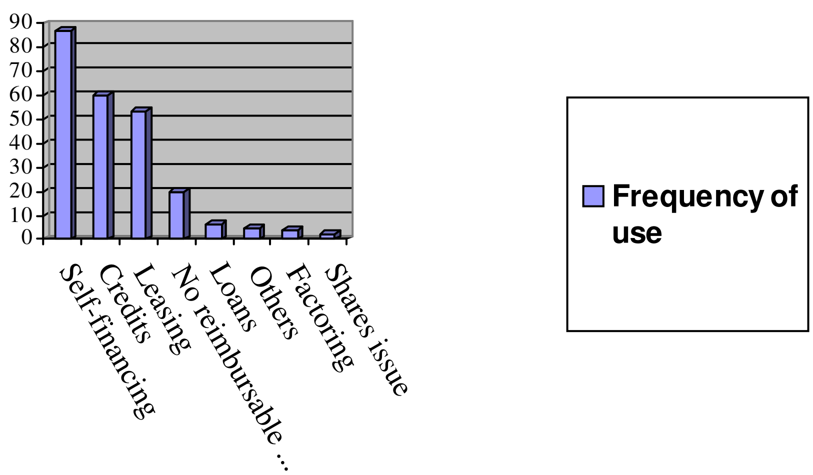
As we may see in the chart, the main financing method that SME dispose of, consists of self-financing, irrespective of the development stage, while banking credits as well as the resources originating from stock market, are relevant only in SME raise, development or maturity stages. Likewise, in the first SME development stages, we may also use risk capital financing.

SME access to financing represents an important side of the entrepreneur's stimulation; we may improve this aspect by financial system and public sector support. The role of the financial system tends to be offered a particular size, all its sectors (banking, leasing, and credit guaranteeing funds) having a significant potential in SME development.



Financing types in different business development stages

The results of some surveys on financing methods used by SME prove that 57.66% of SME carry on their activity only through their own sources. Thus, the most frequently seen financing methods used by SME consist of self-financing (used by 86.7% of companies in the survey), banking credits (60.1%) and leasing (53.2%). This is due primarily to difficult crediting conditions in Romania (high interest rates, high bonds, numerous and difficult grant formalities etc) but also to the possibility for some companies to finance their own activities, especially in the trade sector. We may see the SME method used in financing in chart no.2.



Used financing methods

Covering the financing necessities, primarily from own sources, generates a decrease in liquidities total of companies that may prevent, first of all, taking advantage of some business opportunities and secondly, financing investments having an impact on technological modernization. The lack of liquidities is emphasized by the delayed deduction of delivery as well as the increased tax system. These shortcuts in financing small and medium enterprises generate and develop the vicious cycle of illegal payments that are not included in bookkeeping, thus triggering tax avoidance and corruption.

Although in 2005, SME bank debts represented only 10.5% of total debts, in the first half of 2006, the increase in banking financing was considerable (33%), but if we compare to the European Union where SME financing is around 79% by means of banks, we may easily conclude that there is still a long way ahead of us.

In the last three-year period, according to the ENSR-Survey, 76 % of UE SMEs which asked for a bank loan, received it. The reasons for not obtaining bank financing differ between size classes: lack of collateral mostly affects micro and small enterprises, while poor business performance and insufficient information are the main reasons for medium-sized firms. In fact, in the last period, taking into account the remarkable potential of SME sector, the banks from Romania have begun to offer products and services aimed at these companies, in line with their needs and capital. However, at the same time, starting with January 1, 2007, there are important changes in the banking system also together with the appliance of new requirements of Basel II. Thus, trade companies must have a very good rating in order to receive credits according to new requirements of capital equalizing; in this respect, they must have capital accumulation and select the activities that may offer them good financial results. According to new capital requirements, SME credits will be balanced by 100% if they fall under the category of corporate or by 75% if they fall under the retail category, which means maintenance of the existing situation or even an improvement regarding credit risk appreciation of SME.

Thoroughly analyzing the causes preventing SME banking credit system from developing, we may discover the difficulties that entrepreneurs claim in their relation to banks. Decreasingly, difficulties with negative impact on banking credit system are the following: bank officer relationship, thorough documentation required by the bank in view of granting a credit; the length period of approving the credit by the bank; guarantees level and interest rate.

The ENSR Survey 2002 reports that European SMEs are satisfied with bank services. About two thirds of the SMEs are satisfied, approximately 12 % dissatisfied. The major reasons for dissatisfaction are: poor service, bank charges and frequent changes of contact persons. Especially in the case of medium-sized enterprises, banks do not seem to offer the best solutions to their clients. Medium-sized enterprises are also more often concerned by the refusal of additional loans or the withdrawal of existing credit facilities. There is a certitude that entrepreneurs are not reluctant in soliciting credits primarily because of the interest rate (that they include in products price anyway), but mainly because of reasons regarding client-bank relationship. There is a serious alert for banks that, in the context of market economy, would have to choose between adapting its policies to clients that is, always satisfying the clients' increasing needs and cut in turnover and profitability.

From the UE SMEs' point of view, the cost of borrowing (interest rates as well as charges) is still an important issue. External finance tends to be more expensive for smaller enterprises than for large ones as the fixed costs of lending (e.g. administrative costs and the costs of collecting information about the borrower) are not proportional to the size of the loan and make small loans more expensive than large ones[132]. This price difference is also caused by different risk positions taken by banks and some other size-related factors such as the greater financial acumen existing in LSEs and the greater leverage often available to LSEs.

These difficulties on obtaining a credit are doubled by the ones specific to reimbursement: fluctuating exchange rate, further costs generated by payment reallocation of unsuccessful credits, interest adjustment during the credits reimbursement period.

In order to have an easier access to banking credits, SME should benefit from a series of measures, such as:

- Thinking the business over in perspective;
- Presenting a well-structured and conceived business plan;

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[132] Wagenvoort, R., Are finance constraints hindering the growth of SMEs in Europe?, EIB Papers, Vol. 7, No. 2, 2003.

- Apply to specialty consultancy unless they dispose of their own expertise to start with;
- Developing their own expertise in carrying out their relationships with the financing bank;
- Building up a mutually confident relationship with the bank: carrying on the operations through accounts opened at the bank from which the loan is asked for, credible and solid information, information supply in due time;
- Operatively informing the bank on further difficulties encountered during the credit period; and talking the solutions over.

A solution would come up if banks and guaranteeing funds had a common strategy for SME financing because one of the most important issue that entrepreneurs deal with when accessing a financing line is the lack of guarantees. Guarantees work on the principle of shared risk between the bank and the guarantee association, thereby significantly reducing the degree of risk for the bank. In the context of regional policy, guarantee schemes can play an important role in improving access to finance, creating private sector funding leverage and encouraging the development of SMEs. Guarantee schemes are especially suitable for very small loans to micro enterprises unable to provide the lender with the required collateral. In table the advantages and disadvantages for the participating parties are listed[133].

Advantages and disadvantages of guarantee schemes

Advantages	Disadvantages
SMEs, which cannot easily get finance, benefit from facilitated access to loan financing on better terms.	Only a part of the risk is covered by the guarantee society or fund.
Risk sharing between the guarantee society or fund and the bank reduces the capital requirement of the Basel rules.	By reducing the risks to banks, guarantee schemes may also reduce the extent to which banks scrutinize new loan applications.
Through guarantee societies and funds, private sector financing for SMEs is leveraged promoting regional development.	The extent to which guarantee associations and guarantee funds receive support from public authorities varies across the European Union and is mainly dependent on the prevailing banking culture.
Guarantee societies and funds provide local input and tailored business support and advice.	

In most of the European countries loan guarantee funds and mutual guarantee schemes offer guarantees to SMEs with insufficient collateral, especially micro enterprises. Loan guarantee schemes are often used by 'young' enterprises (12 % of SMEs with less than 5 years compared to 8 % of SMEs with more than 10 years in business). In this respect, in Romania was founded the SME Credit Guaranteeing Fund, a ventured capital institution aiming at facilitating the access to financing through credits guarantees or letters of bank guarantee for SME not having enough financial resources and material guarantees, but with viable business projects.

Another method of financing for SME is leasing. In the European Union, one of two SME has already used a leasing operation for business financing. The average penetration of leasing is estimated to be about 12 % in the European Union.

In Germany, over 70% of small and medium enterprises prefer leasing or loan in order to buy machines and equipments. A study made by the Directorate for Enterprises and Industry of the European Commission indicates that nearly half of small and medium enterprises in the old EU countries have already used the leasing system, loan and account overdraft for investments financing. After Germany, the SME of Austria (65%) and Sweden (63%) take the second place in their preference for leasing or loan. In Romania, the leasing market experienced a significant growth; the specialists think that this sector attraction is closely related to leasing development for the means of transport as a more approachable and easier way of financing for small entrepreneurs.

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[133] European Commission, Guide to Risk Capital Financing in Regional Policy, Brussels, 2002.

Within the EU economic and social cohesion policy, Romania will benefit from structural funds of nearly 30 billion EUR during 2007-2013. These EU structural funds are treated by the European Commission and aim at financing structural aid measures at the Union level in order to promote low developed areas, reconversion of areas experiencing industrial decline, abolishing long-term unemployment, professional insertion of the youth or promoting rural development. One of the main fields of intervention for operational programmes (Sectorial operational sector – Economic competitiveness increase) aims at accomplishing productive investments and preparing for competitiveness on the European market of small and medium enterprises, the allocations in this field being managed by the National Agency for Small and Medium Enterprises. The Programme of Competitiveness Improvement for SME consists of 6 priority axes, the main ways through which small and medium enterprises will be able to access funds within the sectorial programme, that is:

Axis 1 – Production modern system;

Axis 2 – Research, technological development and innovativeness for competitiveness;

Axis 3 – Information and Communication technologies for private and public sector;

Axis 4 – Energetic productivity increase and durable development of the energetic system;

Axis 5 – Romania, attractive destination for tourism and business;

Axis 6 – Technical assistance

In order to improve the current situation of the Romanian SME, we must take various steps, the main role being played by the government, banks and guaranteeing institutions that must develop a series of efficient, correct and transparent instruments. We strongly recommend priority actions concerning:

- Setting up a system of guaranteeing and co-guaranteeing funds at a national and regional level for enterprises financing;
- Significantly diminishing guarantees values and commissions required by banks on granting credits in line with the European Union procedures;
- Simplifying credit granting procedures;
- Subsidizing interests for SME credits, in particular for the ones in certain fields and categories;
- Drawing up a national training programme for enterprisers in order to access structural funds based on the principle of public-private partnership;
- Granting adequate grace periods for investments credits and periods increase;
- Promotion of the use of non-traditional financial instruments such as risk capital funds etc.

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VOLATILITY ESTIMATION BASED ON HETEROSKEDASTIC MODELS VS. HISTORICAL MODELS[134]

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Abstract: Volatility represents the most common used method for risk estimation. The aim of this paper is to estimate volatility based on historical models and heteroskedastic models, GARCH (!,!), in order to identify the crisis moment within American capital market. The database used consists in daily observations about Dow Jones index, spanned within 1928 – 2002.

Keywords: volatility, heteroskedasticity, GARCH, capital market

Introduction

Following the seemingly work of Bachelier (1900) and Markowitz (1952), volatility represents the most common used method for risk estimation among a long list of other methods (see in that sense, Pedersen and Satchell, 1998). The main reasons which support the previous affirmation are: (i) the fact that each rational investor is characterized by a squared utility function, and (ii) financial assets' returns normal distribution hypothesis. But, both assumptions were not entirely demonstrated by empirical studies and tests.

Using a second order polynomial utility function proves to be inconsistent with the fact that averse risk investors could seldom decide to invest in risky financial assets (Kahneman and Tversky, 1979), or with a cautious investors' behavior (Kimball, 1993).

The hypothesis of normal distribution probability of financial assets is not confirmed by empirical studies (see in that sense, Fama, 1965 and Mandelbroot, 1997). In fact, returns distribution is asymmetric and leptokurtic (Christie and Andrew, 1982). Using the leverage effect, active and passive portfolio management strategies and derivatives go to convex profit functions (Bookstaber and Clarke, 1981), while credit and liquidity risk are the main source of potential large losses on financial markets. Long run investment strategies and returns heteroskedasticity are the causes of financial assets asymmetric and leptokurtic probability distribution (Fama, 1996; Bollerslev, 1986).

Consequently, using volatility as good estimator for risk is inconsistent with investors' informational asymmetry or the statistics of returns distribution. Even if volatility represents a friendly method, it has some drawbacks. For instance, volatility is an unobservable element, which makes its estimation very difficult. Based on stochastic models, there were explained dynamic characteristics of volatility, so it could be measured using regular observations on financial assets' prices. It is a stochastic volatility, which is not constant over time and depends on the average conditioned by past shocks. The estimation of such process

[134] This paper is a preliminary study elaborated within research project PN II, type IDEI „Measuring the amplitude of financial market crisis and turbulences using an index following the Richter scale from seismology. An application of the econophysics principles", project contract no. 169/2007, financed by Romanian Government through UEFISCU.

is difficult, and the estimators could be distorted (Barndorff-Nielsen and Shephard, 2002; Bollerslev and Zhou, 2002).

The aim of this study is to estimate volatility using historical methods and heteroskedastic methods, GARCH (1,1).

Database

The database used is represented by closing quotations of Dow Jones index within October 1928 – December 2002.

Empirical results

Historical volatility was estimated as standard deviation at the end of each quarter based on daily rates of returns, calculated as natural logarithm of closing quotations of Dow Jones index.

The estimated quarterly volatility based on historical methods is presented in Figure 1.

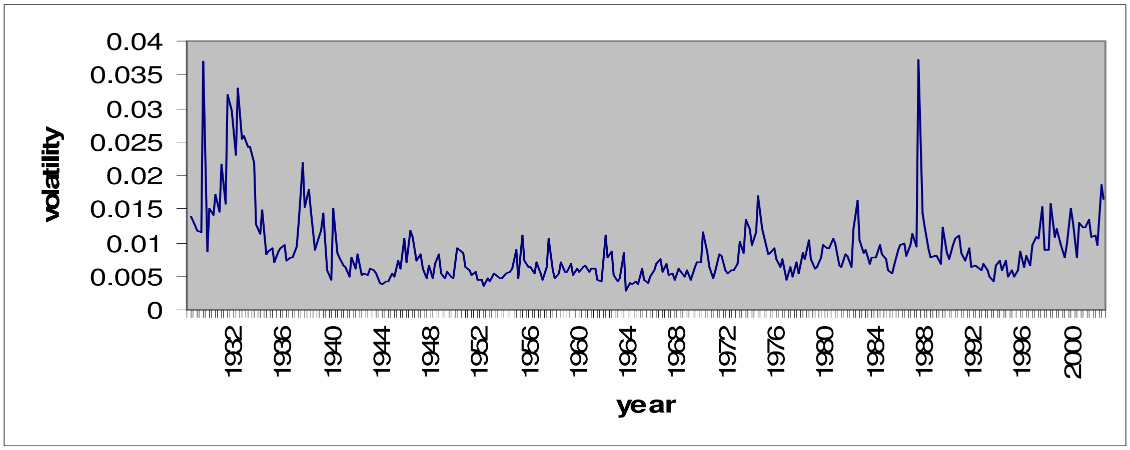

Figure 1 Historical estimated quarterly volatility

In order to estimate volatility based on heteroskedastic methods, it was used a GARCH (1,1) model, similar to one proposed by Bollerslev for obtaining a maximum likelihood. Model's equations are the following:

$$r_t = \mu + \rho \cdot r_{t-1} + \varepsilon_t \quad (1)$$

$$\sigma_t = a_0 + a_1 \cdot \sigma_{t-1} + b_1 + \varepsilon_{t-1}^2 \quad (2)$$

where:

r_t : rate of return calculated related to return at t-1;

σ_t : estimated volatility depending on volatility at t-1 and residuals at t-1;

μ, ρ, a_0, a_1 and b_1 : coefficients.

In order to obtain relevant results, residual term, $\varepsilon = N(0,\sigma_t)$, has to follow normal distribution of zero average and variance equal to volatility.

GARCH (1,1) estimations go to a maximum likelihood of 65691.3270, and estimated parameters are presented in the table below:

	μ	ρ	a_0	a_1	b_1
Estimated value	0.0004	-7.7400	-0.0009	12.0740	3.5962
σ^2 parameters	0.0001	0.0076	0.0000	0.0041	0.0038
T-statistic	6.8156	14.9179	8.7173	221.3062	21.1474

Table 1. Estimated GARCH

The estimated results show the coefficients significance.

The estimated volatility and variance is presented in Figure 2 and 3.

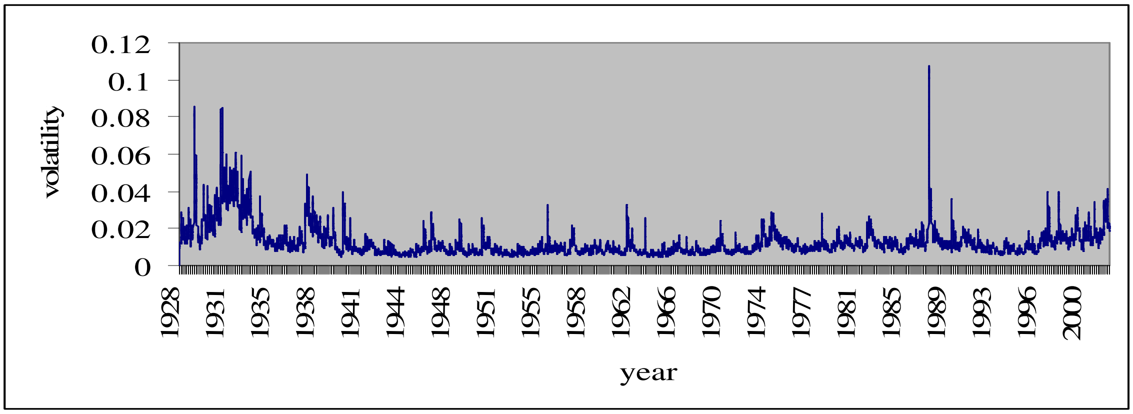

Figure 2. Estimated daily volatility based on heteroskedastic models

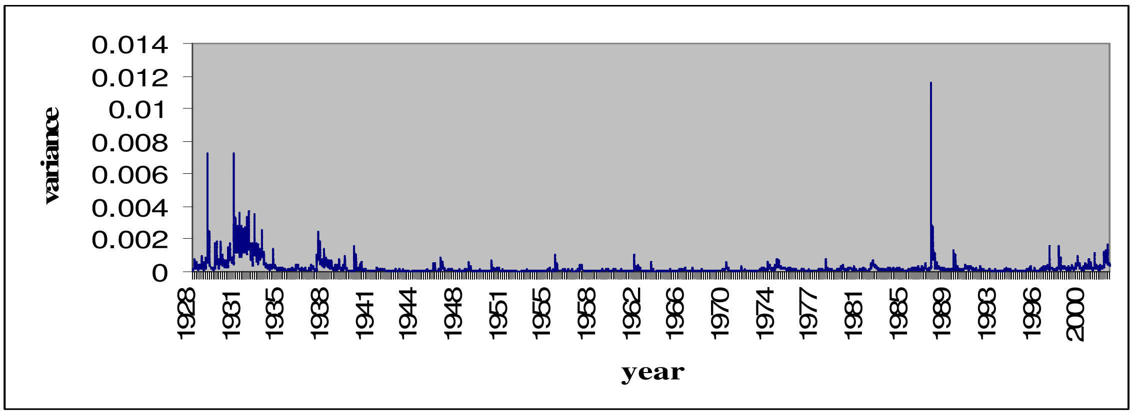

Figure 3. Estimated daily variance based on heteroskedastic models

The estimated residuals are presented in Figure 4 and 5.

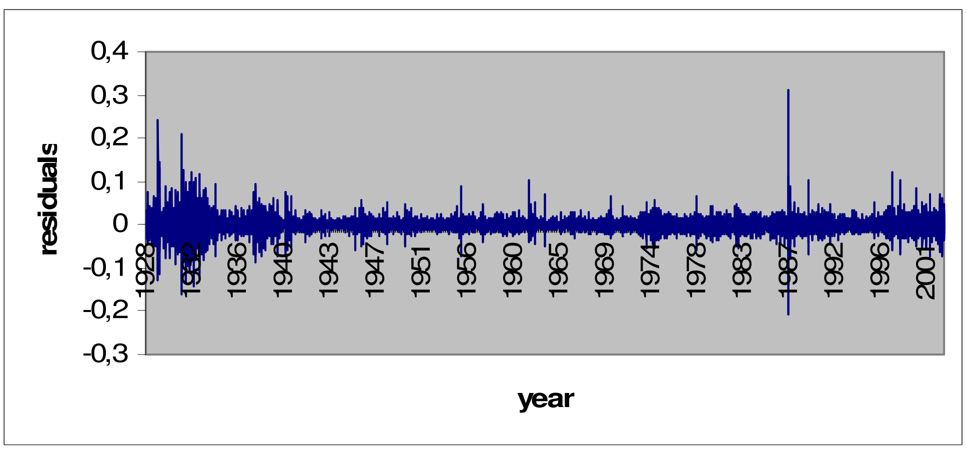

Figure 4. Return estimated residuals

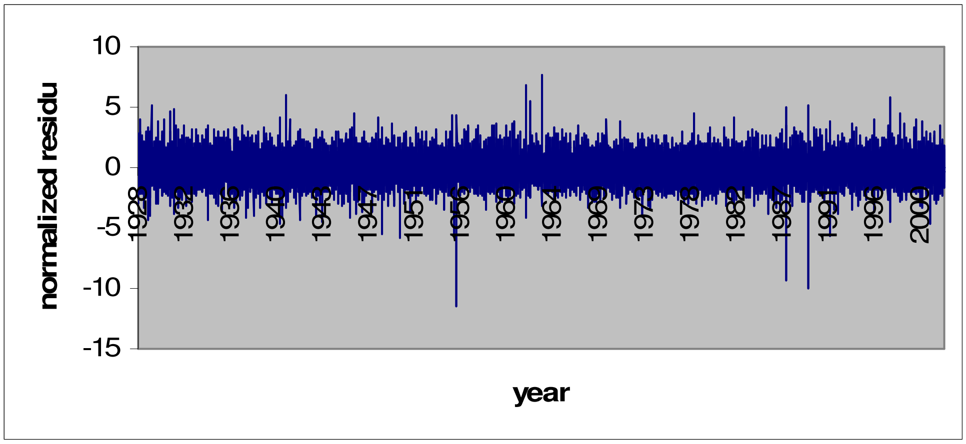

Figure 5. Normalized residuals

Normal distribution of residuals is presented in Figure 6 and 7.

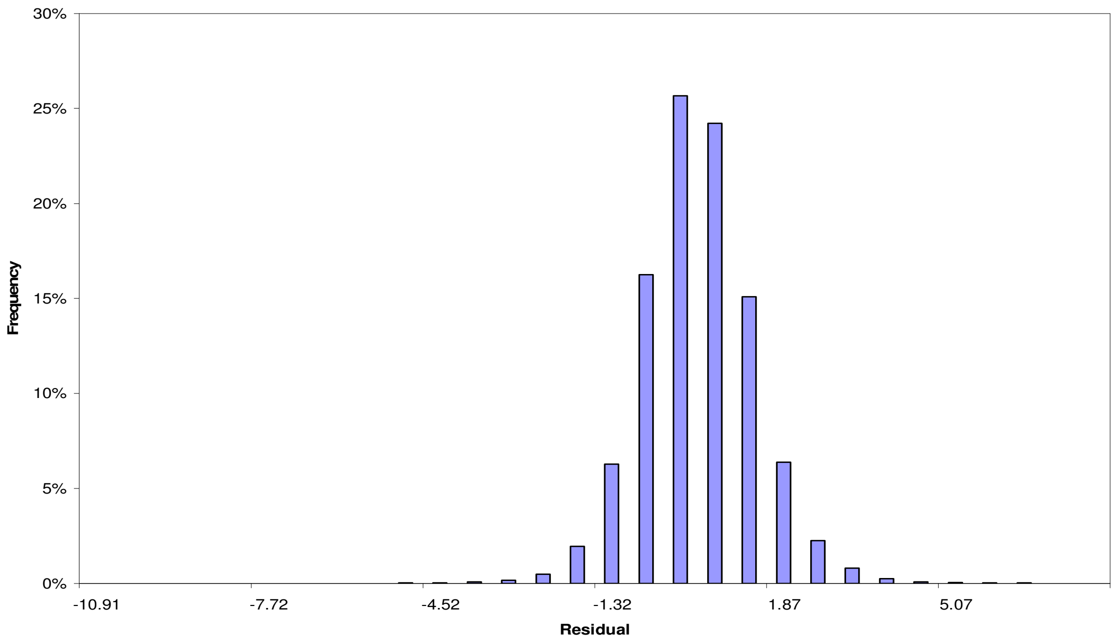

Figure 6.Residuals empirical distribution

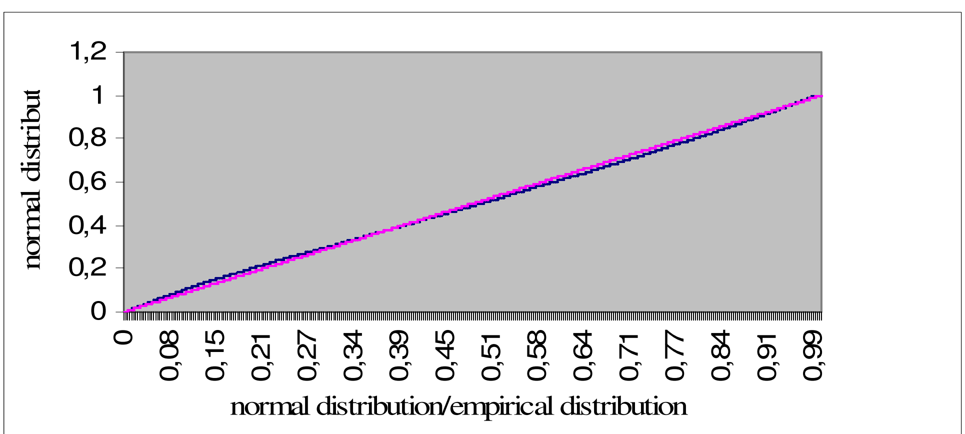

Figure 7. Residuals Henry line

Concluding remarks

The estimated volatility based on historical methods and on GARCH (1,1) model reveal the crisis from American capital market. It could be noticed some crisis moments, such as the peak within 1928 – 1933 (characterized by large volatility and duration), and within 1986 - 1988 (characterized by large volatility and small duration, only one month, at the end of 1987). Both moments are revealed by the historical estimated volatility and by GARCH estimated volatility, but the difference appears related to their size. There were, also, identified some other distortions on US capital market at 1938, 1941, 1946, 1950, 1957, 1960, 1962, 1966, 1970, 1973-1975, 1978 – 1981, 1982 – 1984, 1990. After 1997, it is noticed an increasing volatility for 1997, 1998, 2000, 2001 and 2002.

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ACTUAL TENDENCIES FOR FINANCIAL CORPORATIVE MANAGEMENT

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Corporate finance is mainly oriented towards the management of money resources and financial relationships that rise between economic agents in the process of pecuniary circulation. Moreover, financial management represents the process of settling the purposes for influencing finances with the help of the methods and the levers of the financial mechanism. The structure of the financial mechanism is further analyzed as well as the constitution of the financial management's object and subject.

Key words: corporate finance, financial management, financial mechanism

Corporate finance is an area of finance dealing with the financial decisions corporations make and the tools and analysis used to make these decisions. The supreme purpose of all corporations is to increase their value, i.e. to increase the price (the market value) of their shares, to pay dividends to the shareholders and to remunerate the work of their employees. This is why *the financial aspects* of corporative management are central problems of it.

Corporate finance is oriented towards the management of money resources and financial relationships that rise between economic agents in the process of pecuniary circulation.

The corporate finance as a discipline can be divided into long-term and short-term decisions and techniques. Capital investment decisions are long-term choices about which projects receive investment, whether to finance that investment with equity or debt, and when or whether to pay dividends to shareholders. On the other hand, the short term decisions can be grouped under the heading "Working capital management"[135]. This subject deals with the short-term balance of current assets and current liabilities; the focus here is on managing cash, inventories, and short-term borrowing and lending (such as the terms on credit extended to customers).

Financial management contains a system of principles, methods, forms and procedures for regulating the finance market mechanism in order to increase the competitivity of economic agents.

Financial management represents the process of settling the purposes for influencing finances with the help of the methods and the levers of the financial mechanism.

The fulfillment of financial functions is based on the evidence and financial analysis system for the financial means, resources, goods and capitals of the corporation. The functions of corporate finance are further presented in table no. 1:

Type	Finance function
Object management function	Organizing monetary circulation; Providing the financial means and investment instruments; Supplying the main fixed and current funds (equipments, raw material, technical-material means); Organizing the financial activity; *Financial Planning*: a complex of measures regarding the evolving of tasks and their fulfillment.

[135] The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses.

	Financial Forecasting: long term evolving of modifiers in the financial status of the company (of the corporation) on the whole and of its subsidiaries.
Subject management function	*Organizing:* organizing and drawing up the financial programs. *Settlement:* acting upon the object of management, through which the financial stability status of the company's system is reached, in case of deviation from the fixed parameters. *Coordination:* coordination of the activities of all shackles of the management system, administrative system and of the specialists. Financial analysis: analysis of the financial status of the company (corporation), the execution of financial programs, etc The Control: verifying the organization of the financial activity, the execution of financial programs, etc. In the controlling process, the information about the financial means usage and financial status of the object is selected, supplementary reserves and possibilities are found, modifications of the financial programs are introduced and financial management is organized.

Table no. 1 Corporate finance functions

For corporate administration, the finance management function also implies providing financial means (the leading of capital: to attract, set and use it) and the distributive functions – assuring balanced movement of material and financial resources in the production process.

The existence and efficient functioning of corporative management in the market economy conditions, are not real without a strict financial management and its capital leading is not possible, i.e. assuring the main types of financial resources (investment resources) like material and monetary means, diverse types of financial instruments.

The corporation's capital is on one hand, *the source*, and on the other hand, *the result* of the corporative management activity.

The structure of corporate finance is presented in the following table:

Corporate finance				
Financial relationships				**Financial means and funds**
With other companies	Inside the corporation	With the resort organization within the association	With the creditor-financial system	
The providers	The corporation's workers		With budgets of different levels	Registered capital (share)
The buyers	The shareholders		With the banks	Supplementary capital
The building and transport companies	Between subsidiaries and branches		With the insurance organizations	Reserve capital
External economic relationship			With the extra-budgetary funds	Fixed assets
			With the commercial-papers market	Current assets

			With the investment funds	Investment funds
				Reserve fund
				Depreciation fund
				Exchange fund
				Other funds

Table no. 2 The structure of corporate finance[136]

The finance notion is wider than that of capital because it includes not only the financial means, but the financial relationships, too. Capital management is analyzed from the point of view of financial management – the management of finance (the own and borrowed means) and that of financial relationships set between economic agents involved in entrepreneurial activities.

The object of financial management is constituted by the totality of fixed and circulating means of the company (its assets), and their forming sources (the passives) the conditions for money circulation and value rotation, financial resources movement and financial relationship.

The subject of financial management is constituted by a specialized group of persons (direction of financial subsidiary), which takes care of evolving and applying all sorts of administrative actions upon the objects of management. The structure of the financial management system of the company (corporation) is presented as follows:

The financial management system of the corporation			
The administrative subsystem (the subject of management)			
The financial department		The financial manager	
The management system (the object of leading)			
Monetary circulation	Value rotation (capital)	Financial resources and their sources	Financial relationships

Table no. 3 The structure of the financial management system of the corporation

The corporation capital management actually is the main task of financial management.

The main directions for capital management include:

- **working with the financing sources** (equity and borrowed capital, short term and long term borrowing, profit distribution, the issuing of securities, etc);
- **the investments of the company (corporation) and evaluating their efficiency** (the capital return, the current and future value of the company, evaluating financial risks, etc);
- **the management of fixed and circulating capital**;
- **financial planning** (the financial plan, the budget, the business plan, management accounting, etc);
- **the analysis and control of the financial activity**.

In order to realize the tasks of company's financial management, the financial mechanism is applied (table no. 4), which represents a system designated for organizing the interactions between financial relationships and the monetary means for their efficient action upon the final results of the corporative management activity. The leading of the company's finance includes the strategy and tactics of management.

[136] joint-stock company

The tactics in the finance management domain is oriented towards reaching the set purpose in definite conditions. For the current activity, the expense reduction problems are solved, as well as stimulating the entrepreneurial initiative, the increase in labor productivity and the rationalizing of production and circulating expenses.

The strategic management of finance pursuits to find ways of accumulating capital and redistribution of financial resources towards the most efficient spheres of economic activity. From the point of view of finance management, the company has to maximize its profit and to increase the finite production volume.

Financial methods	*Financial levers*	*Juridical insurance*	*Informational insurance*	*Normative insurance*
Planning	The profit	Laws	Diverse types of information	The instructions
Prognostication	The incomes	The President's decrees		Normatives
Crediting, auto financing	Depreciation deductions	The Government's Resolutions		Norms
Taxation	Financial sanctions	The orders and dispositions of ministries' and departments'		Methodical indications and recommendations
Material stimulation and responsibility	Dividends			
Insurance	Interests			
Leasing	Investments			
Factoring	Special funds			
Forming the funds	Deposits			

Table no. 4 The structure of the financial mechanism within corporate management

To conclude with, the signs of a successful financial management of a company are:

- the survival of the company (corporation) in competition;
- avoiding bankruptcy and great financial failures;
- leadership in competition;
- maximizing the value of the company;
- acceptable development rhythms of the company's economic potential;
- the increase of the production volume and its accomplishment;
- maximizing the profit;
- minimizing the expenses and the losses;
- assuring a profitable activity.

The accomplishment of the financial functions is based on the evidence and financial analysis system of the financial means, the resources, the goods and the capital of the corporation.

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ARE ALL FINANCIAL CRISES THE SAME ? PREMISE FOR FURTHER RESEARCH.

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Abstract: The entry of Romania in the EU has brought advantages and disadvantages. This fact made Romania prone to the influence of other economies especially from developed countries. The paper examines the possible correlation of Romanian economy with other economies and like this the effects that a financial crisis would influence Romania. In case of a financial crisis many emerging markets will suffer because the investment flows will move away, as an adjustment of risk aversion.

Keywords: Financial crisis, banking distress, emerging market, risk aversion

Introduction.

From the economic point of view, a change that is adopted, whether is within a company, financial institution or government, comes with advantages and disadvantages. As long as the sum of advantages is bigger then the sum of disadvantages the adopted change will be for the benefit of the firm or society and should be considered a positive change.

Like this, the entry of Romania in the EU came with advantages and disadvantages. The free movement of goods, persons and capital within the boundaries of EU, has brought advantages and disadvantages. These facts made Romania prone to the influence of other economies especially from other developed countries.

Recent events of the USA financial sector draw the attention of both specialists and nonspecialists to many of the problems related to the financial distress, how quickly and unexpected crises arise and spread over different sectors of the economy. Living in a globalize world the crisis will not remain within the boundaries of one country but will, in a very short period of time expend all over the world affecting more countries with different degrees of influence.

Banking crises have become common place during the past two decades, but the range of experience in terms of the nature of the crises, causes and effects, vary across countries and time periods. George Soros, a well known financier, said to be very acid in his predictions, states in his recent book (The New Paradigm for Financial Markets, 2008) that: "We are in the midst of the worst financial crisis since the 1930s."… "The United States is facing both a recession and a flight from the dollar. The decline in housing prices, the weight of accumulated household debt, and the losses and uncertainties in the banking system threaten to push the economy into a self-reinforcing decline. Measures to combat this threat increase the supply of dollars. At the same time, the flight from the dollar has set up inflationary pressures through higher energy, commodity, and food prices. The European Central Bank, whose mission is to maintain price stability, is reluctant to lower interest rates. This has created a discord between U.S. and E.U. monetary policy and put upward pressure on the euro."

The full impact of the banking crises on the American economy is unclear at this point, but even the most optimistic researcher would say that it is clearly substantial. Several papers have attempted to identify the key factors preceding or coincident with episodes of banking sector distress. The author of this article has developed a past research (銀行｛ぎんこう｝の 破たんや 金融危機｛きんゆうきき｝に対処｛たいしょ｝する "Handle bank failure and financial crises") conducted on the Japanese past banking crisis. At that point (2004) we investigated the causes and consequences of Japanese banking sector distress from 1992-1994 and if this can fit or not with the experiences of other countries. In addition to the macroeconomic developments we considered specific institutional characteristic that may increase the probability of a banking problem. And like the case of Japan, the new American crisis has emerged also from the drop of asset prices, but the cause of the drop in prices being a little bit different. Like Japan, USA has seen a steep rise in housing prices during the four years preceding the crisis, a steep rise in equity prices, a large increase in its current account deficit, and increase in public debt.

Institutional characteristics. Data analysis.

An IMF (International Monetary Found) report summarizes and identifies several general categories of problems frequently associated with financial crises, for example: unsustainable macroeconomic policies, weakness in financial structure, global financial conditions or political instability. But we can stress that macroeconomic instability and particularly fiscal policies within the asset prices bubbles had been a factor in many episodes of banking sector distress, including the Japanese crisis of the 1992's and the nowadays financial problems from America. External conditions, such as large changes in terms of trade and world interest rates, have played a more important role in financial crises in emerging markets economies by affecting the profitability of domestic firms and thus have an impact on bank's balance sheets. These risks often appear in times of rapid financial liberalization and greater market competition when banks are taking new and unfamiliar risks on both assets and liabilities. An important role in assessing and controlling the risk should stay in the hands of supervisory and regulatory financial institutions which under weak policies create the circumstances for banks with low capital ratios to increase their risk position in newly competitive environments and allowing them to avoid full responsibilities for mistakes in monitoring and evaluating risk. Central banks have frequently failed to quickly identify institutions with problems or to take corrective action when problem arises, thus resulting in larger and more difficult crisis situations.

The above mentioned aspects suggest that several mutual characteristics of economies can be associated with financial crises. But do these aspects apply also to the emerging markets?

No need to mention that an emerging market can not stay away and not be affected by a financial crisis that arises in a developed economy. Several aspects can be good variables in order to analyze financial crises. Here we can mention Real GDP growth, Exchange rate depreciation, Real interest rate, Inflation, Real credit growth, Stock price change.

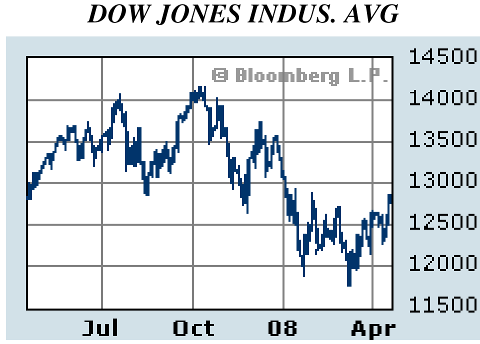
In the following, let us have a look at the movement of stock price index before and after beginning of the US financial distress, within the period of April 2007 and April 2008. In the following charts we can see the movement of the following index: Nikkei, for Japan, Dow Jones Industry Average for USA and FTSE 100 Index for the UK.

NIKKEI 225

Source: Bloomberg

The Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange.

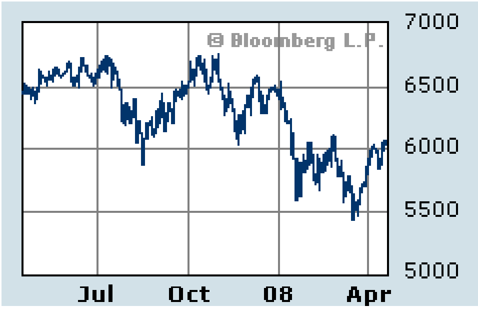
DOW JONES INDUS. AVG



Source: Bloomberg

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry.

FTSE 100 INDEX



Source: Bloomberg

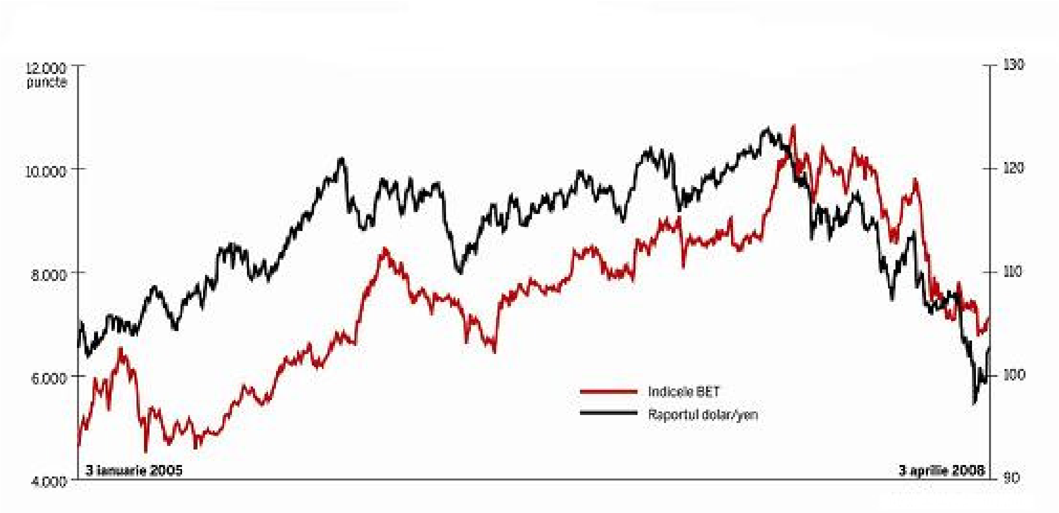
The FTSE 100 Index is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange.

As can be seen, striking similarities can be observed for the 3 presented models. Even the "bubble" pattern prior to the beginning of the distress as well as the reaction of the market during the period of the crisis has, in a certain degree of deviation acceptance, striking similarities.

It would be interesting to see if the recovery from the distress will follow a similar pattern. An important aspect to this will stay in the economic situation of the country prior to the beginning of the distress period.

One thing is sure, and that is that a financial crisis that appear in a developed country will, eventually, affect the other countries in a certain level of degree. And that includes also the emerging markets, and the case of Romania. Since the beginning to the US financial distress we were able to see sharp decline in stock prices in Romania, an increase in inflation and changes in the exchange rates. Although, some similarities between the movement of foreign stock exchange indexes and the Romanian indexes can be observed, the Romanian stock exchange market was affected in a higher degree due to the exit of external funds from this market, considered a more risky market. But a more risky market, an emerging market will bring higher returns, higher yields. Therefore we tend to predict that the recovery of an emerging market will be done in a shorter period of time compared to a developed one.

In a recent discussion on the website of "Bursa Noastra", (www.bursanoastra.ro), a website dedicated for the investors on the Romanian market, Emil Pop, a freelancer in IT, posted a chart that presented a striking similarity between the evolution of the Romanian index BET and USD/JPY exchange rate.



What conclusion can we draw from here? Investors borrow “cheap” money from countries where the cost of capital is low (in Japan the official basic loan rate in 0.75%) and invest in countries where a higher yield can be obtained.

As the time goes by, more and more similarities between the movement of the Romanian market and the movement of foreign markets will be observed, as they will be more connected. The entry of Romania in the EU and the free movement of capital that came along with it, made Romania more opened to the influence of other economies from other developed countries.

The US problems of the sub-prime market turn into a deeper problem that has affected the mortgage markets from UK, Spain and other countries and made the investors to be increasingly concerned about other forms of credit.

Conclusion.

If massive capital will move away, following a brutal adjustment of risk aversion, many emerging markets will suffer because investment flows will decrease and credit conditions will worsen. Here we have in mind Central and Eastern European countries where high economic growth rates might be badly disrupted. And like this many countries might see their prospects for continuing economic recovery substantially affected.

Therefore, excess liquidity, over-borrowing, massive bets made by hedge funds, lack of transparency and poor regulations, improper valuation of investments, high risk acceptance, and the appearance of new financial trading instruments have created the premises for new financial problems. But there are also grounds to believe that a global crisis can be avoided. Many emerging economies have plenty of reserves and their exchange rates are more flexible. Risk diversification and better risk management techniques would help some institutions to avoid serious financial problems.

To sum up, if major crises should knock on the door at the economies of more and more countries, a perfect coordination among the main central banks, governments, and financial institutions should be created in order to avoid bigger loses and make a better damage control of the situations.

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PENSIONS SYSTEM AND REFORM IN ROMANIA

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Abstract: All transition countries inherited pension systems based on the principles of pay-as-you-go and definedbenefit (PAYG-DB). In the early years of operation, such systems had advantages over a fully-funded, defined-contribution (FF-DC) system. For, under a PAYG-DB arrangement, those who retire receive pension benefits immediately and contributions initially tend to exceed the payments. These advantages, however, disappear later on, when population (and employment) growth rates decline and when people live longer after retirement. Under such circumstances, an FF-DC programme has the advantages of greater flexibility and transparency, hence greater financial viability. The changeover from PAYG-DB systems to FF-DC systems is therefore a worldwide trend.

Although Romania has undertaken many necessary and difficult reforms to public pensions to contain the fiscal cost of ageing, much more remains to be done. Replacement rates are low and falling to a degree that undermines workers' willingness to participate in the state pension plan, particularly at contribution rates that are among the highest in the region.

Key words:pensions system, pay-as-you-go, reform, public pension.

After 16 years of economic and social transition, Romania is still struggling

*to develop a financially sustainable and reliable social protection system***.** In the years following 1989, the Romanian Government pursued a comprehensive structural reform that - combined with the difficulties inherent in any fundamental economic transformation - placed the country's social protection system under extreme financial stress. This emphasized the system's shortcomings, particularly in the area of pensions and other forms of contributory social insurance, and resulted in calls for change that successive governments have heeded to differing degrees.

Romania inherited a generous but fragmented and unsustainable mandatory, pay-as-you-go (PAYGO) pension regime from the socialist period. Replacement ratios were high and benefits were paid to a wide range of pensioners (including early and normal length of service, survivor and invalidity/disability benefits). The regime also financed several generous non-contributory benefits (such as sick leave, maternity/child upbringing leave, and farmers' pensions). The first years of the transition were marked by ad-hoc and hesitant reforms. As the transition advanced, the pension regime suffered from several fundamental shocks, including a rapid increase in beneficiaries as a result of population ageing and generous early retirement plans, a decline in economic growth, and a sharp fall in the number of contributors from the growth in unemployment and informal employment. These problems were aggravated by weak administrative capacity and policies that encouraged early retirement as well as the use of invalidity pensions to compensate increasing unemployment among older workers. Consequently, the pension plan's dependency ratio increased dramatically and remains one of the highest dependency ratios in the region today. With its population old-age dependency ratio expected to grow further (from 30.9 in 2003 to 59.5 in 2050), Romania's demographic profile creates another source of concern for sustainability. This aging process will create an additional burden on the working age population, as each worker will have to support an increasing number of retirees.

The Government has attempted to cope with these strains by raising contribution rates to levels that are high even by OECD standards. To make up the shortfall in revenues and the increase in system expenditures during the 1990s, the social security contribution rate was increased from 14 percent to 35 percent in 2001. Although the rate was then decreased to 29.75 percent in January 2006, it remains high by international standards. Moreover, aggregate social insurance charges (pensions, health, unemployment, work injury and disability) count for almost 50 percent of gross wages, making the Romanian workforce one of the most heavily taxed in Central and Eastern Europe. Romania with a pay-roll tax of 46.25 percent, ranks the sixth (out 26 countries) in Europe on social security contributions in the neighborhood of Albania (49 percent) Poland (46.64 percent) and Hungary (45.50 percent), some of the highest in the Central and Eastern European Region. Even the Italian payroll tax rate, considered burdensome by OECD standards, is significantly below Romanian levels. High payroll taxes increase non-wage labor costs and can have adverse consequences for the generation of formal employment and, by extension, for coverage of the public pension plan.

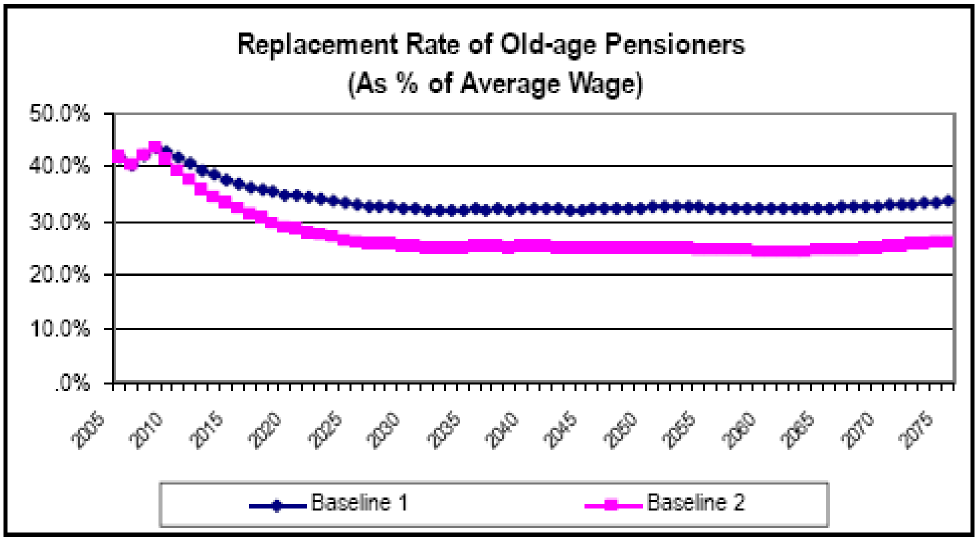
Table 1. Pension Contribution Rates and Total Social Security Contribution Rates in Europe

	Old Age, Disability, Survivors			All Social Security Programs		
	Insured Person	Employer	Total	Insured Person	Employer	Total
Netherlands	19.15	8.90	28.05	39.45	17.20	56.65
Czech Rep.	6.50	21.50	28.00	12.50	37.00	49.50
France	6.65	9.80	16.45	15.45	33.86	49.31
Albania	9.50	29.90	39.40	9.50	39.50	49.00
Poland	16.26	16.26	32.52	26.96	19.68	46.64
Romania	**9.50**	**19.75**	**29.25**[a)]	**17.00**	**29.25**	**46.25**[b)]
Hungary	8.50	18.00	26.50	13.50	32.00	45.50
Bulgaria	21.75	7.25	29.00	25.00	17.70	42.70
Austria	10.25	12.55	22.80	17.15	24.95	42.10
Germany	9.75	9.75	19.50	20.00	21.33	41.33
Italy	8.89	23.81	32.70	8.89	30.90	39.79
Average	9.53	16.44	25.98	14.11	25.05	38.57
Slovenia	15.50	8.85	24.35	22.10	15.90	38.00
Spain	4.70	23.60	28.30	6.25	31.58	37.83
Croatia	20.00	0.00	20.00	20.00	17.20	37.20
Greece	6.67	13.33	20.00	11.55	24.10	35.65
Slovakia	7.00	19.00	26.00	9.40	25.60	35.00
Estonia	2.00	33.00	35.00	2.00	33.00	35.00
Portugal	11.00	23.75	34.75	11.00	23.75	34.75
Sweden	7.00	11.91	18.91	7.00	25.87	32.87
Finland	4.60	22.75	27.35	6.10	25.36	31.46
Lithuania	2.50	23.40	25.90	3.00	28.00	31.00
Belgium	7.50	8.86	16.36	13.07	17.92	30.99
Latvia	2.00	18.00	20.00	..	..	24.32
United Kingdom	11.00	12.80	23.80	11.00	12.80	23.80
Ireland	8.00	10.75	18.75	8.00	10.75	18.75

Note: a) For normal working conditions. Contributions are higher for exceptional and special working conditions (Law 380/2005); b) Refers only to social insurance, health fund and unemployment fund contributions. Employers also contribute to the social solidarity fund for the handicapped, the fund for work accidents and occupational illnesses, etc., which adds another few percentage points to the burden.
Source: United States Social Security Administration.

Replacement rates from the public pension plan which were already low have begun to fall, and without further adjustment, they will continue to decline for another 10 years**.** Figure 1 compares replacement rates of old-age pensioners under two sets of assumptions about indexing: Baseline 1 and Baseline 2. The initial replacement rates are in the order of 42 percent rising to 44 percent in 2008 with the impact of 12 percent planned real increase in benefits in 2007 and 2008. Replacement rates in both Baseline 1 and Baseline 2 decrease gradually over the long term. The estimated long term replacement rates under Baseline 1, where the benefit is 150 percent inflation indexed, is 33.6 percent. The long term replacement rate under Baseline 2, where the benefit is inflation indexed, playing only the poverty alleviation role of pensions, is 26 percent.

Figure 1. Average Replacement Rate of Old-Age Pensioners-Baseline Scenarios



Source: World Bank PROST simulations 2006
Note: ***Baseline 1,*** the more realistic scenario, which assumes a long-term indexation of benefits of 150% of the inflation rate starting 2009 in line with the recent experience where indexation has been above the level of inflation. ***Baseline 2*** and assumes a long-term indexation of benefits to inflation only starting in 2009.

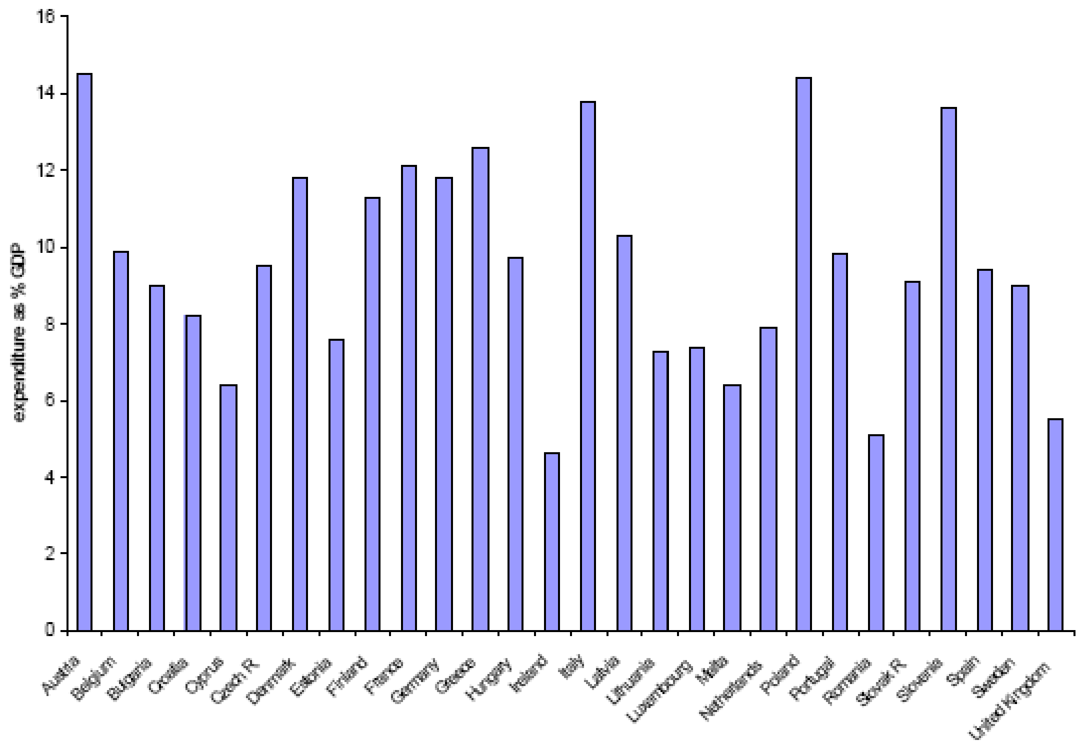
The authorities are very conscious of the problem of low and falling replacement rates and have indicated publicly that they intend to increase pensions by 30 percent in real terms over the period 2005-2008. In spite of the increases granted in 2005 and 2006 (almost half of the envisaged increase) and the recalculation of pensions, completed in 2005, replacement rates continue to remain at very low levels (36.1 percent in August 2006, compared with 51.1 percent in 1990). Encouraged by the current fragile financial surplus of the public pension fund, the Government will continue its policy of increasing public pensions. However, any other future increases of pensions will have to be accompanied by additional reforms in order to make the process sustainable on medium and long term.

As noted earlier - so far, during transition, pension expenditures in Romania have been kept low in relation to GDP. However, simulations indicate that the contribution rate must increase from 25.5% in 1996 (and 32.5% in 1999) to 41.5% in 2040 in order to maintain the 1998 ratio of pensions to wages (De Menil *et al*, 1999). In 1998, this ratio, at 36.2%, was much lower than in Hungary and Poland. Romania is therefore expected to experience social pressure to increase that ratio in the future. This pressure and the expected increase of the coverage of the population by pension insurance are two major factors which prompted the Romanian government, in 1999, to propose a reform of the state pension system along the Hungarian-Polish model (G. De Menil, *et al*, 1999).

After the first step of the pension reform – the introduction old Law no.19/ 2000 for the public pension schemes - Romania postponed for too long the next steps. Compared with Hungary and Poland Romania is well behind. Even Bulgarian authorities were more decided in implementing funding pension schemes. Finally – in 2004, forced by the Romania's perspective to become an European Union member state, the politicians gave up their fears that the launch of funded pension scheme would be an unpopular decision. The laws concerning private and occupational pension schemes were issued and only the specialists and those interested to become pension fund managers reacted. The major part of Romanian working population still ignores this continuation of pension reform and how it would affect them. Funded pension schemes are at the beginning of their long road on Romanian pension reform. And the road could become even longer and more difficult without a proper campaign for public information. The potential contributors would not understand their rights and their options, wrong decision could be made and – as we shown previously – potential crisis could arise. After the last elections, the new Romanian government made no declaration regarding the laws concerning the second and third pillar of pension reform. We hope that no radical decisions would be taken.

`As the contribution base of the PAYGO plan erodes and claims increase the financial sustainability of the plan is put at risk and a persistent systemic deficit has emerged. The state social insurance budget suffered a continuous decrease - from a surplus of 1.1 percent of GDP in 1991 to a deficit of 0.85 percent of GDP in 2003. Given that public spending on social security programs has historically been high, reaching 6.7 percent in 2003, this further increased the fiscal burden the pension plan placed on the general budget. Since 2003, spending on pensions has fallen to 5.3 percent of GDP in 2005, mainly as a result of shifting the financing of the non-contributory farmers' pension plan to general revenues. Long term projections prepared by the World Bank in 2006 show spending rising and stabilizing at around 6 percent of GDP. Furthermore, by conventional measures of implicit pension debt (IPD), the contingent liabilities of Romania's public pension regime outstrip those of most of its neighbors and even of several OECD countries. Although recent comparative data are scarce, and estimates of IPD will vary greatly (with the methodology and discount rates applied), Romania's international relative ranking by contingent pension liabilities is a cause of concern.

Figure 2. Spending on Public Pensions as a Percentage of GDP, Selected European Countries



Source: World Bank

Although the financial viability of the PAYGO plan improved following recent reforms the system still falls short of achieving fiscal sustainability. Too much room is left for discretionary interventions by politicians that make medium- and longterm actuarial forecasting uncertain. In addition to low average retirement ages, a recurring threat to the sustainability of the pension system is the practice of recorrelation. Having experienced erosion in the real value of pensions, pensioners demand a readjustment of pensions to a similar level to what new retirees receive, essentially an ad-hoc wage indexation of benefits. Although re-correlation should have applied only to those who retired with a full length of service prior to 1999 and to their survivors, it was expanded to new categories of retirees. This occurred as a series of discretionary measures resulting from political lobbying, rather than any formal policy or predictable benefit adjustment rule.

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ROMANIAN FISCAL SYSTEM PROGRESSIVE QUOTATION VS. UNIQUE QUOTATION

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Abstract : In simple terms, fixe tax means that every person is taxed with the same percentage. In such a system, in place of a complex set of taxing, the state declares a limit over which every person pays a fix tax for personal incomes. This limit is generally very low, in order to stimulate the people to pay their taxes, instead of trying to avoid them. This kind of system bases on the single taxing of incomes. In what concerns the corporatistic taxes, the idea is similar: only one rule for everybody. The analysts are disposed to take into evidence that, if the unique tax was a rule in every industrialized states in the first half of XIXth century, the first demandings that were pronounced plainly for a "strong progressive or tax gradual" system, appeared in the communist manifestation of Karl Marx in 1848. But, at least, the capitalist states adopted this system.

Key words: fiscal system, unique quotation, fiscal incomes, fiscal evasion.

At the begging of the year 2005, the new government was introducing the unique quotation of taxing of 16%, over the incomes of the natural persons and over the firms profit, reforming completely the Romanian fiscal system.

- Which are landing differences of fiscal system until 2005 and after 2005?
- Which of the two systems is sustenabil on mid and long-term, being a reduced probability that be generated macroeconomics dezequilibriums?
- In what way can raise the weight of collected incomes from the budget in PIB from 29% (in 2006, Romania situating, at this indicator, on the last place in EU27) at 40-45% , which means the average of EU27 countries?

At all these questions we will try to answer. First of all, we will analyse comparatively the two fiscal systems: the one until 2004 and the actual system, initiated at January 1st 2005. Following, we will comparate the actual fiscal system from Romania with other fiscal systems from EU27 countries.

The fiscal system until 2004: progressive, redistributive, social

In 2004, the fiscal system was a progressive one, with differenciated quotations in what concerns the tax applied on the incomes of natural persons. Thus, the ones that had incomes of maximum 28 millions ROL, payd 18% as income tax, the persons that had incomes between 28 millions ROL and 69,6 millions ROL, payd 23% and the tax could reach 40% in conditions of an over 156 miilions ROL income. The tax applied over the taxing profit of companies was of 25%. The interests were taxed with 1%, and the dividendswith a percentage of 5%. The microcompanies were paying an income tax of 1,5%.

In 2004, the fiscal system from Romania was considered by the International Monetary Content[1] as being a sustenabil one, which does not create macroeconomics dezequilibriums on mid and long-term. The improved economies-investements balance, in a rapidly diminution, the salaries maintaining in the approved limit of budgets and high collecting rates of 95-98% at the main utilities were substanciating the positive analyse of FMI specialists: "The budgetary politic in 2004 will sustain the objectives of disinflation and the limitation of the extern current count deficit, creating in the same time conditions for the raising of private sectory."

What was going to happen with the fiscal system in 2005, if that government continued? The government was already decided with FMI, from July 2004, a fiscal reform program, which would entranced in vigour at January 1st 2005. The main pillars of this program foresaw a reduce of profit tax from 25% to 19%; a reduce of income tax for the smallest imposing portion , partially compensated through the stopping of personal decutions to the level of 2004, and a reduce of contribution rate through the social insurances with 1,25%. In order to compensate a part of incomes loss, the authorities wanted to introduce simultaneously a spot tax, to grow the dividend tax, begging to July 1st 2005. The net income loss associated to the reform would be raised at 0,25% from Intern Gross Product to the base reference, thanks to the effect on the entire year elimination of imposing reduced rate at profit tax for exports activities, the reported effect of the growth of the ACCIZA from July 2004 and of some reducing of fiscal evasion.

The objectives proposed by the government from 2004 were in coherension to the equitable distribution supporting of the gains from the raised economic growth, the improval of business climate and the strenghthening of competitive position of Romania. Besides, the fiscal reform wanted to answer to the expectations of business men about the predictability growth in fiscal domain, the reducing of administrative costs about the taxes, and the reducing of the pressures about the work taxing.

Fiscal system from 2005-2007: stimulatively for big businesses and consume

Although the analyses effectuated by the business men in the last 5 years shows that the level of fiscality is one of the secondary preoccupations of companies' management (much less important than, for example, the fiscal predictability), the fiscal reform from 2005 aimed at the encouraging of big businesses, of raised financiary force companies, basing on the training effectsof massive investitions realised by these investors.

From January 1st 2007, entranced into vigour the amendaments, very disputed, brought to the Fiscal Code. The amendaments did not have into account the modification of some essential elements of Romanian fiscal system, built, in special, based on the unique quotation of 16% applied to the incomes and added value tax of 19%.

The dividend tax, payd by the juristic person, is of 10% in some conditions: they not have participations of minimum 15% until January 1st 2009, respectively 10%, after this date for a period of minimum two years before the scandent date. The exception from taxing rule of the commercial societies is, gave by the taxing of micro-enterprises, with the condition that these realise minimum 50% from incomes from another activities than the consultance for businesses and management. The foresee wants to be a solution in sense of elimination of using the micro-enterprises for the collecting of the salaries by some employed persons. The taxing quotation of incomes is, in micro-enterprises case, of 2% in 2007, 2,5% in 2008 and 3% in 2009.

For the obtained gains from the redemption of opened investements funds titles, is applied a taxing rate differenciated depending on the length of time of holding these titles, thus: if are holded for a period smallest than 356 days, is applied a general taxing rate of 16%; if are holded for a period of time bigger than 356 days, is applied a rate of taxing of 1% on net gain obtained.

For the value titles, personal values, bought and redempted, is applied a tax of 16% on net gain obtained from sales and purchases operations from the fiscal exercise. The dividends, inclusively the sums received because of the holding of closed funds titles of investements, obtained by natural persons, are taxing with a quotation of 16% from the value of gross adequate dividends.

The fiscal system entered into vigour in 2005, and adjusted in 2007, has established as objective the insurance of some bigger available incomes, the potential expansion of businesses, the growth of direct investements, the diminution of economic subterranean weight, an economic sustenable raise, more places of work, the raise of the saving and investements. From all these aims, the analysts consider that has been touched the raise of foreign investements, (a record in post-decembrist, 9,1 billions EUR in 2006), a high raised economy, (7,7% in 2006, even if in a big part is based on consume) and the expansion of businesses made by big enterprises, and financiary strong. What did nou succeed to obtain the reform of fiscal system promoted by the government after year 2005 were the raise of budgetary weight funds in PIB, the raise of saving, and what did the worst situation was the accentuation of current count deficit. The bigger available incomes meant a bigger consume (especially of import goods) and the accentuation of the commercial balance deficit.

The adoption of unique quotation in numerous countries

All the countries that have introduced the unique quotation registered positive evolutions:

ESTONIA: which in 1994 introduced a taxing unique quotation of 26%, conducing to an economic growth of 5,2% annual average. Ulterior, the unique quotation haas reduced at 20%.

LETONIA: in 1997 adopted an unique quotation of 25%.

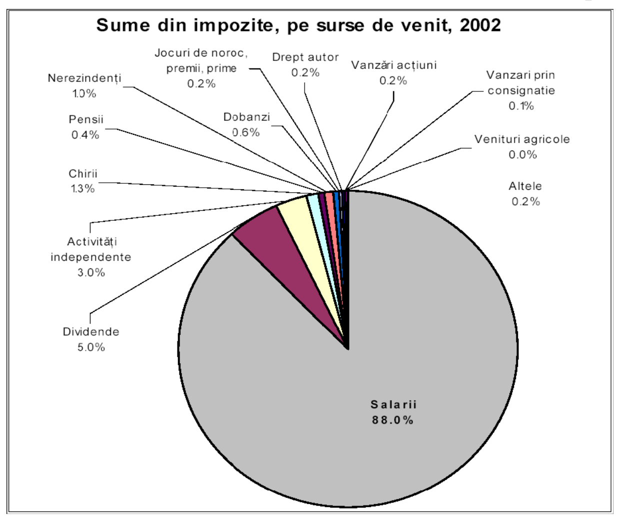
RUSSIA: in 2001, has adopted a 13% unique quotation. Has remarked through an economic spectaculous evolution; thus, the entrances obtained at the budget through the taxing of natural persons incomes has registered a real raising in roubles of 28%, and in 2002, the incomes taxes has summed 357,1 billions roubles, which means a raise of of 20,7% in real terms. The adjustements had realised taking into consideration the taxing rate of 18% in 2001, and 15,8% in 2002).

SLOVACIA: in 2004, Slovacia has adopted a 19% unique quotation.

UCRAINA: has adopted a 13% unique quotation.

The advantages brought by the unique quotation in Romania

1. The unique quotation answers to the equity criteriums in fiscal domain. The option for the taxing in unique quotation constitutes one of the modalities through which can be acted over the rising tide from economy, and assures the reglementation of the fiscal system. This has a bigger efficience in the reglementation of inequalities between different categories of persons which obtain the same income from different sources.
2. The unique quotation eliminates the double imposing of savings and investements. Taking into consideration that the income forms are taxed equally and only one time, people are free to choose any investement that they consider profitable, that, through the intermedium of fiscal instruments, the economy can function at maximum potential.
3. The unique quotation will increase the incomes collected from the state budget. Through the application of taxing progressive system in Romania, in the period anterior the date 1.01.2005, it has taken place a pushing over a very small number of medium and big salaries, the system subexploiting itself from another sources. It appeared from another reason an evident target of fiscal discrepancy, defying the horizontal equity principle: to the same sum must be paid the same tax, no matter the income source. We exemplificate:



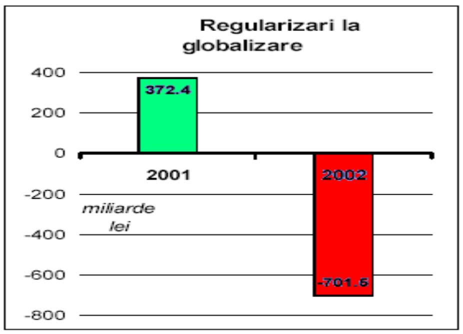
Source: Romanian Academic Society

Thus, it can be observed how big is this difference of pushing the taxes on the salarieds, on the enterprisings and free-profesionists, even admitting that in their case, the tax should have been something smaller in order to produce a bonus that reflected the business risk.

4. The unique quotation comes to support the persons with reduced incomes through a system of deductions very efficient.
5. The unique quotation reduces the fiscal evasion, through the diminution of opportunity cost of the avoiding of the payment of taxes at the state budget. In conditions that the fiscal system is a simple and efficient one, the pshycological effect that has the diminution of taxing

quotation makes that people proceed to the payment of the debts to the state very rapidly and correctly. These are not tempted anymore of searching some complicated methods to facilitate the reducing of taxing base, because the cost of these activities can raise in some cases over the taxing quotation that must be paid. The progressive taxing system of the salaries created strong premises for the movement of the incomes on less taxed ways. In these conditions, the proportion of small salaries raised, and the mid and small salaries reduced,in a period of economic growth, fact that conduces to the conclusion that is very probable that a part of incomes to be transferred on some other ways with a more reduced imposing. People learn and adapt rapidly to the system, that, in the old system, state had less and less to collect from the liables to pay the duties as a following of globalisation procedure and more to give back.

6. The unique quotation reduces the fiscal administration expenditures. The public administration will spend less money with the monitoring and the auditing of the system, because the tax is unique and is calculated much clearer. In the system of progressive taxing, the state had less to collect from the liables to pay the duty as a following of globalisation procedure and more to return.



In the year 2002, the state had to return to the liables for pay the duties from Romania 700 billions ROL in net value, and after the aplication of progressive taxing, system the administrative costs of function were about 800 billions ROL.

7. The unique quotation offers to the liables to pay the duties more control over the money and reduces the involvement of the authorities in the administration of the surplus of every person. Through the aplication of the unique quotation, people is stimulated to work harder, because only a small part from the their gain enters in the possesion of the state. Thus, the difference that remains can be administrated as anybody wants, this freedom accentuating the development of private property and private sectory from economy, more than on the public sectory, where the state initiates programs and politics that come in the help of citizens. The unique quotation reduces the time and number of the formulares that must be completed for the obligation discharging confronted by the state. Thus, the unique quotation brings two benefits:

– on a side, it offers a more transparency to the fiscal system, because assures easily the possibility of every liable to pay the duties to calculate his own fiscal obligation, and to understand the whole imposing mechanism without having any types of vagueness concerning the calculation mode and the debted sums.
– on the other side, the productivity of the taxes raises as a following of the reduce of expenditures with the establishing and the collecting of these because of the simplity of the system. In the same time, the persons that pay taxes reduce their expenditures concerning the financiary consiliation and the guideness necessaries in the progressive quotations system, and the specialists in fiscality can orientate their activity area to some more productive zones.

8. The unique quotation develope a very attractive environment for the investors. The competition concerning the level of taxes represents a benefit of globalisation. In a global economy in which the work force and capital move free besides the national limits of every state, the fiscal political sets adopted by every country represents an important instrument used in the attraction of limited international resources.

Conclusions:

In simple terms, *fix tax* means that every person is taxed with the same percentage. In such a system, instead of a complex set of taxing rules, the state declares a limit over whose all people pay a fix tax for personal incomes. This limit is, in general, enough low, in order to stimulate the citizens to pay their taxes, instead of trying to avoid them. Such type of system bases on the fact that all the incomes are taxed only one time.

In what concerns the corporatistics taxes, the idea is similar: only one rule for everybody.

The analists incline to take into evidence that, if unique tax was a rule for every industrialized states in the first half of the XXth century, than the firsts demandings that were made very clear especially for a "strong progressive or taxes gradual" system appeared in the communist manifest of **Karl Marx** in 1848. But, at last, the capitalist states were the ones that adopted such kind of system.

Since then, the idea of unique tax was brought into life a few times, an appreciable number of countries adopting one or another variant of unique tax regim. And however, till today, non of occidental "major" economy has not passed back to the unique tax regim.

It is believed that, in the entire world, the persons liables to pay the duties loose 8 billions annual for complete their income declarations.

The modern revival of unique tax on the income was initiated by Estonia in 1991, than Letonia in 1994, Lituania in 1994, Rusia in 2001, Serbia in 2003, Ucraina in 2003, Slovacia in 2003, Georgia in 2004 and *Romania* in 2005. Hungary seems to take into consideration the introducing of a unique tax version in the near time future.

Even if the "unique tax" is not considerated a medicine for all the economic problems, more and more countries - the new member states also – had introduced or are in the elaboration process of some universal taxing regimes. The majority of these countries confront with appreciable budgetary deficits and some others confront with the necessity of ranging the economic statut to the Euro Zone demandings:

The unique tax should:

- help to the reducing of the birocratism;
- reduce the inequities;
- counterbalance the avoiding of taxes and evasion;
- generate bigger budgetary incomes;
- produce an economic "mini-boom".

In the same time, a fix tax regim is understood as:

- eliminating the all forms of taxing sparings and facilities;
- being non-progressive (at least in what concerns the "marginal" rates);
- preferring the rich ones for the poor ones;
- preffering the posessors of shares and dividends, when the profits are taxed only one time, at the source (unique tax is a consum based tax).

If this measure, apparently popular of the passing to a taxing fix system is motivated by healthy fiscal strategies or only by the desire of determinating the citizens to contribute more to the state budget, it is a debating point.

An essential conclusion quotated by few researchers is that the efficience and success of unique tax regim are dependent by the level of this unique tax: the lowest it is the unique tax, the most efficient tend to be.

The experts point that, besides tax system or type of support gave to the new enterprisers, the competitivity of a country is determinated of some other factors. If it is true that, in general, than the lower taxes leave more money to circulate and to be invested in an economy, and the fix taxes raise the desire of citizens to pay them, big budgetary deficits and the uncovernement of budgetary deficits.

More than that, a few leaders of the strongest economies of Europe, for example *Gerhard Schroder* and *Goran Persson* showed that the transition economies from East can permit reduce their taxes, not in the last time because every lost income is compensated by the subventions of the European Union. This argument was rejected in many times in the noticed transition states.

Meanwhile, Germany, as Italy, Austria, Finland, Denmark and Greece decided also to introduce taxes reduces under many forms in order to stimulate the investements and the expenditures (the consum) and to determinate the economic growth.

The unique quotation improved the competitivity of the enterprises:

1. The introducing of unique quotation conduced to an improval of effective rates of taxing.
2. A second major effect has been constituted by the improval of profitability, seen through the profit side and also, on the other side, through the profitability rate.
3. The loosings of economic agents are still a problem of Romanian economy.
4. A positive aspect, because of the fiscal modifications that had placed at the beggining of the year 2005, besides the maintaining of profitability rate was registered a diminution of the backwards, that at the end of the year 2005 the backwards had approached at 18,8% as a weight in PIB, than 20% that was estimated by CNP, finding a high level of estimations predictability.
5. The improval of the Romanian enterprises longevity is illustrated also by the improval of the debting level of economic agents, even if this continue to situate still at a high level.

As a general conclusion, it can be affirmed that the introducing of unique quotation had improved the business medium and conduced to the raise of concurential capacity of the enterprises.

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SUPERVISION ON THE SINGLE EUROPEAN INSURANCE MARKET – INTERACTION BETWEEN REGULATION AND COMPETITION

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Even though the financial markets have developed in the last decade, new requirements became strictly needed in order to create a common ground for the national markets and in the same time to enhance the development of the global market. If the authorities in fields began their activities as simple regulators, their role included also a new scope – the one of monitoring the relationship between the suppliers of products and services and the customers. Such a development can be noticed in insurance industry, all over the world, especially in the European territory, starting with the Solvency II project that intends to offer sounder financial stability for the insurance companies and higher transparency towards the clients and the supervisors.

Key words: prudential, solvency, supervision

Competition and supervision share one of their ultimate objectives: the interest of the consumer and client. Historically there had been a quite different legislative approaches to secure consumer protection in the financial sector, more over on insurance industry.

Before the European deregulation come into force in the early 90s, the main idea in many countries had been to highly regulate companies, products and pricing of the sake of policyholders. This approach had been working for many decades without producing major insolvencies and losses for consumers. Form a today's perspective this can be considered the centralized system of state regulated industry, with subordinated options for competitors.

In those days, supervisory authorities were assigned the job as competition authorities within the financial services as well ass the job of financial regulation and supervision. However and under tension or even a conflict of interest between the objective of competition and supervision the two functions have been separetated.

Supervision and competition on the insurance markets

For more than 10 years now insurance regulation and supervision developed quite new objectives and innovative instruments. It had always been an developing process including some transitional steps with term "supervision" not any longer described to cover the design or pricing of products but in a wider sense as the permanent process of monitoring that financial institution comply with the regulation, and the process of taking remedial action to secure the objectives of regulation. Parallel to the supervisory process these 10 years have seen increasing competition processes between insures in national markets as well as in cross-border business.

Two aspects of supervision might be noticed: prudential supervision and conduct of business supervision. Prudential supervision is monitoring the soundness of individual financial institutions, as whether they have the ability under all reasonably foreseeable circumstance, to fulfill their obligations as they fall due. To put it simply, supervisors assess individual financial institutions – the specific risk circumstances of each bank or insurer. The supervisor needs to tailor supervision and any action taken to the risk profile and specificities of each financial institution. When it comes to insurance industry, this risk profile refers to the solvency, the sufficiency of the technical reserves, reinsurance coverage and the security of reinsurers, asset portfolio and corporate governance. In other words, the prudential supervision does not primarily takes into account the actual process of designing or pricing the insurance products offered on the market, but on the financial resources needed by the insurance company in order to honor its obligations.

There are some tensions between the prudential supervision and the competition. Consider the case in which there is applied a risk-based and capital approach of the supervision process and the horizontal cooperation between insurers. Even if not obvious, the sharing of certain risks or certain functions might be significantly responsible and prudent risk mitigation for the insurance companies.

The risk pooling is in fact the essence of insurance and in a healthy market, the sharing is the only way of covering risks, that otherwise would be uninsurable. The sharing of databases is also an important factor for the success of the conduct of the business. The data must be representative for the population they apply to – reliable and extensive -. The lack of information would be disastrous for pricing, financial control, profit and other decisions of the insurance company.

Besides the data to be used by an insurance company, the supervisors are much interested also on the reinsurance companies, as their undercapitalization would be harmful for the world financial system (the year 2005 – the hurricanes season brought about losses of more than 25.76% at the level of international reinsurances, after which in 2001 and 2002, the Word Trade Center brought about bankruptcies and the promise that a renewal of those events would bring the entire industry to its knees).

New risks are producing effects on the insurance industry lately – such as long term liabilities, changes in legislations or risks of new technology. The effects are visible both on the insurers and reinsurers but also on the supervision and competition processes.

The competition process has developed also – the insurers will evaluate their loss potential on different levels and thus create a very differently risk profile of the products. The competition is no longer a common, normal competition but a risk-prone competition, which can bring about even pure speculation on the market.

High risk products will generate high volatile losses which at a certain point can lead to a non-insurable risk or highly-priced product. An example might be the terrorist attacks risk that became non-insurable after September 11 2001, the main insurance and reinsurance policies excluding this clause from the standard form.

What might be the counteracting measures in this case – exclusions on the policies, pricing, limits, right of termination and covering named perils only, transfer on other markets (securization) or even closing down of the operations. As the economic value will be damaged, the competition process can come in and based on prudent risk-sharing and agreed risk-transfer, as a cooperation way, can limit the effects of the highly volatile products. Moreover, a partnership between the insurance industry and the governments might be useful – as the state will be considered the last resort reinsurer. The states can act in the situations where the market finds itself unable to offer coverage or it can work as a mediator in designing the best solutions, for example the natural disasters' risks for the households or the aviation industry.

Competition and supervision on the Romanian insurance market

In 2007 alone, the insurance market recorded a volume of gross written premiums of 7.165 billion lei[137], showing a nominal increase of 25.07% compared with the provisions year. 79.9% of the total gross premiums was generated by non-life insurance, while the personal insurance had recorded again a lower level than the European average of 25.65%[138]. The insurance penetration ratio was 1.84% in 2007, as compared to 1.68% in 2006.[139]

As the confidence of the insured increased during the last 10 years, also the insureds' expectations regarding the quality of the insurance products became higher. The Romanian insurance market must prove that it is capable to comply with these expectations, otherwise it puts to danger the existing portfolio and also the potential one, as the customers can mitigate to European competitors.

The rush of the insurance companies after the market share, at any risk, in the detriment of the quality of service and financial stability, will definitely generate severe errors and discontent of the customers. The legal norms implemented last year concerning the establishment of technical reserves and also the ones concerning the risk management committee were destined to reduce the number and the severity of the deviations from the expected levels, as the arbitration is growing stricter.

[137] Figures based on Insurance Supervisory Commission estimations
[138] CEIOPS Market Release – March 2008
[139] Insurance Supervisory Commission Annual bulletin no.1, March 2008

New acquisitions took place on the Romanian market, such that one of Viena Insurance Group of ASIROM after acquiring the majority of shares from Omniasig, Omniasig Life and ASIRAG, putting to danger the competitiveness of the market. The Austrian company asked for the agreement of the Competition Committee in order to be allowed to buy also the majority package, without endangering the oligopoly market. The first 10 companies on the market (out of 44 in 2007) concentrate over 92.3% of the market – a concentrated market brings about better pricing, better quality in the products offered for the customers.

Since its occurrence, the Insurance Supervisory Commission has developed its goal of regulator of the Romanian insurance market to the status of supervisor of the market. That is, the transfer from imposing the legal requirements on financial institutions to the one concerning the monitoring of compliance of the insurance companies with the legal provisions and also the process of taking remedial actions to secure the objectives of the regulation. The ISC became a consultant for the players and the consumers of insurance, especially concerning the new wave of capital requirements for the industry – the Solvency II directive. In this regard, the ISC organized several meetings in Romania together with CEIOPS for enhancing the cooperation and the supervision for the Romanian customers.

Solvency II – method of enhancing the competition and supervision

In order to develop the competition on the European market by 2010, the financial services action plan has been introduced (part of Lisbon goals) and part of it represent the Solvency II project. This structure is also known from Basle II in the banking sector.

Solvency II is based on a three pillar structure:

- Pillar I covering Minimum capital requirements;
- Pillar II covering qualitative requirements, i.e. risk management and supervisory processes and
- Pillar III covering disclosure requirements.

The first pillar establishes certain limits concerning the investments (covering the technical provisions, the minimum capital requirements and the solvency capital requirements) and concentration. Moreover, the model for computing the MCR and the SCR can be either a standard one, a partial internal one or a full internal one. In addition to the pillar I investment diversification rules, a further capital requirement could be included to address diversification – level of diversification in the portfolios of undertakings and the feasibility of portfolio.

Pillar 2 complements pillar 1 requirements. As part of the supervisory process, the authorities must evaluate the adequacy of the diversification process. The insurers are expected to do more than just satisfy the limits imposed by pillar 1. The authorities must also consider the need of additional capital. The SCR addresses those types of risks where material correlation effects can be expected between the asset and liability sides of the balance sheet, such as an asset-liability management policy (plans or procedures) to deal separately with the short-term and long-term risks.

This new system will assess the overall solvency and build on a more risk-sensitive approach, with incentives for proper risk management. Furthermore the system will support the harmonization of quantitative and qualitative supervisory methods and ensure consistency between financial sectors. Solvency II as the new prudential regime for insurance which CEIOPS[140] is helping the European Commission to develop has as one basic objective the improvement of the European internal market and the enhancement of the efficiency and competitiveness of the European insurance industry. It is aimed to include more efficient and cheaper capital for the industry and its allocation, which will definitely influence the pricing of the insurance products.

There is naturally some interaction when it comes to conduct of business and the competition. The purpose of conduct of business supervision is to evaluate the relationship between financial institutions and their customers. It is here that we might find concerns over market issues, pricing, timely and relevant information to policyholders, distribution and conflicts of interest. Requirements of the conduct of insurance business help to protect consumers, and eventually build consumer confidence in the insurance industry.

[140] CEIOPS – Committee of European Insurance and Occupational Pensions Supervisors

Solvency II gives an important contribution by enhancing public disclosure and better consumer information. The benefits may encourage customers to become policyholders, and to say so it will certainly be up to the market to decide if Solvency II should also provide standardized consumer information on the risk profile of the product, a guarantee fund in place or the supervisory authority in charge with the handling the complaints just to mention some important issues. Reliable and understandable information is a key parameter for future European wide competition process. Information to policyholders has to improve, as to the amount, the relevance, the clarity and its timing.

Although solvency II is promoting competitiveness of the insurance industry it cannot deny the need for some closer cooperation between insurers. Let us take as an example the field of data sharing. Imagine that we are introducing brand new, European wide harmonized market values approaches for technical provisions, the future obligations toward customers. Those technical provisions had never been harmonized throughout Europe before. Future values have to be based on entity specific collected data over a period of 10 to 20 years. Not all insurers have these data available – such as the Eastern European countries that known a development of the industry after 1989 and a clear collection of data only a decade later. The question of excluding these companies from Solvency II, just because they do not meet the requirements of this regulation or because they have poor databases is out. Moreover an encouragement is more proper, by offering them the possibility of relying on data and models of several insurers with comparable businesses from specialized countries that have reliable databases.

Conclusions

Supervision and competition are two sides of the same medal. However they are two different sides. The more that major insurers and reinsurers are seen to perform a social role in society, the higher the expectation that they will be able to provide coverage. This includes usual and unusual circumstances. They are expected to be able to manage their exposure and their capital strength. They have to be well understood. A good dialogue between the supervisors and competition authorities might help. Both have to be strong over their interests and enlightened to each other.

Solvency II will imply a major shift towards a risk sensitive framework, providing incentives to move towards more sophisticated methods for measuring and controlling risks. It will imply massive resources but it will generate better understanding of the balance between regulatory need and business efficiency.

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INTERGOVERNMENTAL FISCAL RELATIONS AND LOCAL FINANCIAL AUTONOMY IN ROMANIA

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Abstract: Since the fall of the communist regime, Romania had experienced a long period of structural reforms aimed to readjust the society and the economy to the requirements of democracy and market values. Public finances had played a major role in this assignment, but their tasks were impeded by the necessity of reforming the public finances itself. The transition from the central economy to the market economy had to be made simultaneously with the reform of the public finances. This had generated great difficulties in designing the new framework of the local finances which further, generated major difficulties for local governments. The paper tries to make a brief description of the decentralization of public finance in Romania, identifying the major evolutions and criticizing the actual system which is not yet compatible with the requirements of the EU.

JEL Classification: H72, H74

Key Words: decentralisation, local revenues, local expenditures, intergovernmental transfers

An efficient providing of public goods imposes that the responsibility of their management should fall in the hands of the public authority that it is the closest to the level where the public needs appear. As a practical matter, the central authorities cannot deal effectively with all public necessities. The existence of local communities determines various but common needs, for which the citizens have different preferences. An appropriate response to these preferences depends on the level of decentralization. As a process, decentralization is necessary and it is taking place more obvious in ex-communist countries, Romania included. These same countries have switched to democratic systems, meaning that they have to rethink and redesign public authorities' competences. The Romanian Constitution adopted in 1991 stated the following principles for organizing local public administration: local autonomy and decentralization of public services. Its revue in 2003 has added also the deconcentrate administration principle. These principles were extended by secondary legislation, such as Local Public Administration Law, no. 69/1991. However, even though the legal frame was existing, in reality the decentralization was non-existent. The competences transfer process has really began starting with 1993-1994.

Administrative decentralization has to be accompanied by financial decentralization. First steps in this regard were the adoption of local taxes law in 1994. Unfortunately, the act did not respond to the need of local financial resources according to the figures of local public expenditures. Only starting with 1998, these financial needs started to be met in practice. Another important step has been added in 2004 when the legal framework of decentralization has been adopted and thus, all previous incoherent measured have been repressed. The lack of a well-established financial decentralization strategy has generated the following problems for local administrations:

- legislative instability;
- the absence of a transparent system in establishing intergovernmental financial transfers;
- the impossibility of local administrative revenues prediction;
- the lack of precision in defining competences fro local administrative authorities;
- the augmentation of local administrative responsibilities without the transfer of needed/appropriate/covering resources.

The present study is going to focus on the following issues regarding financial decentralization in Romania:

- the correlation between local revenues and local responsibilities;

- the measurement of local finance dependence on the central one (Hunter coefficient);
- the objectivity, efficiency and the simulative features of intergovernmental transfers system;
- the predictability of local budgets revenues;
- the degree of local autonomy ensured for local authorities.

A good comprehensive outcome of the first two issues can be reached analysing the competences transferred to local municipalities and the data regarding the general consolidated budget, gross domestic product, state budget, local budgets and equalization transfers. The main stages of administrative decentralization in Romania are reflected in the following figure:

												Defense and Public Order
									"Milk and Croissant" Program	*"Milk and Croissant" Program*	*"Milk and Croissant" Program*	*"Milk and Croissant" Program*
									Housing Heat Assistance	*Housing Heat Assistance*	*Housing Heat Assistance*	*Housing Heat Assistance*
									Religion	*Religion*	*Religion*	*Religion*
								Special Education and Minimum Reinsertion Revenue	*Special Education and Minimum Reinsertion Revenue*	*Special Education and Minimum Reinsertion Revenue*	*Special Education and Minimum Reinsertion Revenue*	*Special Education and Minimum Reinsertion Revenue*
							Disabled Persons Assistance	*Disabled Persons Assistance*	*Disabled Persons Assistance*	*Disabled Persons Assistance*	*Disabled Persons Assistance*	*Disabled Persons Assistance*
							Agricultural Consultancy	*Agricultural Consultancy*	*Agricultural Consultancy*	*Agricultural Consultancy*	*Agricultural Consultancy*	*Agricultural Consultancy*
						Sanitary and Veterinary Actions	*Sanitary and Veterinary Actions*	*Sanitary and Veterinary Actions*	*Sanitary and Veterinary Actions*	*Sanitary and Veterinary Actions*	*Sanitary and Veterinary Actions*	*Sanitary and Veterinary Actions*
					Airports	*Airports*	*Airports*	*Airports*	*Airports*	*Airports*	*Airports*	*Airports*
				Child Protection	*Child Protection*	*Child Protection*	*Child Protection*	*Child Protection*	*Child Protection*	*Child Protection*	*Child Protection*	*Child Protection*
				Water Supply &Roads	*Water Supply&Roads*	*Water Supply and Roads*	*Water Supply and Roads*	*Water Supply and Roads*	*Water Supply and Roads*	*Water Supply and Roads*	*Water Supply and Roads*	*Water Supply and Roads*
				SpecFunds	SpecFunds	Special Funds	Special Funds	SpecFunds	Special Funds	Special Funds	Special Funds	Special Funds
			Culture	Culture	Culture	Culture	Culture	Culture	Culture	Culture	Culture	Culture
		Education	Education	Education	Education	Education	Education	Education	Education	Education	Education	Education
	Health	Health	Health	Health	Health	Health	Health	Health	Health	Health	Health	Health
Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions	Other Economic Actions
Other Actions	Other Act	Other Act	Other Act	Other Act	Other Act	Other Actions	Other Actions	Other Actions	Other Actions	Other Actions	Other Actions	Other Actions
Transport	Transport	Transport	Transport	Transport	Transport	Transportation	Transportation	Transport	Transportation	Transportation	Transportation	Transportation
Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities	Housing and Public Amenities
Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance	Social assistance
Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities	Public authorities
1991-1992	1993-1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005

Figure No. 1 The transfers of responsibilities to the local governments during 1991 – 2005

Source: adaptation after www. ipp.ro

Starting from 1994, the prerogatives of local authorities have extended continuously, thus confirming the trend towards decentralization, which had to be supported by the revenues side of local governments' budgets. As we can see from the table below, many of the actions were financed by special destination transfers, being in contradiction with the local autonomy requirements, defined by Strasbourg European Chart.

The local government's expenditures have continuously increased during the 1991 – 2005 period, both in absolute and relative terms. The evolution is presented in table no.1.

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP	220.39	602.92	2003.57	4977.32	7213.55	10891.96	25292.57	37379.82	54573	80377.3	116768.7	151475.1	197564.8	246468.8	288047.8
LBE	5.84	19.94	69.60	173.51	326.53	495.52	1037.05	1338.15	2159.93	3321.67	7067.54	9268.84	12852.7	15540.7	18777
LBE/GDP(%)	2.65	3.31	3.47	3.49	4.53	4.55	4.10	3.58	3.96	4.13	6.05	6.12	6.51	6.31	6.52

Table No. 1 The amount and the share of local budgets expenditures (LBE) in GDP

mil RON

Source: **http://www.insse.ro/cms/rw/pages/index.ro.do;**

http://discutii.mfinante.ro/static/10/Mfp/buget/executii/rom09_2007/rom01_septembrie.pdf

We can easily see the increasing share local budget expenditures in GDP along the whole period, in spite of some short inconsistencies. The share of local expenditures in GDP has doubled from 1994 (3.49%) to 2004 (6.75%). The pattern is quite interesting: it increased during 1994 – 1996 as a result of the new prerogatives transferred to local governments, followed by a slight decrease during 1997 – 1999 as a result of structural adjustments of the public sector. The raising had started again in 2000, with a big leap forward in 2001 (from 4.13% to 6.05% due to the financing of personnel expenses in education sector. Another leap was in 2003 as a result of social assistance programs that were passed to the local governments. The same evolution is encountered when we considered indicators such: share of local budgets expenditures (LBE) in general consolidated budget expenditures (GCBE) and state budget expenditures (SBE).

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
LBE	5.84	19.94	69.60	173.51	326.53	495.52	1037.05	1338.15	2159.93	3321.67	7067.54	9268.84	12852.70	15540.70	18777.00
SBE	53.79	162.7	412.88	1093.03	1585.8	2373.2	5289.66	7761.66	10688.67	14916.8	18401.2	22682.4	28145.1	34073.5	38782.4
CGBE	83.96	249.77	677.08	1664.26	2506.09	3703.17	8563.68	13111.74	18918.62	28314.04	39031.68	48878.04	62727.1	77737.5	89897.8
LBE/SBE (%)	10.87	12.26	16.86	15.87	20.59	20.88	19.61	17.24	20.21	22.27	38.41	40.86	45.67	45.61	48.42
LBE/GCBE (%)	6.96	7.98	10.28	10.43	13.03	13.38	12.11	10.21	11.42	11.73	18.11	18.96	20.49	19.99	20.89

Table No. 2 The amount and the share of local budgets expenditures (LBE) in general consolidated budget expenditures (GCBE) and state budget expenditures

mil. RON

Source: **http://www.insse.ro/cms/rw/pages/index.ro.do;**

http://discutii.mfinante.ro/static/10/Mfp/buget/executii/rom09_2007/rom01_septembrie.pdf

The previous explanations are valid also in this case. At the beginning of the period (1991), the local budgets expenditures were 10.87%, but at the end (2005), they were almost half of the state budget expenditures (48.42%), thus reflecting the vast dimension of the decentralization process. The financing of these continuously increasing expenditures need local financial resources, which, in Romania, consist in two major sources: own revenues from local taxes and samplings and transfers from the state budget. The evolution of these indicators is reflected in the following tables.

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005

SSB	0.00	0.00	23.18	66.81	120.30	197.26	464.46	499.80	1039.89	1842.99	5092.45	7095.97	9374.30	11909.80	14667.10
GDP	220.39	602.92	2003.57	4977.32	7213.55	10891.96	25292.57	37379.82	54573.00	80377.30	116768.70	151475.10	197564.80	246468.80	288047.80
PBS/GDP (%)	0.00	0.00	1.16	1.34	1.67	1.81	1.84	1.34	1.91	2.29	4.36	4.68	4.74	4.83	5.09

Table No. 3 The amount and the share of samplings from state budget (SSB) in GDP
mil. RON

Source: **http://www.insse.ro/cms/rw/pages/index.ro.do;**
http://discutii.mfinante.ro/static/10/Mfp/buget/executii/rom09_2007/rom01_septembrie.pdf

The continuously increasing of the share of samplings from the state budget (SSB) in GDP used for balancing the local budgets, from 1.16% in 1993 to 5.09% in 2005 is quite remarkable. The financial decentralization was supported mainly by the samplings from the state budget which had represented the largest share in total local expenditures which in 2005 had reached 6.52% of GDP (see table no. 1). The evolution is quite spectacular in 2001 with a huge increase from 2.29% in previous year to 4.36% due to the special education expenditures and minimum reinsertion revenue which became financial tasks for the local governments.

The transfers from the state budget had a contradictory evolution marked by increases, but also decreases, due to the many changes in the regulatory framework concerning the local finances. Their evolution is reflected in table no. 4.

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP	220.39	602.92	2003.57	4977.32	7213.55	10891.96	25292.57	37379.82	54573	80377.3	116768.7	151475.1	197564.8	246468.8	288047.8
Transfers and special destination revenues (TSDR)	4.14	16.80	32.82	76.25	119.99	184.85	379.02	505.45	392.44	637.44	849.68	550.09	1054.30	920.90	1218.10
TSDR/GDP (%)	1.88	2.79	1.64	1.53	1.66	1.70	1.50	1.35	0.72	0.79	0.73	0.36	0.53	0.37	0.42

Table No. 4 The amount and the share of transfers from state budget in GDP
mil. RON

Source: **http://www.insse.ro/cms/rw/pages/index.ro.do;**
http://discutii.mfinante.ro/static/10/Mfp/buget/executii/rom09_2007/rom01_septembrie.pdf

From the table above is easily distinguishable the year 1999, when the transfers dropped to 0.72% of GDP due not only to the general contraction of public expenditures, but also due to a new regulatory framework which increased spectacularly the own revenues of local governments. The Hunter coefficient also reflects this, reaching its peak in 1999.

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Local budget own revenues	1,74	3,20	16,24	36,70	96,92	117,70	209,08	339,05	766,87	882,94	1191,55	1682,12	2855,60	3660,70	4114,80
Total local budget revenues	5,86	19,97	71,25	176,72	333,65	499,85	1046,85	1345,42	2224,37	3344,50	7119,57	9322,77	13078,10	15955,80	19480,90
Hunter coefficient	0,30	0,16	0,23	0,21	0,29	0,24	0,20	0,25	0,34	0,26	0,17	0,18	0,22	0,23	0,21

Table No. 5 The amount and the share of own revenues in total local budget revenues (Hunter coefficient) mil. RON

Source: http://www.insse.ro/cms/rw/pages/index.ro.do; http://discutii.mfinante.ro/static/10/Mfp/buget/executii/rom09_2007/rom01_septembrie.pdf

The Hunter coefficient reflects the dependency of local governments from the state budget transfers and samplings. During 1994 – 1998 there has been a little variation from 0.21 to 0.25. In 1999, it has been reported a huge increase up to 0.34 as a result of the decentralization process enacted by the new Local Finance Bill of 1998. In 2001, when there has been a massive transfer of responsibilities to the local governments, which were financed from the state budget, the Hunter coefficient reached its minimum level (except the year 1992). In 2004, the coefficient reached the level of 0.23 due to the increasing of own revenues which had to cover larger amounts of expenditures.

The efficiency and the predictability of the intergovernmental transfers must be analyzed taking into account their mechanism of implementation. The actual system of intergovernmental transfers may be represented as in figure no. 2:

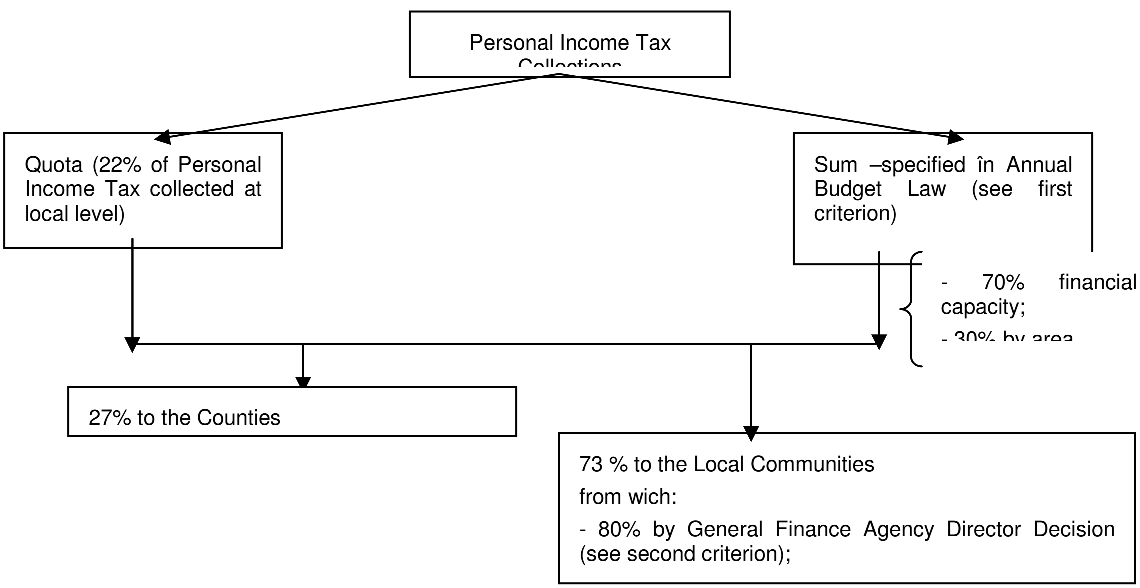

Figure no. 2. The present structure of the intergovernmental transfers in Romania

The annual sum is determined as follows:

a) financial capacity based on personal income tax collected per person, 70% in amount, using the following formula (first criterion):

$$Sr.j = \frac{\dfrac{Ivm.tj}{Ivm.j} \times \dfrac{Nr.\ loc.j}{Nr.\ loc.tj}}{\displaystyle\sum_{j=1}^{n} \left[\dfrac{Ivm.tj}{Ivm.j} \times \dfrac{Nr.\ loc.\ j}{Nr.\ loc.\ tj}\right]} \times Sr.tj,$$

where:

Sr.j - recouped amounts assigned to the counties ;

Sr.tj - recouped amounts to be assigned to all counties;

Ivm.j – average personal income tax collected in previous year in each county;

Ivm.tj – average personal income tax collected in previous year in all counties;

Nr.loc.j – number of residents of each county;

Nr.loc.tj. - number of residents of all counties;

b) county area, 30% in amount.

Twenty seven percents of the annual legal approved sum and twenty two percents of personal income tax to be collected at central budget are allocated to county budget. The remaining percents are allocated to municipalities budgets as follows:

- 80% of the sum are going to be allocated in two stages by the head of General Public Finance Department (at county level), according to the following criterion: number of residences, inside city area, financial capacity of the municipality;

- 20% of the sum are going to be allocated by county council regulations only to co-financed infrastructure projects.

At the General Public Finance Department level, the legal procedure is the following:

a) calculation of two indicators: „*average municipality revenue based on personal income tax per resident*” and „*average county revenue based on personal income tax per resident”*, using the following formula (second criterion):

$$I_{vm.l} = Iv.l / Nr.loc.l$$

$$I_{vm.j} = Iv.j / Nr.loc.j$$

where:

Ivm.l – average personal income tax per resident, collected during the previous year,

Iv.l – personal income tax collected at municipality level during the previous year;

Nr.loc.l – number of municipality residents;

Ivm.j – average personal income tax per resident, collected at county level during the previous year;

Iv.j – personal income tax collected at county level during the previous year;

Nr.loc.j – number of residents in each county.

During the first stage of the process, the sums are allocated only to the municipalities that are registering a smaller average of personal income tax than the county average one, based on residents number (75%) and inside city area (25%). These sums are limited in such a way that their average should be smaller or equal to average county personal income tax for the previous year. The average itself is calculated using the following formula:

$$M_{loc.e1} = [Iv.l + Sr.e1]/Nr.loc.l$$

where:

Mloc.e1 – first stage allocation average per resident;

Iv.l – personal income tax collected at municipality level during the previous year;

Sr.e1 – first stage allocation sums per municipalities;

Nr.loc.l – number of residents.

During the second stage, the unallocated amount is going to be recouped to all municipalities according to their financial capacity using the following formula:

$$Sr.e2 = \frac{\frac{Ivm.j}{Ivm.l} \times \frac{Nr.\ loc.l}{Nr.\ loc.j}}{\sum_{l=1}^{n} \left[\frac{Ivm.j}{Ivm.l} \times \frac{Nr.\ loc.\ l}{Nr.\ loc.\ j} \right]} \times Sr.j.e2,$$

where:

Sr.e2 – second stage allocated sums to each municipality;

Sr.j.e2 - second stage allocated sums to all municipality;

Ivm.l – average personal income tax per resident, collected during the previous year;

Ivm.j – average personal income tax per resident, collected at county level during the previous year;

Nr.loc.l –number of residents in each municipality;

Nr.loc.j –number of residents in each county.

The amounts will be corrected using the revenue collection degree for previous year, excluding litigious revenues.

As a conclusion, we consider that the actual transfer system has improved in comparison with the previous one but it is not flawless considering that:

- the sum to be recouped to local municipalities is annually established and thus it can be modified affecting the predictability of local revenue;
- the allocation at the county level is subject to a discretionary administrative decision;
- there is no municipalities' exclusion criterion at the second stage of allocation;
- the residents criterion is a global one, without taking into account the structure of public goods consumers (pupils, retired population, students etc.);
- there is no criterion to considering the institutions that offer public goods to residents from other municipalities (retirement homes, institutions for mentally challenged persons).

When the revenues from local taxes and those from transfers from the state budget are not sufficient in order to cover the local expenditures, local governments may contract loans. The local authorities may warrant these loans with their own revenues, except the case when the total amount of the local public debt (present and future) exceeds 30 % of total own revenues. In order to cover the risks generated by the loans contracted, local governments may constitute a risk fund, outside of the local budget. The revenues of this fund came from commissions and interests from the beneficiaries of the loans warranted by the local authorities, interests paid by the state treasury and penalties for the overdue payments made by the beneficiaries of the loans to the local budgets representing capital, interests and commissions. In the case of consuming the risk fund, the amounts used to cover the loans granted by the local governments are to be recovered from the debtors.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP	220,39	602,92	2003,57	4977,32	7213,55	10891,96	25292,57	37379,82	54573,00	80377,30	116768,70	151475,10	197564,80	246468,80	288047,80
Total local revenues(TLR)	5,86	19,97	71,25	176,72	333,65	499,85	1046,85	1345,42	2224,37	3344,50	7119,57	9322,77	13078,10	15955,80	19480,90
Loans	0,00	0,00	0,00	0,00	0,00	4,69	4,94	7,29	36,26	2,80	21,76	55,13	23,92	0,00	23,20
Loans/GDP (%)	0,00	0,00	0,00	0,00	0,00	0,04	0,02	0,02	0,07	0,00	0,02	0,04	0,01	0,00	0,01
Loans/TLR (%)	0,00	0,00	0,00	0,00	0,00	0,94	0,47	0,54	1,63	0,08	0,31	0,59	0,18	0,00	0,12

Table No. 5 The amount and the share of loans in total local budget revenues and in GDP
mil. RON

Source: **http://www.insse.ro/cms/rw/pages/index.ro.do;**
http://discutii.mfinante.ro/static/10/Mfp/buget/executii/rom09_2007/rom01_septembrie.pdf

The loans contracted by local governments were insignificant during the whole interval. The biggest share was in 1999 as a result of a new Local Finance Bill which had extended the local authorities prerogatives in contracting loans. Thus, many big projects of urban development were unable to be fulfilled, generating much discontent among citizens. This solution of local budgets balancing implies greater responsibility from the local authorities and generates more focus in getting more future revenues to the local budgets, in order to repay the loans.

In conclusion, in spite of the fact that Romania had made important steps towards decentralization, the actual local budgetary system needs continuous improving, mainly in the field of providing the predictability of the local governments revenues, that will allow the initiation and the implementation of long and medium terms programs and projects. The high dependency from the state budget, the discretionary decisions in allocating the transfers and the increase of the prerogatives only when it comes to local expenditures are the major factors that impede a real decentralization process in our country.

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OPPORTUNITIES TO FINANCE ENTERPRISES BY CAPITAL MARKET

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Abstract: The positive effects of Romania joining the European Union are business opportunities for Small and Medium Size Companies, entities that should provide products and services of best quality, in order to meet customers' expectations and to increase competitiveness.Within this context, we consider the capital market one of the solutions that can be used without high costs, while, the Romanian capital market, in spite of its instable activity, can provide accessible financing possibilities to different companies.

Keywords: capital market, competitiveness, financing possibilities, financing sources

Any organization is compelled to adjust to the environment it works in, which makes business financing a need. Any aquisition of new assets requires the raising of additional capital and long-term assets are generally financed by long-term capital. Requiring additional capital, a company has several options to raise it, respectively the use of own resources or the help given by external sources. Within the category of internal sources there are owners' or organization members' contributions along with the surplus ensuing from the organization's activity.

As far as external resources are concerned, companies may: use the financial instruments provided by capital market, that is issuing stocks and bonds, contract loans from banks, use special financing techniques (leasing, factoring, lumping, discounting).

Choosing any of the financing sources supposes several advantages and disadvantages. Thus, if entities choose to finance themselves from internal sources, they can have advantages such as keeping their financial independence and autonomy as there are no additional requests (interests, guarantees); keeping organizations' ability to make loans is a secure means to cover financial needs with the main disadvantage that they have fewer chances to invest the money in other sectors. Financing from external sources has the main advantage in getting a variable level of financial resources whose reimbursement terms can sometimes be negotiated.

In a survey regarding the financing sources used by the SME's in Romania before the EU accession it is shown that Romanian managers use as financing sources: own sources belonging to the stockholders – 44,6%, self-financing – 26,22% and bank loans – 22,22%, and hardly between 0 and 2,22% they use capital market or other special financing techniques.

1. Bank credit

The access to the funds provided by banking units requires that applying entities have a certain preparation, namely:

- getting the necessary information about the financing possibilities provided by financial organizations;
- choosing the financing organization in compliance with its credit offers;
- drafting the documents demanded by the financial organization that facilitates the access to financing;

– properly assessing the available guarantees.

The main problems that can occur when accessing and using some financing options are related to the interests and commissions charged, the need to provide the financial organization with real guarantees for credit reimbursement, the long time taken to analyze the credit papers which can cause the company to miss favourable market opportunities, the lack of previous economic and financial activities. When it comes to newly-born companies, banks are reticent to give loans since the former cannot ensure security of credit reimbursement from various reasons: they have no history, no experience, scarce elements to allow a pertinent economic and financial analysis.

On the other hand, commercial banks do not always have enough courage, know-how or financial power and decline credits because they cannot determine reimbursement. Over the last years, the financial structure of Romanian companies either corporations or SME's has significantly changed in terms of interest reduction, private property's share increase and economic restructuralization.

2. Financing by means of the capital market

Accessing the capital market can be considered a rapid and efficient way to find the necessary resources.

The main financial instruments that can be used on the capital market either as a financing source or to adopt investment decisions are: real estate, participation in collective placement, instruments of the monetary market including public securities with less than one- year due date, financial futures contracts, options, swaps on interest rate etc.

Financing by means of the capital market supposes a typical device meaning a public sale offer. An original public offer on the Romanian capital market took place in 2007, as compared to three such offers in 2006, three in 2005 and one in 2004. Therefore, 2007 features the accomplishment of SNTGN Transgaz public offer, Romania's national carrier of natural gas, between 26 November and 7 December. The Transgaz offer beat all the records Romania had previously had, attracting total submissions of 1.8 billion Euros which meant the twenty-eightfold oversubmission of the 1,177,384 offers provided. The offer price was 191,92 Lei/share and the number of submission orders was 12,089, another record. The offer's success relied on the issuer's profile, monopoly position, way to set up the revenues by regulations, and prospects related to the Nabucco project; a good offer price; the sale ability of the distribution group. As to the exchanges in the region, Romania ranks behind the Czech Republic and Hungary from the perspective of original public offers, countries that have had two original public offers and the one that ranks first is Poland's exchange where 81 public offers have taken place as compared with 28 recorded at all the other exchanges in the region.

The Romanian exchange market therefore needs new companies, either small or medium, but having potential, acting in growing sectors that are weakly or not at all represented at the exchange. They might be the fields of IT, logistics and retail.

The advantages of common stock financing of a company are that it does not force the company to pay its stockholders fixed amounts or to redeem them. As common stocks ensure a buffer against lenders' losses, the stock sale increases the credit granted to a company. In its turn, it improves the rating of bonds (of the same issuer), cuts down the debt cost and ensures the flexibility of future long-term financing actions. Thus, the company will have the basis to gather more debts or issue more shares if that is the most recommended way to raise funds.

Among the disadvantages of common bond issuing in a company there are the extension of voting rights and the increase in the submission and distribution costs of new common shares. Empirical observations show that when announcing a share issuing there is a 3% reduction of the price of industrial companies' shares. Financing by means of the capital market supposes a specific device, that is a public sale offer. Yet, it is true that SME's' access to the capital market by stock issuing depends on certain conditions regarding the entrance admission to BVB quota.

When the structure of stockholding is not desired or they want to avoid the risks of capital watering, an alternative is issuing bonds.

From the perspective of costs, statistics over the years have shown that the dividends paid when issuing new shares are more costly than the interests paid to bondholders.

As compared with loans, the bond market involves:

– lower operational and maintenance costs;
– recycling by issuing new bonds at due date;
– lower financial cost.

Bonds are a good investment to the stock investors on Romania's capital market as completing a share portfolio by bonds will generate lower risks of the portfolio by diversification as well as improve the performance by ensuring a stable revenue such as interest. bonds are also recommended to institutional investors as they can ensure higher profitability of the instruments currently used by the same institutions.

In order to attract investors, bonds should be issued at good prices and their efficiency should be higher than a bank deposit's or a treasury note's. Bonds should also be sold all throughout the country by a large network of specialized and professionally qualified people.

The first corporate bonds in Romania were issued in 1997 by Siderca S.A. Călăraşi. The company issued then 350,000 bonds being worth 6,300,000,000 Lei. The main features of the issued bonds were:

– three-year due date;
– the ability to turn bonds into shares, respectively four shares into one bond;
– the binding loan was guaranteed by the company's assets;
– the interest was 57%/year, paid every term.

The issuer's financial status deteriorated during bonds' duration which made the company find it impossible to pay interests or redeem bonds in 2000.

As it also pursued bonds' exchange listing, the shares were unlisted at the RASDAQ which made investors' facility of turning bonds into shares never come true. Although accepted at the BVB listing, the Siderca bonds have never been traded.

The amount of corporate bonds issuing actually increased to 6 in late 2007 (compared to 7 in early 2006 and 6 in late 2005): The Romanian Commercial Bank (BCR09) and International Leasing (YTLS10) in the second bond category, Carpatica Commercial Bank (BCC09) and ProCredit Bank (PRCR09) in the third bond category, and the European Investment Bank (EIB14) and World Bank (IBRD09) in the international bond category. Accomplishing bond issuing imposes, as general rules and irrespective of the category aimed for subscription, a public bond sale offer performed according to an offer prospect approved by CNVM and getting a minimum compulsory Lei loan even to 200,000Euro

3. Advantages of financing by means of the capital market

The main advantages of financing by means of the capital market actually aim to:

– improve the access to capital and financing conditions, as share issuing provides long-term capital for a company that does not need to be reimbursed, there is no interest paid as a financial obligation. On the other hand, if after share issuing the company is listed at the exchange, new share and/or bond issuing is likely to take place in more favourable conditions than the former ones;
– list companies at the exchange which also gives them the opportunity to become famous and have more prestige thus increasing the competitiveness of the goods and services they supply their customers;.
– set a real value of a company. Share issuing in a listed company is going to generate a device involving the setting up of listed shares' market value which can be extremely important in mergers or aquisitions and the value provided by the capital market (exchange capitalization) could be considered as one closer to economic reality;
– increase the listed company's prestige due to the duty of periodically informing the shareholders and all those concerned about the company's economic and financial activities;
– improve the company's market image which will lead to the reduction of future financing costs and the easier access to potential partners and customers.

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THE RESULT ACCOUNT – DATABASE USED IN FINANCIAL ASSESSEMENT

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Abstract: The performances of a society depend both on operational management (of production, of human resources) and on the financial management. In the economic specialists' opinion the objectives of the financial management are both profits maximization and maximization of shareholders' wealth.

The management process in a company means the assembly of stages, processes through which its objectives and those of the incorporated systems are determined, work resources and processes necessary to their achievement and their executors, through which they register and control the staff's work using a complex of methods and techniques in order to achieve most efficiently the reasons that determined the setting up of the company .

Key words: the financial management, the result account, the operational management

Introduction

To conduct this analysis we chose the „SALAMANDRA" S.R.L. Trading Company of Baia Mare, and we performed the analysis based on the data provided by the balance sheet and by the profit and loss account for the period 2003 – 2006, with the data expressed in lei – ROL to ensure their compatibility.

In the field of services the company provides its services through catering in the restaurant S.C. SALAMANDRA S.R.L. of Baia Mare, 6 Unirii boulevard. In the field of production the company manufactures a very wide range of meat products and by-products, processed meat, salami and sausages.

This study aims to uncover the potential of the economic agent S.C. SALAMANDRA S.R.L. for producing profit both through its current activity and through its perspective one, and to watch the behaviour of the economic agent in the case of changes in the structure of the capital, entailed by an increase of the fixed assets and of the company's indebtedness.

1. LIQUIDITY INDICATORS

These indicators allow an assessment of the financial status of the trading company and provide potential creditors with a minimum of data with regards to the way the company disposed and disposes over the period that is analyzed.

The capacity of the S.C. SALAMANDRA S.R.L. trading company to pay its obligations is illustrated through several indicators that are established based on various elements of the patrimony. The liquidity indicators and their evolution are presented in table no. 1.

Table no. 1.

Liquidity indicators

No.	INDICATORS	2003	2004	2005	2006
1	CAPITAL LIQUIDITY %	318.71	83.38	445.82	388.76
2	IMMEDIATE LIQUIDITY %	261.79	48.98	348.36	253.85
3	CAPITAL SOLVENCY %	0.00	81.38	93.85	84.30
4	NET ACCOUNTING CAPITAL (thousands lei)	1645450	7434280	21166590	388206813

Capital liquidity and immediate liquidity: the dramatic increase in the value of these indicators (except for the year 2004), well above 100%, reflects the high degree of both overall company liquidity and short term liquidity.

The evolution of the capital liquidity is presented in figure no. 1, and that of the immediate liquidity, in figure no.

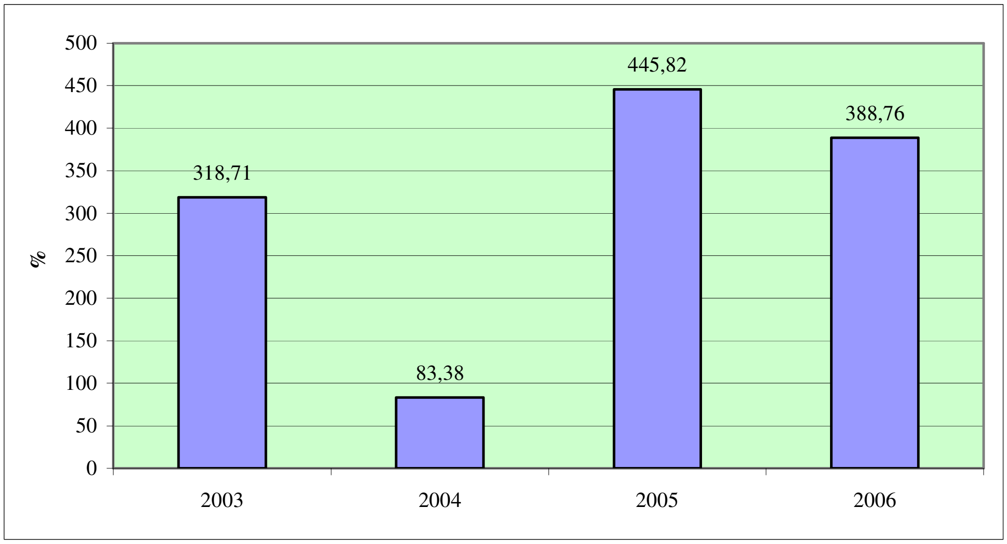

Figure no. 1. Evolution of the capital liquidity over the period 2003-2006

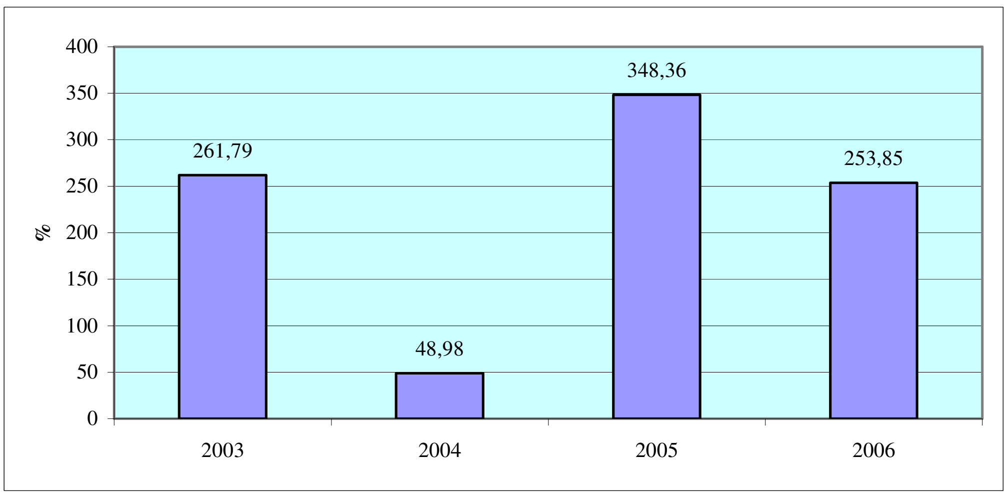

Figure no. 2. Evolution of the immediate liquidity over the period 2003-2006

Capital solvency: based on specialist opinions, the minimum acceptable value for this indicator is of 30%; at over 50% the status of the company is considered as normal from the point of view of capital solvency, and at over 70% it is deemed to have a high degree of solvency. The evolution of the capital solvency is presented in figure no. 3.

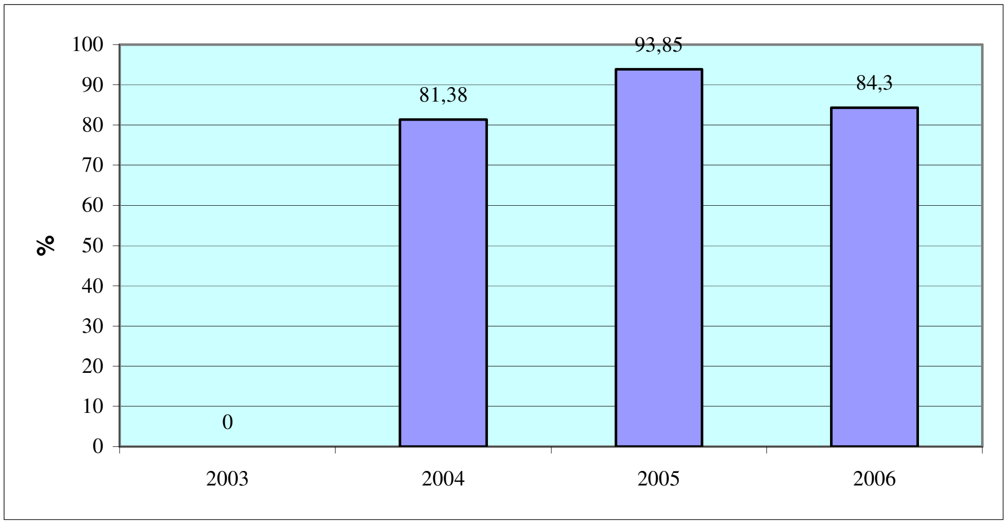

Figure no. 3. Evolution of the capital solvency over the period 2003-2006

Net accounting capital: the clearly positive and improving situation at the end of each accounting period indicates the existence of a net capital, therefore of an active framework that is free of debt, which is in fact the wealth of the two owners of S.C. SALAMANDRA S.R.L.

The increase by 17.7 times of the net statement is a consequence of having reinvested almost the entire profit obtained in the production process, and it is a proof of interest from the company's managers to develop and consolidate their own business. The evolution of the net accounting capital is presented in figure no. 4.

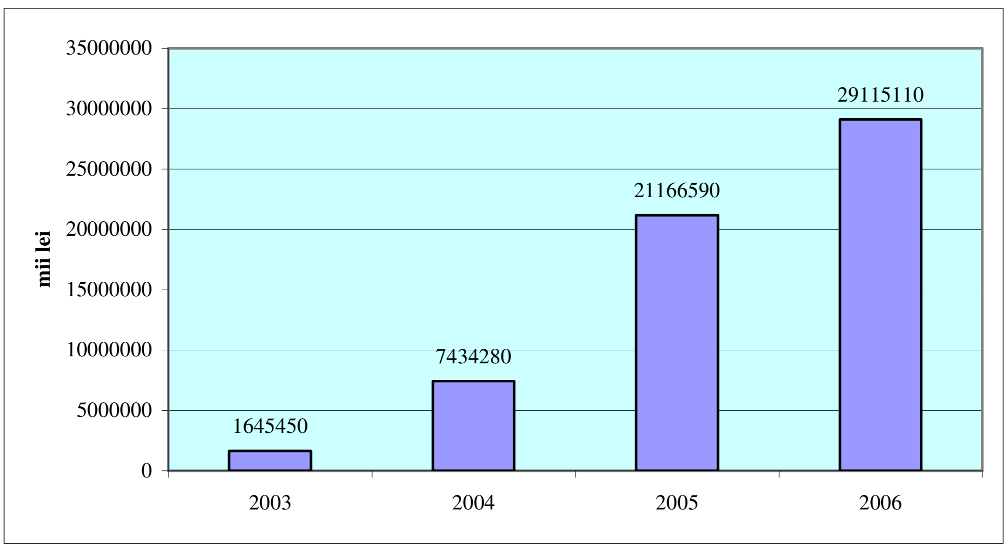

Figure no. 4. Evolution of the net accounting capital over the period 2003-2006

2. FINANCIAL DIAGNOSIS BASED ON THE RESULT ACCOUNT

The financial performances of the S.C. SALAMANDRA S.R.L. company are expressed through the income, expenses and profits obtained over the periods that were analyzed.

The purpose of the analysis is to draw a general picture of the evolution of the main indicators that characterize the economic and financial activity, and that are used as a base for future projections.

The structure of the operating expenses is presented in table no. 2.

Table no. 2.

Structure of the operating expenses

INDICATORS	SHARE
Merchandise related expenses	28.41%
Raw material related expenses	55.69%
Consumable materials related expenses	7.83%
Power related expenses	0.75%
Other material expenses	0.05%
TOTAL MATERIAL EXPENSES	94.32%
Third parties related expenses	1.96%
Tax and fee related expenses	0.27%
Staff related expenses	3.35%
Amortization expenses	1.69%
TOTAL	100.00%

The share of material expenses and merchandise related expenses out of the total operating expenses is very high, exceeding 90%. Under these circumstances the difference between the company's incomes and expenses is a decisive element for the newly created value.

Value added: this is a very important indicator in the factor analysis of expenses, as it actually expresses the added value that is obtained from utilizing the production factors (labour and capital) above the value of goods and services provided by third parties within the company's daily activity

The evolution of the value added over the period 2004-2006 is presented in table no. 3.

Table no. 3.

Evolution of the value added

No.	SPECIFICATION	2004 thousand lei	2005 thousand lei	2006 thousand lei
1	Mark-up	1271490	3208270	4001213
2	Production of the period	20183440	36650060	55552800
3	Daily consumptions	16662620	34357100	53498307
4	VALUE ADDED	4792310	5401230	6055707

In fact, the *value added* is the source of financial accumulations used for remunerating the factors participating in he company's economic activity.

The structure of the value added is presented in table no. 4.

Table no. 4.

Structure of the value added

No.	SPECIFICATION	2004 (%)	2005 (%)	2006 (%)
1	STAFF REMUNERATION	15.67	29.11	44.70
2	STATE REMUNERATION THROUGH TAXES	16.31	1.88	3.72
3	CREDIT REMUNERATION THROUGH INTEREST RATE	8.75	13.41	21.47

4	INVESTMENT REMUNERATION THROUGH LIQUIDATION	0.73	6.73	22.64
5	OWN CAPITAL REMUNERATION THROUGH DIVIDENDS	0.50	0.59	-
6	COMPANY REMUNERATION THROUGH CAF	58.04	48.28	7.47

The greatest share of this value is taken by the sources permanently available to the company, which constitute its self-financing capacity. The expenses related to the staff and those of financial nature are, along with liquidation expenses, the true cost of utilizing the production factors mentioned before.

Self-financing: this is the main element in financing companies, and for many of them (especially private companies) it is the only source for financing the production activity, the operating costs, but also for supporting the decisive or risky stages of the development.

The size of the self-financing in the case of S.C. SALAMANDRA S.R.L. plays an important role in indicating the company's performances. For potential creditors and investors this is a sign that the company is capable of efficiently using the capitals entrusted to it and to ensure an interesting remuneration for them.

The absolute size and the relative size of the self-financing certify the level of the reimbursement capacity and the level of the company's non-payment risk.

The structure of the operating income: for the year 2006, S.C. SALAMANDRA S.R.L. has earned the income presented in table no. 5.

Table no. 5.

Structure of the operating income

SPECIFICATION	**VALUE (thousand lei)**
Income from sale of end-products	55550787
Income from sale of merchandise - retail trade - public catering	26941547 25199640 1741907
Income from sale of packing materials	2013
Operating income	10044320
Income from interest rates	61547
Income from discounts obtained	41107
TOTAL INCOME	92641318

The income obtained from the actual production activity cover 60% of the total achievements.

The selling of over 25% of the manufactured products through the company's own network, respectively the two retail stores “Vlăduț” and “Turist”, as well as through the company's public catering unit, have favourably contributed to the achievement of a mark-up of over 175 of the trading activity.

Net result of the activity*:* this expresses the absolute size of the profitability through which the owners are remunerated for their own subscribed.

The structure of the profit and loss account for the three types of activity (operational, financial, exceptional) allow the establishment of intermediary balances of administration (SIG), meant to remunerate production factors and to finance the company's future activity.

These balances are in fact consecutive levels in the forming of the final result. The net result fof the activity is presented in table no. 6.

Table no. 6.

Net result of the activity

No.	SPECIFICATION	2004 thousand lei	2005 thousand lei	2006 thousand lei
1	VALUE ADDED	4792310	5401230	6055707
	+ Subventions from operations - Taxes, fees, deposits - Staff related expenses	195410 781650 751070	7435020 101860 1572830	1004432 225627 2707413
2	GROSS OPERATING OUTPUT	3455000	11161560	13166989
	+ Income from commissions + Other operating income - Amortizations - Other operating expenses	- - 35360 -	- - 363860 -	- - 1371440 -
3	RESULT OF THE OPERATIONS	3419640	10797700	11795549
	+ Financial income - Financial expenses	500790 419340	408130 724380	102653 1300173
4	CURRENT RESULT	3501090	10481450	10598029
	+ Extraordinary income - Extraordinary expenses - Profit tax	- 8970 -	1000 86240 -	- - -
5	NET RESULT	3492120	10396210	10598029
6	FINANCIAL PROFITABILITY	13.54	18.15	12.91

The **gross operating output** expresses the gross accumulations obtained from the operating activity, and it is the main resource of the company with decisive influence over its final profitability.

The size of the output and the increasing evolution in the case of the S.C. SALAMANDRA S.R.L. company allows the enterprise to renew its fixed assets through amortizations and ensures the conditions for the external financing that entails financial expenses.

The **result of the operations** reflects the absolute size of the operations, obtained by deducting the payable and calculated expenses (liquidation).

The **current result** is obtained from all the daily operations of the enterprise. The influence of losses in the financial activity varied between 2.38% in 2004 and 10.15% in 2006, relative to the result of the operations.

The **net result of the activity** expresses the absolute size of the company's financial profitability that, along with commissions, amortizations, and any existing differences between divestitures, represent the company's self-financing capacity.

The **financial profitability** is a relative value that reflects the results of the activity in all the stages of the circular flow both in the study of production and in the one of sales.

The variable value of this indicator, that is the increase from 13.54% in 2004 to 18.15% in 2005 and then the decrease recorded in the year 2006 reflect both the managers' interest and their ability in reaching their final aim, which is to increase the turnover and, by that, increasing the absolute value of the turnover, and by that, increasing the absolute value of the net earnings.

Table no. 7 presents the basic synthetic indicators.

Table no. 7.

Basic synthetic indicators

No.	ECONOMIC VALUES	2003	2004	2005	2006
1	Turnover (thousands lei) Number of employees Net profit (thousands lei)	7876920 63 1743990	28579440 62 3492120	59819960 66 10396210	82494333 75 10598027
2	Exchange rate leu/USD Turnover (thousands USD) Net profit (thousands USD) Labour productivity (USD/person)	17000 463.35 102.59 7354	25780 1108.55 135.46 17879	29500 2027.80 352.41 30724	31500 2618.87 336.45 34918
3	Variation of the turnover Variation of profit Variation of productivity	0.00 0.00 0.00	139.25 32.04 143.12	82.92 160.16 71.84	29.15 -4.53 13.65

CONCLUSIONS

Financial administration may be defined as a system of decisions and activities that all contribute to adjusting and regulating financial flows and funds, to administrating the company's financial resources. Financial administration aims to regularly provide the company with the funds required for current equipment and operations, but also to verify the correct utilization of the funds and the profitability of the operations to which these funds are assigned. Financial administration serves several purposes, all within the scope of the company's survival, achievement of profit, and economic development.

The financial function of the company has an operational role, a functional role, and a political role. The main financial activities are as follows:

- Drawing up and applying the income and expenditure budget;
- Conducting studied and analyses on the formation;
- Appropriating and utilizing capitals;
- Establishing prices and fees;
- Taking measures to ensure liquidity and solvency;
- Maintaining financial balance and avoiding risks.

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A TRUE AND FAIR VIEW OF IMPLEMENTATION OF THE IAS REGULATION IN THE EUROPEAN UNION

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Abstract: The Regulation of the European Parliament and the Council of the European Union on the application of international accounting standards, was a key instrument to enhance comparability and transparency of financial statements prepared by publicy traded companies, in order to ensure the completion of a single financial services market. Never the less, Member States were allowed to extend the application of IAS to unlisted companies and to individual accounts.

Key words: European Directives, IAS Regulation, IAS endorsement process

European Union accounting requirements contains primarily four Accounting Directives: the Fourth and Seventh Directives on the annual and consolidated accounts of companies, the Directive on the annual and consolidated accounts of banks and other financial institutions, the Directive on the annual and consolidated accounts of insurance undertakings. With the accelerating pressure towards the convergence of accounting standards, the existing directives do not meet the needs to facilitate the access of European global players that wish to raise capital on international securities markets.

In this context, the Accounting Directives proved to be (Linder, 2006):

- - difficult to integrate into national law and even more complicate to make work in practice;
- - sensitive to some political compromises as is the tendency to avoid reopening issues;
- - reflecting the accounting thinking at the time they were writen.

With the European Legislation silent on many aspects of accounting, in 1998, according to IASC statistics, some 210 European Union companies reported in accordance with IAS while 235 reported under US GAAP while, in 1999, 275 European Union companies used IAS. Both financial reporting frameworks were investor-oriented financial reporting systems that provide a high levels of investor protection

Globalization of capital markets, the consolidation of stock exchanges and the International Organization of Securities Commissions (IOSCO) work on harmonised requirements for stock exchanges as the IASC focused more on the standard-setting have created a unique momentum to to accelerate completion of the internal market for financial services in order to increase market efficiency and reduce the cost of raising capital for European Union companies.

Consequently, the Lisbon European Council of 23 and 24 March 2000 underlined the key importance of a single financial market and set the deadline of 2005 for all publicly traded companies to prepare their consolidated financial statements in accordance with one single set of accounting standards, namely International Accounting Standards (IAS).

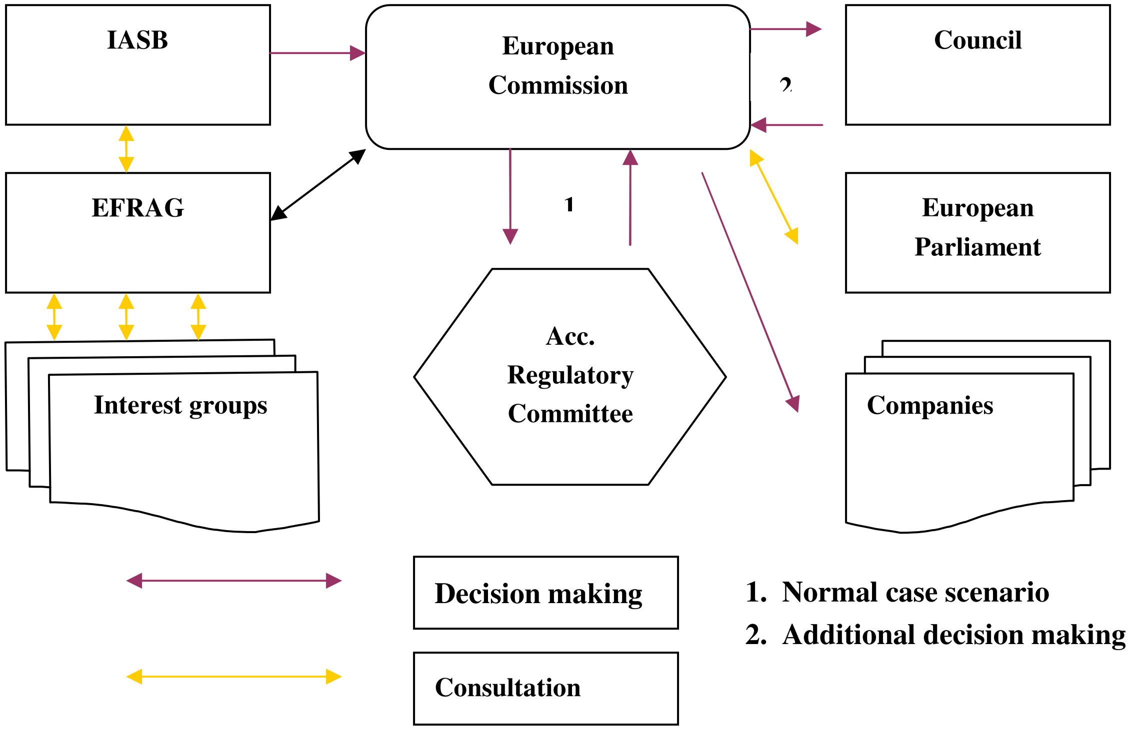
The Commission also, proposed that Member States to permit either to require or to allow unlisted companies as well as unlisted financial institutions and insurance companies**,** to publish financial statements in accordance with the same set of standards as those for listed companies.

Further more, the European Union Accounting Regulation gave European Union member states the option to:

- - Permit companies whose only listed securities are debt securities to delay IFRS adoption until 2007
- - Permit companies that are listed on exchanges outside of the EU and that currently prepare their primary financial statements using a non-EU GAAP (in most cases this would be US GAAP) to delay IFRS adoption until 2007.

In order to adopt an international accounting standard for application within the European Union, it is necessary to meet the basic requirements:

– they are not contrary to the "true and fair view" principle of the 4th and 7th Accounting Directives;
– they are conducive to the European public good (competitiveness and convergence);
– they meet the criteria of understandability, relevance, reliability and comparability.



IAS Endorsement process

Source: Linder, Financial Reporting Legislation in the EU, p.23

As the process for adoption of IFRS proceeded, proponents and opponents lined up for public hearing. The supporters believe that the European Union's strategy to adopt an international standard, rather than a particularly European one, has been validated (Zalm,2008). Overall, proponents highlighted that IFRS adoption is a project worth pursuing for three primary reasons:

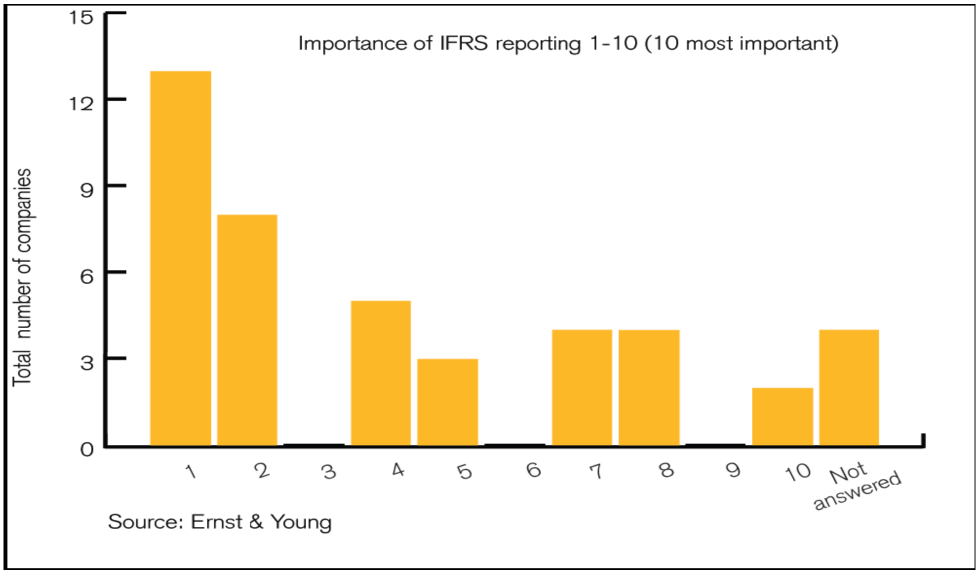
– IFRS can play a powerful role in providing transparency and comparability for investors rather than the application of domestic European standards;
– a single set of standards would lower the costs of of comparing performance of firms from different countries;
– European capital market would become more globally competitive as the result of massive capital flows from outside of Europe.

Nevertheless the European investors responded negatively to movement toward IFRS as the controversy focused on the suspicions that (Armostrong, 2007):

– the IFRS would not adequately reflect regional differences in economies;
– the IFRS would not accommodate differing political and economic member state features that led to existing differences across domestic accounting standards.
– the variation in the implementation and enforcement of IFRS would diminish any potential benefit

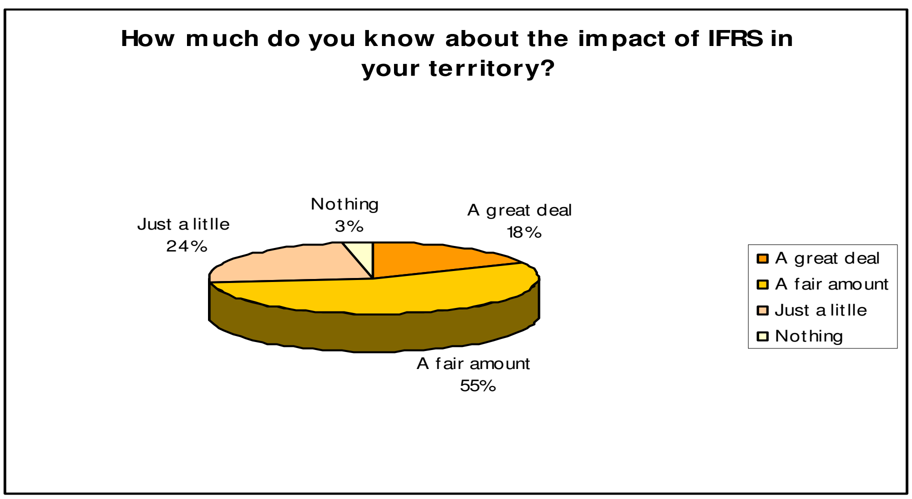
To assess the overall investor sentiment regarding IFRS adoption, we focused on the surveys on the effect of the transition to IFRS, conducted by major major polling organizations. Valuable lessons can be drawn from this researches.

Ernst & Young decided to carry out, in 2004, a pan- European survey of IFRS and the implications for the investment fund industry. The respondents were asked to rank the importance of IFRS reporting within their organisation on a scale from one (not important at all) to 10 (extremely important). The results were mixed, with 49% indicating low importance (ranks one to three) and 23% indicating high importance (ranks eight to 10).



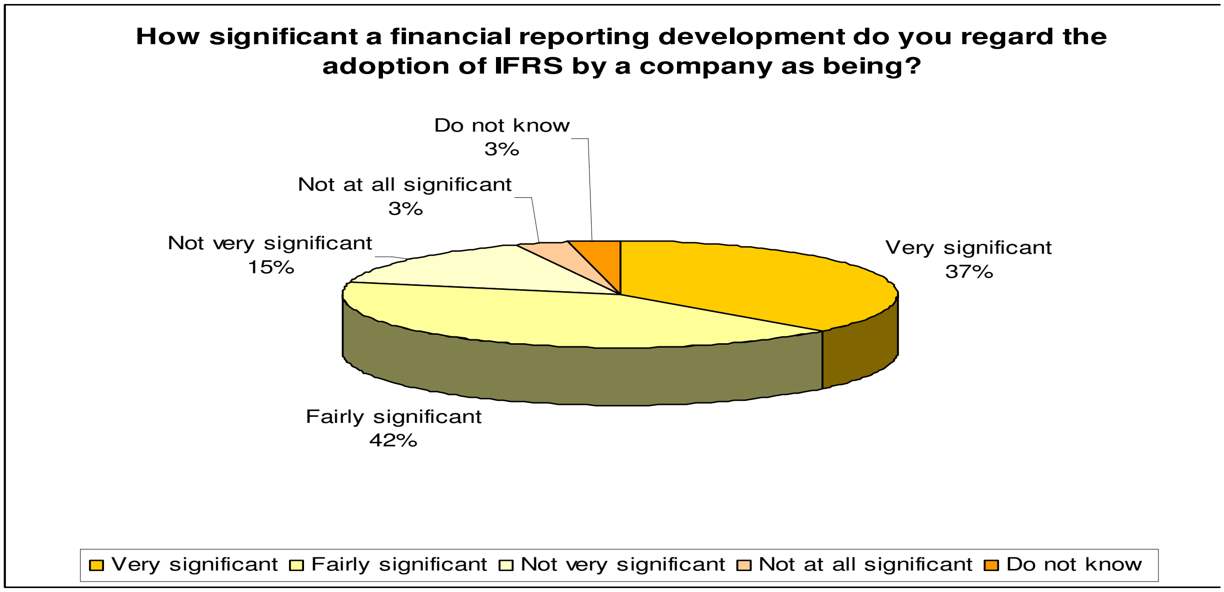
This survey demonstrated that there was a clear need for harmonisation and transparency with regard to the investment fund industry in Europe.

Another research was the PricewaterhouseCoopers /Ipsos MORI survey of 187 fund managers across Europe conducted in 2006. Most of the fund managers interviewed for the survey said they are fairly well-informed and understand the impact of IFRS. Nearly threequarters said they know either a lot or a fair amount about the impact of IFRS on companies in their country



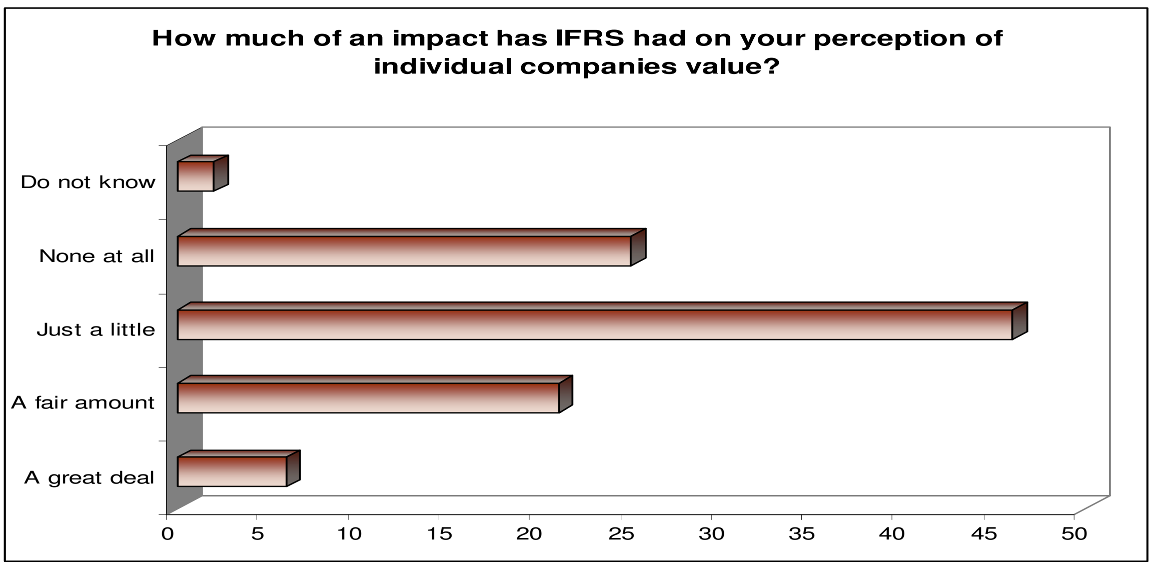
Source: PricewaterhouseCoopers /Ipsos MORI, 2006

Investment fund managers see the change to IFRS as significant. Four in every five believe that the adoption of IFRS is either a very or fairly significant development for financial reporting. The majority (66%) have already noticed its impact on the operational results of the companies they invest in.



Source: PricewaterhouseCoopers /Ipsos MORI, 2006

In spite of this encouraging results, IFRS had already affected fund managers' perceptions of value. Almost three-quarters said that the change to IFRS has had at least some impact on their view of the value of the individual companies they invest in, mainly because financial information is now easier to compare and offers greater transparency.

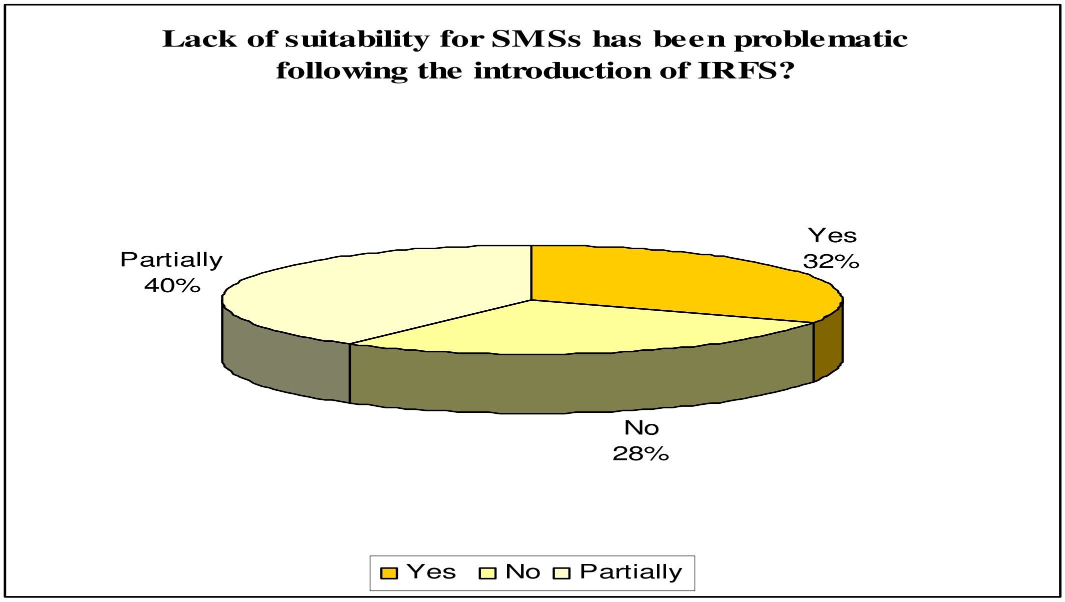


Source: PricewaterhouseCoopers /Ipsos MORI, 2006

Moves towards greater consistency of application, convergence, standardisation of requirements, and improved transparency, were high on the list of investors' hopes for the future development of IFRS, back in 2006.

The Association of Chartered Certified Accountants (ACCA) undertook a quantitative and qualitative survey of its members, in late 2007. This comprised in-depth focus groups with leading members in Poland, Hungary, the Czech and Slovak republics and Romania. The results were not encouraging for small and medium sized enterprises.

In the area of accounting regulation, ACCA focus groups members were largely supportive of the advent of International Financial Reporting Standards (IFRS) in Europe, believing it to have brought more meaning to accounts, which were previously taxdriven and of limited use for investors. Nevertheless the survey identifies the biggest problem which is the lack of suitability for SMEs.



Source: ACCA Central & Eastern Europe members' survey on SME issues, 2007

The results of this article reveal that the introduction of IFRS in Europe can be characterized as "a romantic project" which in time could prove to be a successful marriage or a painful divorce.

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OPPORTUNITIES OFFERED BY THE CAPITAL MARKET FOR FINANCING PUBLIC ADMINISTRATION

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Abstract: Nowadays, covering the financial deficit of public administration in Romania is a difficult task, taking into consideration the fact that in a continous way, this institutional sector must implement and manage investment projects, that suit the local needs of Romanian colectivity and dynamize their adaption to the social,economical and political requirements of the integration in the European Union. Therefore, the alternative of financing through the capital market is well received by the public authorities, especially because there is a lack of flexibility and variety of financing possibilities for the public administration. The interest for this type of financing has increased over the time, once with becoming familiar with the mechanisms and advantages of such a type of financing by all entities that operate on the market (issuers, investors, intermediaries).

Key words: capital market, T-bonds, public debt management

1. The financing need of the "Public Administration" institutional sector

The "Public Administration" area is comprised of the **central public administration** (central bodies whose competence expands all around the country, except for the administration of the social insurance systems), **local public administration** (local administrations whose competence expands only on one local administrative unit – commune, town / city, county, district, Bucharest City-, except for the territorial institutions of the social insurance systems) and **the administrations of social insurance systems** (comprise the authorities managing the social insurance systems – public pensions system and other social insurance rights, unemployment insurance system, health social insurances, insurance system for labor connected accidents and occupational conditions and other such – as well as territorial institutions subordinated to them, no matter their financing manner.)

These entities can have their necessary financing resulting from financing or co-financing the public, local or private concern projects, of the temporary treasury needs due to gaps occurring between the cashing in and payment flows, as well as to the budgetary deficit. Other reasons due to which the public administration can be in a resource deficit might be reimbursing in full or in part the loans already contracted and that reached their due date or paying the interests corresponding to the existing public debt.

During the analyzed period of time the net financing need of the public administration has encountered a dynamics showed in the figure below:

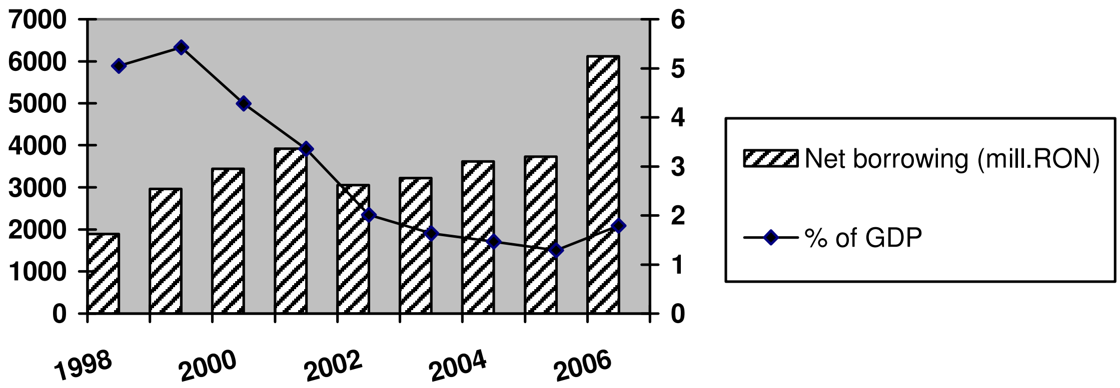

Figure 1 – Evolution of net borrowing of public administration and its weight in GDP in the period 1998-2006

Source: Dates supplied by NBR, and author calculations

In the figure it is pointed out that although the net financing need of the public administration has encountered an increase during the analyzed period of time, until 2005 this represented a percentage smaller and smaller of the GDP due to the fact GDP's increase rate was grater than that of the net financing need. Although, during 2006 the percentage of the net financing need has slightly increased up to 1.79 % of the GDP due to increasing the public debt and the amounts to be paid by the public institutions to the economic entities and to the employees.

2. Financing sources and their effects

During the analyzed period of time, 1998-2006, it is noticed that the greatest part of the financing need for the public administration is provided through loans that from RON 3687 million in 1998 reached RON 26,787 million in 2006, a significant increase. During this period of time, the long term loans have had the greatest percentage, reaching in 2006 over 99 % of the total loans. As important financing alternative there can be noticed the T-bonds, most of them being on a long term. They have also encountered an increase along the time, from RON 3358 million in 1998 to RON 13,829 million. Another financing form that mustn't be neglected, was the deposits of the economic entities in the treasury and the treasury notes, held by the population, that on their due dates have been transformed in deposits. They have increased along the time, from RON 230 million in 1998 to RON 17,428 million in 2006.

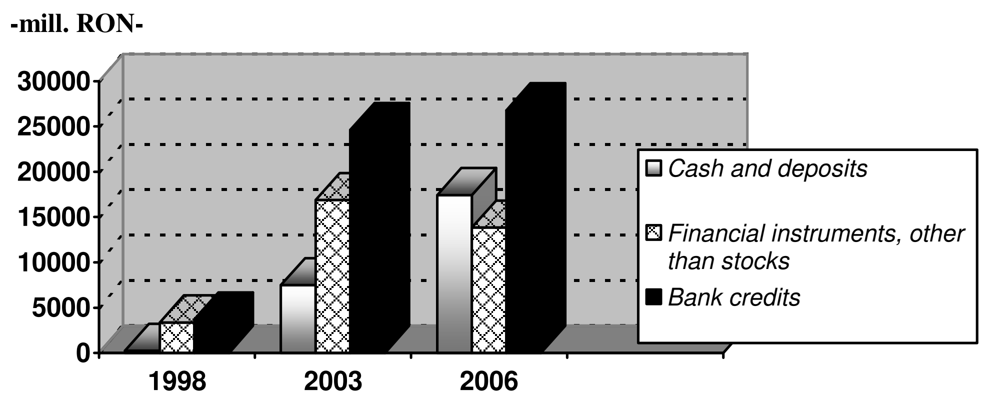

Figure 2 – Structure of financing of public administration taking in consideration the source of financing

The public administration calling to **financing through the capital market** can be made through listing the bonds or treasury notes issued on the capital market. Although the traditional manner for financing the public administrations remains using the bank type of loans, they started to perceive the capital market as a viable alternative for supporting different investment projects or for covering the budgetary deficits. **From our standpoint**, financing the necessary capital of the public administration in Romania seems today even more difficult given that this institutional sector must be able at all times to supply grounds for and to manage the investment projects that would respond to the Romanian communities' local needs and also, that would make dynamic their adaptation to the social, economic and political requirements of the European accession. **Thus, the alternative of financing through the capital market is welcomed** in the circumstances that the public administration's financing possibilities are pretty limited and little flexible. The interest for developing this type of financing grew along the time at the same time with gaining the awareness on the mechanisms and advantages of such a financing by all market actors (issuers, investors, intermediaries).

The municipalities have actively contributed to developing the capital market through issuing bonds developed in view of financing some projects at the local administration level. The low funds level the local public administration have and the impossibility to increase local taxes in order to obtain greater incomes cashed by the local budgets **imposed financing some alternative financing sources** for supporting the local investment projects. Next to the municipal bonds, **the government bonds might have a vital part on the local capital market.** The state loans are guaranteed, thus representing a standard for the remaining of bond issuing. These can be inscribed for listing and thus, they can be transacted either on a regulated market, either within an alternative transacting system. For the time being they are missing from the Romanian capital market, but there are positive perspectives that this will change soon. If in Romania these things are just in their beginning, in Poland, the country having the greatest capital market in the Central and Eastern Europe, the total value of the bonds issued inscribed in the stock market is close to EUR 100 billion and among them the greatest part is represented by bonds issued by the Polish government. This led to the existence of some bond transactions of over EUR 1.4 billion during 2006. Given that Romania has an increasing budgetary deficit and that the public debt is pretty low, approximately 12% of the gross domestic product, there are expectations for the things to change and for the state to issue more and more bonds[141].

3. Arguments for developing a government bond market

The need to develop the bond market is felt not only in Romania, but, after the recent international crises, it has also drawn the attention of numerous decision makers at the national and international level. An intrinsic connection to this subject is provided by the governmental debt theme that has been debated on so many occasions at the IMF and World Bank level[142]. Of course that developing a government bond market represents a complex approach that depends on the developing level of the financial system existing in each country. In some countries, financing the government can depend only on some local banks which inhibits the competition and raises even more the transaction's costs. As well, the lack of an adequate market infrastructure can create difficulties for developing a bond market. The lack of institutional investors, the low saving rates at national level or the lack of interest from the institutional investors can lead to the occurrence of a small and homogenous group willing to invest in such financial bonds, as a contradiction to the heterogeneity requirements imposed by an efficient market. More, an economic instability, usually supported by high budgetary deficits or a rapid increase of the currency supply, correlated with a lower and lower exchange rate can lead to a mistrust from the investors and to increasing the risks connected to developing a government bond market. The bond markets have as role creating a connection between the issuers needing long term financing resources and the investors willing to place their available exceeding capital in interest bearing financial bonds. A mature bond market supplies a range of possibilities for timely financing the government and the private sector, thus that through developing the bond market there are usually also created enhanced possibilities for other non-governmental issuers.

The government bonds are the "back bone", a reference item for most financial bonds with fixed income in the developed countries, but also in the countries in progress of developing, as we will point out in the next paragraph. Through these benchmark type of bonds it is supplied a reference yield curve for the other loan financial instruments having similar traits. As well, the mortgage financing can depend in full or in part of

[141] Ionuț Dumitru, Chief of the Research Treasury Department, Raiffeisen Bank.
[142] Concerning this, please make reference to *Draft Guidelines for Public Debt Management*, IBRD SEC M2000-376 and *Sound Practices in Sovereign Debt Management*, drafted by the World Bank in collaboration with IMF.

the mortgage bonds. The development of a government bond market provides a number of important benefits, if the prerequisites to a sound development are in place. At a macroeconomic policy level, a government bond market provides an avenue for domestic funding of a budget deficit other than the central bank, and thereby can reduce the need for direct and potentially damaging monetary financing of deficits and avoid a buildup of foreign-currency denominated debt. A bond market can also strengthen the transmission and implementation of monetary policy, including the achievement of monetary targets or inflation objectives; and can enable the use of market-based indirect monetary policy instruments. The existence of such a market not only can enable authorities to smooth consumption and investment in response to shocks, but can, if coupled with sound debt management, also help governments reduce their exposure to interest rate, currency, and other risks. Finally, a shift toward market-oriented domestic funding will reduce debt service costs over the medium to long term through development of a deep and liquid market.

4. Bonds issued on the Romanian capital market and comparisons at regional and European Union levels

At the level of the Romanian capital market there has been registered a growth pace from one year to another as regards the bond transactions, but they are still far from the potential the market gives to such instruments. This was due, mainly, **from our point of view,** to the fact that the first bond operations took place only in the autumn of 2001, in other words these fixed income instruments are relatively new on the market. The law that decentralized the local authorities' finance and that allowed the issuing of municipal bonds was applied beginning on January 1, 1999. After this date the structure of local budgets has been significantly changed, the following two years being transition characterized. For analyzing the local finance status, absolutely mandatory for issuing bonds, there was needed similar financial reporting for a 2 or 3 year period of time. 2001 was the year when there were produced reporting starting on the same basis, the one stipulated by the local public finance law applied since 1999. But, the issuers have been from the beginning very open to approaching the financing through bonds due to the fact the in those years the bank loans for local authorities were difficult to obtain, for most of them being requested real estate guarantees, difficult or impossible to be granted by the town or city halls. The bonds took their logical path of guaranteeing the loan with the budgetary execution and they had the major advantage of low interests than the bank ones and of being transparently calculated.

The first municipal bonds issued having an 18 month due date was launched on October 8, 2001 by the Predeal Town Hall. It was followed by Mangalia Town Hall and by other towns and cities: Zalău, Alba-Iulia, Cluj-Napoca, Breaza, Bacău, Sebeş, Târgu-Mureş and Slobozia. There was expected for the European Union accession to truly bring a reanimation on the bond market, thing which actually happened. The actual number of bonds transacted doubled in 2007. Thus, BVB (Bucharest Stock Exchange) strengthened its position of main local stock market and came closer to the goal of becoming a regional reference market through the novelties promoted. Thus, from 2001 and until 2007 the number of bonds newly listed in each year grew from 2 to 11, the number of issuers increasing also from 2 to 22 and the volume of transacted bonds doubled from 2006 and until 2007, reaching 6,652,467[143]. If we take into account just the **municipal operations,** until 2007 have been performed over 40 issuing for such bonds. In 2007 were being transacted on the market 16 municipal bond issuing having a value of RON 182 million of which seven were new to the stock market in that year as against 6 in 2006. The year for accessing the European Union also represented a record as regards bond issuing (Bacău City Hall), having a value of RON 35 million. This proves that these instruments are believed by the issuers as being more and more an efficient manner for financing the investment projects, and by the investors as an instrument supplying higher interests as against the ones existing on the banking market and having a low risk degree as against the shares on the capital market.

From our standpoint, 2008 is forecasted to be a year with even more bond issuing given that BVB went through tremendous efforts in order to make the city and town halls aware of the advantages of such a financing and of the positive examples supplied by the other successfully made bond issuing. It is expected for in the near future the number of municipal bond issuers to increase but at a lower rate than the ones of increasing issuing taking into account that some city and town halls came back to this financing manner, developing now two or three bond issuing. As the local authorities will be developed from a financing

[143] Calculations made by the authors on dates supplied by BSE, kmarket.ro

standpoint and the economic conditions will allow it, the municipal bonds will increase as maturity and value.

The most important elements provided by the evolution of the municipal bonds in the period of time taken into account for the analysis and that represent also the future trends are **increasing the maturity period (over 10 years) and increasing the issuing value.** Although it is expected that the number of issuing to increase, we can notice that during the analyzed period it was diminished which did not lead to also diminishing the value of issuing made because that town and city halls started to issue bonds to a higher value and having a higher maturity period. If we analyze the value of bonds issued we can notice that if in 2001 there was a value of RON 1.5 million of the bond issuing and a number of 2 such issuing, at the end of 2007 the bond issuing amounted to 3 and they accounted for RON 63.7 million, a significant increase showing the increased interest for such financing type[144]. Another important element that encouraged the municipalities for issuing bonds is the so-called "bridge loan". Due to the fact that the town and city halls have encountered difficulties in spending all moneys, as they come following the bond offer, there appeared this type of credit contracted on 1 to 3 years after which they are reimbursed with the money obtained for issuing bonds. Most times, it is created a consortium between one bank and the intermediary of the bond offer. Today most issuing are preceded by a **bridge loan**. A significant element for developing the bond market and the capital market in general is the existence of powerful and long term investors, such as the **private pensions funds**. According to the regulations in the area that have in view diminishing the risks incurred by the savings of the persons making deposits in these funds, these funds must place an important percentage of their contributions in **T-bonds.** But, right now the newly issued T-bond transactions, but also the ones on the secondary market, take place only on the interbank market managed by the National Bank of Romania. Due to the fact that in Romania the first contributions to the privately managed funds will begin in April 2008, these funds' managers are putting additional pressure on the Romanian capital market in order to make possible listing these financial instruments within the stock market. On the contrary, they will have to make short term investments in T-bonds belonging to the European Union member states and to accept lower yields.

If we take into account the structure of the domestic bond markets, and thus the importance held by issuing different bonds, there can be seen that at the level of well developed states (Japan, Great Britain, Germany, France), but also as regards the less developed countries (Argentina, Brazil, Turkey, Poland, Czech Republic) the registered level of the public sector's issuing is very high with values from 50% and above, reaching even 99% in the case of Turkey[145]. As a comparison, at the end of 2006 Romania had a transacted value of the bonds of USD 55.06 million, of which 83% belonged to the private area and just 17% to the public sector[146].

5. Final conclusions

The public administration can perceive the capital market as a **viable alternative** for financing the financial resources needed. The year 2008 is forecasted to be one with many bond issuing given that BVB went through tremendous efforts in order to make the city and town halls aware of the advantages of such a financing and of the positive examples supplied by the other successfully made bond issuing. It is expected for in the near future the number of municipal bond issuers to increase but at a lower rate than the ones of increasing issuing taking into account that some city and town halls came back to this financing manner, developing now tow or three bond issuing. Next to the municipal bonds, **the government bonds might have a vital part on the local capital market.** The state loans are guaranteed, thus representing a standard for the remaining of bond issuing. These can be inscribed for listing and thus, they can be transacted either on a regulated market, either within an alternative transaction system. For the time being they are missing from the Romanian capital market, but there are positive perspectives that this will change soon and that capitalizing the bond sector will significantly increase.

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Appendix nr.1

Structure of domestic bond market in different developed and developing countries Comparative analysis september 1999 - september 2007

	All issuers		**Public sector**		**Financial institutions**		**Private sector**	
	Bil.USD		**%**					
	1999	**2007**	**1999**	**2007**	**1999**	**2007**	**1999**	**2007**
USA	14.938,0	23.899,5	55	27	28	60	18	13
Japan	5.938,0	8.706,7	74	81	14	11	12	8
Germany	1.921,7	2.457,8	42	53	57	40	1	7
Italy	1.485,6	2.942,0	77	60	23	29	1	11
France	1.164,5	2.652,6	60	52	32	37	9	11
UK	906,1	1.354,2	52	67	32	32	16	1
Spain	347,8	1.532,3	84	32	9	38	8	30
Brazil	271,3	900,2	81	73	18	26	1	1
China	196,5	1.528,7	65	68	33	26	2	6
Argentina	76,6	79,8	31	82	69	6	0	12
Mexico	47,7	330,2	82	56	6	36	12	8
Turkey	44,1	217,0	100	99	0	0	0	1
Czech Republic	19,5	89,7	75	83	12	13	13	4
Poland	26,9	144,9	100	100	0	0	0	0

Source: Dates supplied by BIS, and authors calculations

BUDGET DEFICIT PERSPECTIVES IN ROMANIA

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Abstract: Although Romania engaged itself through the Convergence Program to reduce its budget deficit to less than 1% of GDP by the year 2011, the recent evolution of the public revenues and expenditures contradict this hypothesis. Compared to our country, the public finance in the European Union member states will improve significantly, as the result of fiscal revenue increase.

Key words: budget deficit, the Pact of Stability and Growth, durable convergence

Introduction

Achieving the public financial balance according to the modern directions allows budget deficit and other state debts. They are assumed by the public authorities through special norms and financed from the loans contracted by the public administration authorities, the external non-repayable funds, and other funds the state may obtain (for example amounts from privatization, state assets valuation, financial placements of public deposits).

The idea of constant budget balance achievement has both supporters and opponents. A low budget deficit may produce unfavourable effects on reducing the gaps between the emergent and developed countries, because developing some sectors as infrastructure, health or education requires high budget expenditures. Therefore the expenditures are the major element the finance procedures should adapt to. Due to the permanent increase of the public needs, the financial effort to satisfy them is increasingly higher. Therefore the public expenditures are increasing on long-term, and the public revenues adapt to this. The budget deficit maintained within certain limits represents the rule of budget planning, a rule enforced by the low financial resources compared to the fund needs, and by the governmental policy view that may consider the public unbalance as an instrument of conjectural economic policy.

Budget deficit theories

The classic theories of budget deficit demonstrates its negative impact on economy (by reducing the national revenue) and living standard of the next generations that have to stand a higher fiscal pressure to pay the public debt. Engaging to budget expenditures higher than the current revenues is an imprudent policy with multiple effects. The increase of internal public debt as the effect of budget deficit financing from public loans may cause the bank interest increase with negative effects on investment credit demands and inflation.

Traditionalists argue that a reduction in the budget deficit will significantly help the economy in the long run. This theory is based on the following logic. When the government runs a budget deficit, it is spending more than it is taking in. In this way, national savings decreases. When national savings decreases, investment-the primary store of national savings-also decreases. Lower investment leads to lower long-term economic growth. Similarly, lower investment is accompanied by higher domestic interest rates, which decreases net exports. Based on this logic, a budget deficit is a drain on the long-term economy.

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The present economic theory suggests that the reasonable public loans in a developing country do not alter the economic growth. If the lent resources are used in productive purposes, the repayment of the accumulated debts should be painless. In case of some high public debts there is risk regarding the country's repayment incapacity that might discourage investments and trouble the economic growth. The theory of excessive indebt was defined by Jeffrey Sachs who suggested that the payment owned to the creditors acts like a discouraging tax for production and that there is an indebt threshold beyond which any debt marginal increase generates a significant reduction of investments, a fact that reduces the future repayment capacity.

The mere existence of a budget deficit, meaning a higher amount of monetary resources in economy, generates inflation. If the budget deficit is covered by monetary issue, the impact on inflation will be even stronger. As the main objective of any central bank is to limit inflation, the monetary authorities will take measures to increase the reference interest that may attract speculative capitals, contributing to the national currency strengthen and consequently discouraging exports. Therefore another consequence of the budget deficit is the occurrence of current account deficit.

The modern theories of budget deficit consider that this unbalance does not have only inevitable negative effects. According to the "Ponzi gamble" theory, a less prosperous future is only a possible consequence of a period with high budget deficits. If the economic growth rate is higher that the debt rate, the budget deficits will be covered by the future economic growth from the general resources. This approach of the budget deficit means to study the average interest rate for the public debt and to compare it with the average economic growth rate. The rational game Ponzi in which repayments and debts are always replaced by a new debt was presented in the studies of Minsky (1982) and Kindleberger (1978). Applying the Ponzi game, the government may increase the living standard because each generation benefits by transfers and no generation pays additional taxes for them. But this point of view cannot be accepted because the budget deficit, even if it does not always lead to fiscal pressure increase, will determine lower investments as the savings will be mainly placed in governmental titles.

The Pact of Stability and Growth

The Pact of Stability and Growth is an agreement between the EU member states through which they adhere to a special fiscal and budgetary discipline, as part of their medium-term economic objectives. The member states in the Euro zone engage to achieve balanced or even surplus national budgets on medium-term. Adopted by the European Council in Amsterdam, June 1997, the Pact has two key aspects:

- a preventive alarm system to identify and correct the budget skid before it exceeds the 3% threshold of GNP was settled in the Treaty for the budget deficits;
- a set of rules to discourage the pressures on the member states, so that they avoid the excessive deficits and take rapid measures to correct them if they occur. The sanctions are applicable only to the states in the Euro zone and value between 0.2% and 0.5% of GNP, according to the degree the reference value of 3% is exceeded. These sanctions carry no interest at first, but if the situation is not corrected in 2 year time, they will turn into penalties.

If the above mentioned budgetary objectives are achieved, the quality of public finance will improve and the member states may release the budgetary resources to encourage innovation, investment, education and new jobs. The evolution of the main financial indicators in the EU countries shows their continuous progress in correcting the excessive deficits.

Financial indicators (as a percentage of GDP)

Year	2002	2003	2004	2005	2006	2007
Euro area						
Government deficit/surplus	-2,5	-3,1	-2,8	-2,5	-1,5	-0,5
Government expenditure	47,7	48,1	47,5	47,4	47,2	46,4
Government revenue	45,1	45,0	44,6	45,0	45,6	45,9
Government dept	68,2	69,1	69,6	70,3	68,6	66,5
EU25/EU27*						
Government deficit/surplus	-3,1	-3,1	-2,8	-2,4	-1,6	-1

Government expenditure	46,9	47,3	46,8	46,8	46,6	45,9
Government revenue	44,5	44,3	44,0	44,4	45,0	44,9
Government dept	60,4	61,8	62,1	62,7	61,4	58,3

Source: Eurostat, Euro-indicators, 142/22 october 2007, 139/23 october 2006

European Commission, Economic forecast Autumn 2007

*from 2003

In 2006 the largest government deficits in percentage of GDP were recorded by Hungary (-9.2%), Italy (-4.4%), Portugal (-3.9%), Poland (-3.8%), and Slovakia (-3.7%). Ten Member States registered a government surplus in 2006: Denmark (+4.6%), Finland (+3.8%), Estonia (+3.6%), Bulgaria (+3.2%), Ireland (+2.9%), Sweden (+2.5%), Spain (+1.8%), Luxembourg (+0.7%), Netherlands (+0.6%) and Belgium (+0.4%).

Compared to the situation before the Pact conclusion, the number of countries with excessive budget deficits is decreasing. In 2006, the budgetary situation improved significantly: the average deficit in the EU reduced from 2.4% in 2005 to 1.7% (and from 2.5% to 1.6% in the Euro zone), and the debt decreased in both the EU and the Euro zone for the first time after 2002. The EU member states' medium-term objective is to achieve a balanced budget ("zero deficit"), a deficit less than 1% or a budget surplus. In some countries, the surplus revenues from taxation are partially used to finance the expenditure increase, so that the European Committee is concerned with the fact that the member states do not consolidate their public finances rapidly enough, in spite of the favourable economic settings. Therefore the European Committee presented at 13th June 2007 a series of proposals to improve efficiency of the preventive component of the Pact of Stability and Growth:

- extending the field of application for the fiscal supervision in the EU. The advantages of a solid fiscal policy may be better understood if the fiscal supervision falls into a larger economic perspective, for example paying more attention to the internal and external unbalances that might jeopardize the economic and fiscal stability.
- strengthening the responsibility for the budgetary objectives established by the stability and convergence programs. There is high possibility to strengthen the connections between the national objectives and the objectives presented by the EU; for example, the national parliaments and other administrative sectors should involve more in program planning and monitoring.
- strengthening the reliability and credibility of the budgetary objectives on medium-term. The recurrent deviations from the plans risk, if repeating, to injure their credibility. Providing more information on how the budgetary objectives will be achieved according to the expenditure tendencies would facilitate the evaluation of the national fiscal policies.
- achieving a viable budgetary situation on medium-term. This means a better monitoring of the budgetary plan application, as well as a deeper understanding of the budgetary situations that may provide a higher absorption of the population ageing impact.

A slight deterioration is expected in 2008, as the draft budgets for 2008 do not envisage any further fiscal consolidation. Based on the usual no-policy-change assumption, the deficit is expected to broadly stabilise in 2009.

Expectations concerning total expenditure and revenue, general government, in EU Members

Country	Total expenditure, general government (as a percentage of GDP) 2008	Total revenue, general government (as a percentage of GDP) 2008	Net lending (+) or net borrowing (-), general government (as a percentage of GDP) 2008	Total expenditure, general government (as a percentage of GDP) 2009	Total revenue, general government (as a percentage of GDP) 2009	Net lending (+) or net borrowing (-), general government (as a percentage of GDP) 2009
Belgium	48.2	47.8	-0.4	48.0	47.6	-0.4
Germany	43.3	43.2	-0.1	42.8	43.0	0.2

Ireland	36.6	36.3	-0.2	36.8	36.2	-0.6
Greece	41.8	39.9	-1.8	41.9	40.0	-1.8
Spain	38.7	40.0	1.2	39.4	39.9	0.6
France	52.8	50.2	-2.6	52.7	50.0	-2.7
Italy	48.6	46.3	-2.3	48.4	46.1	-2.3
Cyprus	45.5	44.8	-0.8	45.4	44.8	-0.6
Luxembourg	37.2	38.3	1.0	36.6	38.0	1.4
Malta	42.6	41.1	-1.6	41.8	40.8	-1.0
Netherlands	47.4	47.9	0.5	46.9	48.1	1.3
Austria	48.0	47.3	-0.7	47.8	47.4	-0.4
Portugal	45.4	42.8	-2.6	45.2	42.8	-2.4
Slovenia	43.2	42.1	-1.0	42.2	41.4	-0.8
Finland	47.6	51.8	4.2	47.4	51.4	4.0
Bulgaria	36.3	39.4	3.1	36.3	39.4	3.1
Czech Republic	43.0	40.2	-2.8	42.9	40.2	-2.7
Denmark	51.4	54.5	3.0	51.2	53.6	2.5
Estonia	35.7	37.7	1.9	36.5	37.5	1.0
Latvia	37.6	38.4	0.8	37.0	37.5	0.5
Lithuania	35.6	34.1	-1.4	34.6	33.8	-0.8
Hungary	48.9	44.7	-4.2	48.7	44.9	-3.8
Poland	42.3	39.0	-3.2	41.8	38.8	-3.1
Romania	39.0	35.8	-3.2	40.9	37.0	-3.9
Slovakia	48.2	32.8	-2.3	48.0	32.2	-2.4
Sweden	43.3	55.8	2.8	42.8	55.6	3.0
United Kingdom	36.6	41.0	-3.0	36.8	41.3	-2.8

Source: European Commission, Economic forecast Autumn 2007

In the Euro area is expected the further improvement in most countries about continuous deficit reduction. Outside the euro area, the budgetary outlook improves substantially in the Czech Republic (with the deficit now expected to fall below the 3% of GDP reference value in 2008, after the strong deterioration in 2007), Hungary (forecast to reach a deficit of 3.8% of GDP in 2009, compared to 6.4% in 2007) and Slovakia (expected to reduce the deficit in the two subsequent years). For several other countries outside the euro area the outlook also improves, for instance in Bulgaria, Latvia and Sweden. The deficit is projected to widen significantly in Romania (with a deficit above 3% in 2008 and forecast to reach almost 4% of GDP in 2009), while the surplus in Denmark and Estonia declines rapidly over the forecast horizon.

Budget Deficit Perspectives in Romania

Since 2005, the governors have been concerned with the following actions regarding the change of the budget main characteristics:

- promoting a challenging fiscal policy;
- reducing the budget duties by reducing the social insurance contributions;
- directing the funds carefully to the priority policies: education, health, social insurance, transport, infrastructure, regional development, agriculture, research-innovation, national defence.

Through the Convergence Program 2006-2009, the public authorities in Romania made a commitment to support the budget deficit reduction by improving revenue administration and increasing the efficiency of budget expenditures. In consequence, the revenues will show an increasing tendency as a result of the implementation of some measures regarding collecting and administration improvement, taxation extend to field such as real estate market, agriculture, environment and enterprises with state capital's majority. According to the budget projection for 2007, it was meant to reach 1.9% of GDP in 2009 and 0.9% of GDP in 2011.

Given the increase of budget expenditures at a rate higher than the revenue increase and in spite of a significant economic growth, Romania has faced the budget deficit increase lately.

The budget deficit evolution in Romania

Year	2004	2005	2006	2007	2008
General consolidated budget deficit (% of GDP)	-1.22	-0.81	-2.3	-2.4	-2.8

Source: The Ministry of Public Finance

The Government's and the European Committee's standpoints toward this evolution are different. According to the Romanian officials' opinions, a responsible budget deficit reported by the European Committee would mean to fall within the Maastricht criteria, in other words we should not exceed the 3 percents. Maintaining a low budget deficit is a good macroeconomic policy, but it does not support development and gap reduction. For the developed countries, members of the European Union, the restriction 3% of GDP is normal, because it means rigour and sustainable development. But for the lagging countries, the effort of limiting the budget deficit may lower the economic growth. The standpoint of the National Bank of Romania regarding the budgetary policy is more prudent. The recommendations of the National Bank of Romania refer to the quality improvements of the budget expenditure structure and avoidance of their increase in certain periods, in order to limit the budget deficit.

Referring to the objective assumed by the Romanian government through the Convergence Program 2006-2009 (a deficit lower than 1% by 2011) the European Committee estimates that there are small chances to attain it. According to the European Committee's forecast, Romania's budget deficit will reach 3.2% in 2008 and 3.9% in 2009, and our country risks the European funds freeze if it keeps breaking the EU regulations. The estimates of the Committee are based on the pension expenditure rise and the revenue decrease from the social pension contributions, once they reduce with 2% in 2008 and 2.5% in 2009 (to finance the second pillar of the private pensions). The costs of the pension reform, once their private administration is introduced, are estimated at 0.25 of GDP in 2008 and 0.3% of GDP in 2009; they were included in the EC forecasted deficits. The forecast also reflects the Government intention to reduce the insurance contributions with 6% in three stages during the next year, a lowering that will have total impact starting with 2009.

Considering the European Committee's evaluation and the need to provide a sustainable convergence, the following recommendations were made:

- reducing the risk of an excessive deficit by establishing more ambitious budget targets in the future;
- improving public expenditure planning and performing;
- limiting the public expenditure increase;
- strengthening the fiscal discipline;
- continuing the structural reforms;
- adopting policies to eliminate inflationist pressures.

Under the European Committee's pressures, the Romanian government performed the first budget correction, reducing the public expenditures with 1.1 billion Euro. This measure is estimated to reduce the budget deficit estimated for 2008 with about 0.5%.

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THE INFLUENCE OF THE LIBERAL CONCEPT "BY OURSELVES" ON THE PUBLIC FINANCE IN ROMANIA

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Abstract: Since the end of the 19th century, the Liberal National Party engaged to rectify the economic situation by itself without resorting to external loans, but running the policy "by ourselves", a policy of budgetary austerity and public expenditure limitations from fiscal revenues, encouraging the state's economic function. The liberal budgetary policy mainly relied on revenue increase from public wealth increase. This budgetary component of the liberal economic policy kept running until the first interwar decade, contributing to the normalization of public finance during the national economic crises. Similar measures were recommended after 1989 to adapt the Romanian public finance to the market economy requirements. But often their application was delayed by the respective political climate.

Key words: provision, initiative, normalization

Introduction

The consolidated domestic capital accumulated by the Romanian bourgeoisie at the end of the 19th century and the beginning of the 20th century generated many disputes regarding the optimal relation that had to be established between the external and internal capitals, so that the national economic development should not be troubled by the foreign interference. At first, the concept "by ourselves" meant a policy to develop the country's productive powers by themselves, without refusing entirely the foreign capital. After the World War I, according to the principle "by ourselves", the liberal leaders proposed a policy of prevention and national initiative in all fields of activity, including the public finance.

Romanian financial policy directions during the interwar period

The end of the World War I generated new challenges for the Romanian public finance which faced since the beginning of the military conflict major problems determined by:

- the large number of public officers that worked 4-5 hours a day to reduce expenses;
- the low taxation base;
- the high financial efforts to equip the army.

Therefore the financial period 1916/ 1917 ended with a 467,506 thousand lei deficit (363,556 thousand lei budget revenues and 831,063 thousand lei budget expenditures) [Axenciuc, V., 2000: 620]. Considering the other external and internal loans contracted by the Romanian state since the beginning of the war, there was a significant pressure on the state budget: 564,477 thousand lei consolidated internal loans, 250,000 thousand lei floating internal loans, 1,571,820 thousand lei consolidated external loans and 312,652 thousand lei floating external loans [Romania's Encyclopaedia, 1944: 773].

The financial situation in Romania could generate, according to the Minister for Finance Vintilă I.C. Brătianu, dangerous and damaging consequences for the country's economy that "settles only available foreign elements" [Brătianu, I.C. Vintilă., 1916: 6]. Therefore the success of the policy of prevention and national initiative planned by the Liberal National Party according to the principle "by ourselves" depended mostly on the rapid settling of the severe budgetary and financial problems mentioned by the liberal economist. Vintilă I.C. Brătianu stated that Romania's economic policy should have relied mostly on the internal financial resources and not on the foreign loans [Brătianu, I.C. Vintilă., 1916: 6].

Even since 1913, Vintilă I.C. Brătianu declared in favour of a prudent financial policy and the need to change the budget planning procedure. He thought that the budget revenue evaluation should take into account "not only the average of the last 3 years, but also the country's economic situation when planning the budget" [Brătianu, I.C. Vintilă., 1916: 11]. Also he expressed concern regarding the tendency of excessive centralization of public funds and the increasing number of officers that exceeded the real administration needs.

Following the concept "by ourselves" to introduce the principle of economy in public money use and to size properly the budget expenditures, the liberal economists proposed the following recommendations even since 1916:

- establishing an institution to coordinate the different budgetary projects in order to keep constant the state expenditures;
- reducing the sizable differences between the central and local expenditures;
- organizing commercially the operations of state-owned domains and goods;
- introducing the obligation to publish the local administration budgets.

During the first years of interwar liberal government, the budgets were conceived according to a severe saving form of government; the priorities were the reduction of public officers and the reorganization of public services. The budget revenue evaluation according to the previous year takings and the expenditures kept within the severe limits of ordinary revenues were meant to attain the budget balance and to cover the expenses of national economy endowment and recover from the budget surpluses. The liberal financial plan proposed for the year 1922 intended to:

- adopt some measures to satisfy the country's urgent needs (coordinating general and local administration, increasing productivity in state-administrated sectors, introducing the principle of order and economy in commercial services and their reorganization to increase their profitability and adaptability to state's requirements, reducing the budget expenditures by increasing the role of private initiative in certain fields of activity, and organizing a more efficient control on public expenditure engagement and completion);
- amend the fiscal legislation made by Nicolae Titulescu in 1921, in view of reducing taxes, so that the fiscal reform in Romania showed two essential characteristics: to be simple because "the Romanian taxpayer is not educated yet to record his income to the last centime" [Brătianu, I.C. Vintilă., 1922: 11] and not to hinder the country's economic development through too high fiscal duties.

The new fiscal and modern system started in 1923 that could satisfy the public financial needs and did not discourage the economic activities was not spared by the critics. For example, Virgil Madgearu, an economist representing the Peasant Party, considered that the fiscal system established by the law in 1923 encouraged the industry to the detriment of the other economic branches and favoured the bourgeoisie through the low taxes for the high incomes. To the problems reported by Virgil Madgearu, Vintilă I.C. Brătianu answered that there is not an income concentration in a small social class in Romania to justify a progressive taxation for the high incomes. On the other hand, the liberal economic policy aimed at stimulating the domestic capital concentration, so that the Romanian enterprises could face the competition on the internal and international market. Thanks to the reform of public services and financial legislation, the financial period 1922/ 1923 showed a significant progress in consolidating the Romanian public finance.

Consolidating Romania's external debt

To settle the financial problems of our country after the World War I, Romania's foreign debts had to be arranged and the amounts for war recovering owned by the Central Powers had to be collected. On the other hand, some urgent measures had to be adopted to achieve the budgetary union and the fiscal reform.

As Minister for Finance, Vintilă I.C. Brătianu involved directly in resolving those problems that he considered to be the priorities of protecting the national interests. He gave well-informed notice to the governments of the allied states about the structures and sizes of the Romania's loss during the war and protested against the small recover share of damage claimed from Germany. Together with other Romanian officials, Vintilă I.C. Brătianu made many approaches during the international conferences for war damage assignments to postpone Romania's terms of payment established in different treaties and to collect the debts from the former enemies. The Romanian authorities' requests to postpone these terms were rejected and at the time the national economy needed important financial resources to recover and endow. This was another reason for the liberal governors to redirect the economic and financial policy during the post-war period. The attitude of the great European powers toward the problems of our country strengthened Vintilă I.C. Brătianu's belief that the liberal formula "by ourselves" had to be applicable in the financial field, too. The Minister for Finance was convinced that Romania's chances to attract resources such as external loans were very small after the war, and declared in favour of joining together all national elements so that "what has to be done can be achieved only with our competence and work" [Brătianu, I.C. Vintilă., 1927: 40].

Considering the sizable implications of the internal debt on the budget balance and the balance of external payments, the consolidation of Romania's floating external debt was essential to normalize the public finance and to improve the general economic situation.

The problem of consolidating Romania's floating external debt was wide press covered at the time and the public opinion could learn the Minister's for Finance point of view and the critical position that doubted the opportunity of that operation. The objections against the floating external debt were expressed and synthesized by I. Dobrovici in the press of the time. They referred to the following aspects regarding the terms of the loan to consolidate that debt [Dobrovici, I., 1934: 416]:

- the high amount supported by the Romanian state to pay the interests, since the consolidating loan amortization would begin after 6 years;
- the customs export taxes were most affected, as they would be cashed only in gold or foreign hard currency, in order to guarantee the annuity payment;
- the National Bank made a commitment with the foreign banks, at the request of the Romanian state, to pay the annuities of the contracted loan if the public authorities had not have the necessary financial resources.

Without reducing the importance of the critics against the liberal government, Vintilă I.C. Brătianu's measure was the first step to reset Romania's credit abroad after the World War I. Moreover, Vintilă I.C. Brătianu himself stated that "you cannot ask for money from those you have not yet paid the debt to or at least made it steady" [Brătianu, I.C. Vintilă, 1925: 39]. Therefore the possibility to attract future financial external resources depended on how the problem of our country's external debts was solved.

Romania's external debt to the governments of the USA, France, England and Italy was consolidated during the period 1925-1928, by budget registration and regular annuity payment of the external debt determined by the war and its consequence liquidation [Văcărel, I., 1998: 17].

During the liberal government, the idea of financing the Romanian economy with foreign resources was disputed when the economic legislation was changed in 1924. In order to make the liberals give up their economic policy based on the principle "by ourselves", the great European powers tried to change the regime of foreign capitals, considered to be discriminating, in exchange of the external loans necessary to recover our economy. The officials of the states Romania was financially indebted to offered to facilitate the conclusion of some concession contracts for the oil fields of the Romanian state, in favour of some foreign companies, so that the liberal government could pay the external debts from those dues. This treatment made the liberal Minister for Finance to state many times that: "to say to the foreign creditors that we can recover only with their help means to beg and not to strengthen our country's financial situation" [Brătianu, I.C. Vintilă, 1923: 11].

Respecting Charles Rist' financial policy recommendations, Vintilă I.C. Brătianu applied, during his six years of governance, the principle of compressing the state's needs, according to which the amount of public expenditure had to be reduced to the level of revenues. Meantime, this component of the financial and budget policy promoted by the liberal economist lowered the possibility to assign resources for some productive investments that could contribute to a more rapid recover of the Romanian economy. On the other hand, the principle of budget balance disciplined the expenditure assignment and along with the fiscal policy measures provided the continuous increase of takings. This was an important step in consolidating our country's financial situation.

Liberal economic doctrine influence on contemporary evolution of public finance

The motto "development by ourselves" launched by the Romanian liberals even since the 19th century did not mean to separate from the rest of the world, but to trust in our own strengths, so that the Romanian economy could produce more and better, to be active in the European and trans-European economy, and not to wait for foreign help, but to see what could be done "by ourselves' to improve life quality. After

1989, these principles of economic policy have been forgotten. Waiting for the welfare generated by Romania's opening outward, the Romanian politicians could not set a precise direction of economic evolution, so that the measures of financial policies were sometimes contradictory. The major macroeconomic unbalances amplified by the lack of some consistent reforms generated budget deficit increase. The budget deficit was caused by the budget expenditure increase given the economic decline, the poor capacity of revenue collection, and the insufficient transparency of the budget period that generated an inefficient use of the financial resources. The attempts to increase the budget revenues were mainly counteracted by the increase of fiscal evasion and/ or arrear accumulation.

Only by the end of the 90's a substantial fiscal adjustment was made by reducing the primary expenditures and increasing the taxes. In consequence, the consolidated general budget deficit and the current account deficit improved. These results were achieved mainly to the recommendations of the international financial community, especially the International Monetary Fund. Otherwise the relation with IMF was defining for the Romanian governments' economic policies. The doctrinaire turnaround of liberalism characterized by minimal state agenda, the liberty to choose and the responsibility of the 19th century second half influenced the financial policy measures promoted by the international financial organizations to recover the economy in certain countries. Some measures similar to those promoted by the Romanian liberals during the interwar period were recommended to restructure and increase the competitiveness of the Romanian economy after 1989: permanent revenue increase, strengthening the fiscal administration, widening the taxation base, and reducing expenditures. The evolution of some financial indicators in the period 2000-2007 show the budget process improvement by developing a credible environment, but also the hesitations in adopting some expenditure limits lately.

Financial indicators (percent of GDP)

Year	2000	2001	2002	2003	2004	2005	2006	2007*
Revenues	31.2	30.1	29.6	28.7	30.1	30.2	31.2	33.5
Expenditures	35.3	33.3	32.3	30.9	31.1	31.0	32.9	36.3
General balance	-4.0	-3.2	-2.6	-2.2	-1.0	-0.8	-1.7	-2.8

Source: IMF Public Report No. 46/2006 and IMF Report regarding the Consultation on Article IV from 2007

In IMF's and European Committee's opinions, Romania's growth deficit and its volatility after adhering to the EU represent a risk for the macroeconomic and financial stability. The recommendations are as follows:

- reduce the excessive deficit to limit the risks regarding the long-term viability of public finance;
- control the public expenditure increase and re-examine their structure to improve the economic growth potential;
- a proper salary policy in public administration.

Conclusions

The financial policy according to the liberal doctrine during the interwar period had an indisputable positive impact on the budget revenue size and structure, and Romania's economic and social development after the World War I was mainly based on budget balance.

The main directions of the financial policy provided by the actual Liberal National Party's programs demonstrate that, at least theoretically, there is still a connection with the past. The policy to reduce progressively the general fiscal level has been promoted since 2005. There was an attempt to reform the public expenditure: reducing them by eliminating the subventions for price differences, eliminating the budget subventions for the enterprises that showed loss, reducing the public investments for unproductive activities or activities of low social profitability. In fact, after Romania's adherence to the EU, the liberal

* IMF estimates and projections

government stated that it would use to the full the budget deficit of 3% of GDP (agreed through the Maastricht Treaty) to finance the development projects of infrastructure, environment and agriculture and to reduce the gap between Romania and the other EU member states.

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SOME ASPECTS REGARDING MULTINATIONAL ENTERPRISE

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Abstract: Firms engaged in international trade, but they produced their output only at home. In this paper, we turn attention to the phenomenon of the international company, which Romania had not enough. Traditional trade theory offers few reasons why companies should become international and conduct foreign direct investment. We seek to understand these issues here. Economics has much to say on the subject. In the beginning we provide some brief background, the we define the multinational enterprise and discuss general principles governing location, production, and sales decisions by multiplant firms. We then explore the main characteristics of the multinational enterprise.

Key words: Multinational enterprise, foreign markets, market imperfection

The growth of international companies has been a marked feature of the twentieth century. The world's largest 200 private sector companies, defined by sales, today enjoy a combined turnover approaching one third of the world's gross domestic product [1]. Most of these firms operate on an international scale. In the 1920s, 1950s and 1960s, foreign direct investment was dominated by US firms. In the 1980s, Japanese firms have made much of the running, most often in the forms of new plats in foreign countries rather than foreign acquisitions. Large parts of US business are now owned by Japanese, British, Canadians, Germans and Arab countries concerns. Foreign ownership is still more marked in Australia, Canada, and Latin America, but much less so in Japan.

Most large Europeans countries have tended to confine production to their home base or to other continents, but since 2000s we have seen a big step forward to the East European countries. Cross-border mergers and acquisitions were comparatively rare in Europe a decade ago. The Anglo-Dutch giants, Shell and Unilever, the Volkwagen-Seat link, and the strong Swiss presence in food products and pharmaceuticals are not typical. It seems likely that this may change with the European countries. But at present most large foreign subsidiaries operating in Europe are American owned. France, the UK and Germany are countries where foreign direct investment by domestic companies roughly balances inward investment by foreign firms. The USA and Japan, and now Arab countries, have been major net exporters of capital in this sense, with Japan increasingly overhauling the USA. Many developing countries have hosted inward direct investment by foreign firms, but several have recently started to spawn international companies of their own. This phenomenon is explored by Lal (1983) [2].

Yet international companies are not new. By the end of the nineteenth century, many of Britain's leading firms had spread tentacles over large parts of her overseas empire, particularly in the fields of banking, confectionary, engineering, insurance, mining, shipping and tobacco. The sixteenth and seventeenth centuries saw the emergence of great Portuguese, Dutch and English trading companies, with vast networks of offices, trading posts, and factories spread around the globe. They were preceded on a smaller scale by Genoa, Venice and the Baltic Hansestaedte, and long before that, the Carthaginians, the Phoenicians and the Greeks. The phenomenon usually begins with trade. But the trading companies moves swiftly to establish a strong physical presence in the host country to preempt supplies from competitors. The host country's residents have always had varied reactions to foreign companies. Some welcome them as a channel to technological know-how and wealth. Others see them as latter-day Vikings bent on pillage. These complex attitudes persist. The hope of lucre is tinged with fear of sovereignty. Opinions in the capital exporting country, whose companies internationalize their operations, are simply mixed. The prospects of higher and steadier profits, and considerations of national prestige are qualified by apprehension for exports, wages, jobs and dissemination of advanced domestic technology. Governments everywhere are as excited by the thought of attracting foreign capital as they are fearful that tax revenues will be lost if the prices of intra-firm international transactions are warped with the aim of minimizing global tax payments. In the USA, the traditional home base for most of the world's largest multinational enterprises, there have been growing worries about the scale of recent inward direct investment and acquisitions by foreign firms. Some are concerned at the thought that foreign companies are buying up US businesses to drain off superior US technology. Researchers suggests, however that such fears may be unjustified.

Multinationals tend to fall into one of three categories. Horizontally integrated multinationals are firms with national branches of an enterprise producing largely the same product. American car companies and fast food chains are examples.

In vertically integrated multinationals, the output from one national plant provides an intermediate input to another national plant, all under common ownership and control. Until recently, multinationals in the oil industry were an instance of this: crude oil is extracted in one country, refined in another and marketed in a third. In Romania, in recent years we saw a big number of vertically integrated multinationals, especially in automotive and car producing industry.

Diversified multinationals are firms with national plants the outputs of which are neither vertically nor horizontally integrated. The Nestle Corporation in Swiss owned but 95% of its production is outside the country: it is involved in foods, restaurants, wine and cosmetics. The number of diversified multinationals is growing rapidly.

A company can be multinational in at least three senses. It can sell in more than one country; it ca run plants or own subsidiaries in two or more countries; and it can be owned internationally, with quotations on more than one national stock exchange, for example. Many large companies are multinational by all these definitions. But for our purposes the most important test of multi-nationality is production. Let us define an enterprise as multinational if it owns or runs production facilities in two or more countries. Multinational enterprises on this definition are responsible for much of the foreign direct investment undertaken throughout the world. We know why countries should trade with each other. Still, these explanations take a very limited local view of companies' production behaviour. But just because a theory does not explain every real world phenomenon does not mean that it should be discarded. The principle of comparative advantages is extremely important, whether or not there are multinational enterprises. If the theories are found to be deficient because they do not explain an important phenomenon, the assumptions made in the model must be examined: this is usually the source of the deficiency. When discussing the notion of comparative advantage we could assume that all firms are perfectly competitive and had equal access to the international markets, independent of their country of origin. We have to relax these assumptions if we wish to identify and explain the economic attributes of the multinational enterprise. In fact, we shall see that multinationals do not undermine the concept of comparative advantage. They underline it. For comparative advantage plays a vital role in the multinational's location and trading decisions. A multinational enterprise exists precisely because these assumptions (perfect competition and equal access) may not hold. One can explain the existence of the multinational by acknowledging the existence of certain types of market imperfection in the international economy.

We can note two points that increase the reason for establishment of overseas plants. First, multinationals are typically oligopolists, that is, the output and pricing decisions of firms in a particular industry are interdependent. We can observe that multinationals enjoy market power. The market form in which they operate is usually one of international oligopoly, with elements of monopolistic competition. One possible reason for this is the sizeable setup costs that are involved in establishing an overseas plant. Only larger firms will be willing to incur these costs. Firm size obviously correlates with market power. The establishment of overseas subsidiaries is hardly comparable with the strict conditions of perfect competition. In a perfect competitive industry there are many independent small firms enjoying common access to knowledge. The element of oligopoly power provides some insight as to why certain firms choose to establish cross-border plants. Entry barriers are crucial in maintaining a high profit. If these come to be eroded in the domestic market, then the firm may find it best to set up plants overseas. This argument is false in a world of full information: firms will go overseas anyway, regardless of domestic developments, if there are profits to be had by doing so. But it becomes appealing when information and decision-making costs are taken into account. The expected adverse trends in home profits, due perhaps to increased competition from rivals, will shake a firm into scrutinizing its options carefully, something it would be less likely to do had conditions been tranquil. The outcome could be the discovery that costs are low enough abroad. Foreign direct investments will follow. We can discuss now the case of Nokia, who had relocated a production plant form Bochum, Germany to Jucu, Romania. The movement of the factory became more cost effective in Romania, because of the low work costs here. Nokia announced the cut back of number of jobs (form around 6000 in Germany to around 3000 in Romania) and then calculates that the work related costs here were smaller. Since the ultimate goal of a company is profit, the movement is truly correct. Of course, the social impact on German work force is strong, but we could predict (on a long scale term) that the same thing could happen in Romania. If Nokia will find a lower cost of labour somewhere else, the company will probably relocated there its plant, regardless of social distress produced in Jucu region.

It is assumed that in the decision to set up a plant overseas, locational efficiency conditions have been met. Considerations of locational efficiency, that is comparative production and distribution cost considerations, obviously help to explain where production occurs. But it cannot be only factor at work. If it were, one would have to ask why a host country firm is not producing and exporting the goods. The multinational firm has to have some specific advantage that gives it an edge over potential indigenous producers. There are some reasons for setting up overseas plants. Prominent among them are the importance of gaining access to a particular market, the desire to spread risks, and adverse trends in home-market. There is obviously no single factor at work.

There are many explanations for why firms may choose to establish an overseas plant, all of them essentially related to some form of market imperfection. Such imperfections in turn cause the firm to internalize the market, a concept that we try to explain below. The market imperfections include the following:

- Barriers to international trade due to the tariffs and other barriers to trade mean that not all firms have equal access to the same market. Provided locational efficiency conditions are met, the establishment of the plant in the protected country is one way of overcoming these barriers.
- Market imperfections in the supply market arise from imperfect competition or imperfect information. Suppose that the supplier of a crucial factor input in a firm's production process has some monopoly power. Then the purchasing firm may confront problems such as price discrimination and it will certainly pay a higher price for the input than it would have done under condition of perfect competition. In these conditions it may pay the firm to internalize the supply network by buying up the supply source: making the supplier the part of the buying firm's production process. If the supply firm happens to be located in another country, then the purchasing firm becomes a multinational.
- Product differentiation may also lead to internalization. Suppose that some crucial factor input is supplied by a number of firms, but the products of each of these firms are slightly differentiated. Then the buyer of the product will face a large fixed cost in switching from one supplier to another because of the costs of testing or adapting to new varieties and/ or differences in the organizational structure of the selling firms. In the presence of switching costs, it is in the interest of buyer and seller to enter into a long term "arm's length" contract, which is a contract formed between separately owned firms. With terms specified in advance to take account of every possible contingency. But negotiating such a contract will prove very costly. The alternative is internalization of the intermediate product market.
- Less than perfect information regarding supply is a problem if the supplier of the factor input is external to the production process. Suppose that buyer had less than perfect information on the price and future availability of the input and the supplying firm does not provide all the information (for example, on future price development). If such behaviour is potentially very costly for the buyer, then internalization will ensure that the firm has the most information available. It may be especially important for firms relying on raw materials in the production process, where prices are highly volatile and accurate information on price is very important.
- Presence of increasing returns for the multinational, which transcend any scale economies at the level of individual plants. There could be monopsony power in the market for raw materials and cost savings for coordinating inventories and research and development activity, or economy in the transportation network when the shipment of goods extends beyond the output needs for a single plant. Finally, there may be scale economies from the pooling of the capacities of the different national plants to meet local demand fluctuations. All these are examples of positive externalities between plants, which only an integrated firm, as multinational is in position to exploit.

- Difficulties in trading a firm's intangible assets may explain the establishment of plants across national boundaries. Knowledge is one example of an intangible asset. The firm may possess knowledge of how to produce a cheaper or better product at given input prices which permits production at lower costs. It may take the form of a patented process or design or it may be less formal, involving the know-how shared among the employees of the firm. Marketing skills permit a firm to differentiate its product from those offered by competitors. Managerial skills lead to more cost-effective production. Why is a firm unable to trade some of its intangible assets? The answer is that the traditional market concept may break down in this case. The market fails because there is an important characteristic of intangible assets, which prevents them from being traded in the usual way: the one-sided or asymmetric information aspect of intangible assets prevents there being an efficient market in them. Intangible assets have some attributes of a public good because knowledge or informational advantages are important features. If a piece of information can be used to the firm's advantage at one location, it can be deployed profitably at another without a reduction in knowledge at the original location. The marginal cost of using the knowledge in the production process is zero. Attempts to trade the intangible asset on the open market are likely to fail. For example, suppose a firm tries to sell its intangible asset to another firm. The intangible nature of the asset will mean that the potential buyer is unable to assess the true value of the proposed purchase. If the selling firm reveals the details of why the asset is valuable, the buyer obtains knowledge that has not been paid for. A further problem is the fact that the commercial value of the information, even if it could be established, depends on how many firms are to purchase it, and when. So a firm may be endowed with an intangible asset it might like to sell some off, but cannot. It may have, for example, an excess capacity in managerial skills. It may be profitable to "internalize" the market for intangible assets by selling up other plants, if they meet the test of location efficiency. If conditions point to an overseas location, then the firm becomes a multinational.

The firm has three choices: it can serve a foreign market by exports from its domestic production base; it can license other firms to produce abroad; or it can set-up production facilities of its own overseas. Asset intangibility does not always give rise to the third option of foreign direct investment. If the intangible asset can be embodied in the product without adaptation and if plant level returns are strongly increasing and international trade barriers weak, then exporting is the best method for penetrating the international market. It is worth stressing that multinational production is not necessarily a substitute for exports from the home base. If the intangible asset takes the form of knowledge of a specific process or product technologies that can be written down and transmitted, then foreign expansion is likely to take the form of a licensing: a local firm is licensed to manufacture the company's product in return for royalties and other form of payment. But the firm may find that such a strategy eventually leads to the growing of competitors.

If the intangible asset is inseparable form the firm itself because of the strong public good element in it, then the market fails and the firm finds it is unable to unbundled these skills: the answer is foreign direct investment. The choice between the licensing and foreign direct investment also depends on other considerations, above all the "market solution" bedeviled, as we have seen by the difficulties in drawing up appropriate contracts. The non-market solution for foreign direct investment can suffer from other disadvantages. How is the foreign subsidiary to be monitored and controlled? How much latitude should its managers be given? Should their rewards be related to results, or should the parent company offer them some form of implicit income insurance against risks?

One advantage of foreign direct investment is the reduction of risk through international diversification. Popular saying " do not put all your eggs in one basket" applies at its best here. Much of the systematic or general market risk affecting the corporation is related to the business cycles in a firm's national economy. By diversifying across countries the economic cycles of which are not perfectly phased with the home country, the variance I the firm's overall earnings and cash flows can be reduced. However, many of the political and economic risks specific to the multinational enterprise are unsystematic. Diversification cannot help here. More important, various market imperfections may deny individual investors full access to the international capital markets. Information barriers and legal economic considerations (tax regulations, currency controls) may prevent individuals from fully diversifying their portfolios. Investment in the stock of a multinational is a means by which these imperfections can be overcome. By setting up foreign subsidiaries, the multinational gives investors a geographical spread of risks on their assets more cheaply than they could obtain on their own. Asymmetric information is also relevant here: the multinational can be thought of as an institution rather like a bank, which specializes in exporting private unmarketable information about the particular set of products and markets with which it is involved.

To summarize, the multinational enterprise, or the predominant form of foreign direct investment, is the response of the oligopolistic firm to:

- Market or international capital markets, or imperfections which can arise in the intermediate products market; because of market failure associated with intangible assets.
- The need to achieve economies of scale that extend beyond national plants;
- Government barriers to international trade that deny equal access to markets.

Companies have become multinational for many reasons. Transport costs favour international dispersion of production facilities. Although increasing returns at the plant level make for geographical concentration, there are numerous reasons why they may relate to the firm and not just to its individual plants. If they do, the international company will be admirably placed to exploit them. Tariffs set by individual governments pay a key role too. Also, individual investors will often find that stocks in multinational enterprises give a better risk-return trade-off in their portfolios that an assortment of shares in the different national firms in different countries. Asymmetric information issues are one aspect of this. They also explain why companies often choose to set up overseas subsidiaries rather than license production by foreign firms, and at the same time, why such firms structure their worldwide operations in the different ways that they do. Asymmetric information considerations, and associated game-theoretic concepts, lie at the heart of every facet of the multinational enterprise: its internal operations and transactions; its external dealings with customers, suppliers, rival firms, and national governments; even the reason for its existence. It is also to be regretted that the existing literature on multinational companies by and large ignores them.

Like the great international trading monopolies of earlier centuries, today's multinational enterprises are almost states in themselves. Some generate turnover far in excess for the GDP of smaller countries. This is an appropriate point, therefore, to turn from the microeconomic analysis of international activity to the macroeconomic.

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THE FUTURE OF THE EUROPEAN UNION'S PROPER RESOURCES

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ABSTRACT: The time-honoured financing system of the European Union favours a certain looseness of budgetary responsibilities; while the increase of expenditures seems to be a purpose for itself for the European Commission and the European Parliament, the member states make their net balance the reason for their distinct positions on common policies.

By and large, the current own resources of the European Union formed by agricultural taxation, customs duties, VAT resource and the complementary resource on GDP correspond in fact to simple financial transfers of the member states into the communitarian budget.

The advantages of a reform of the own resource system are numerous despite the difficulties of implementation.

Key words: own resources, reform, unique communitarian taxation, net balance

The resources proper to the Community are the rights in the custom and the agricultural sampling (recently qualified as „traditional" proper resources) as well as the additional resource consisting of the equable contribution of VAT of the state members and the resource based on the GBI of the state members.

The agricultural sampling, the additional or compensatory taxes and other rights established or those to be established by the communitarian institutions regarding the sugar sector were perceived on the import of different agroalimentary products from other countries in order to raise the price to the level of the communitarian one as well as on the products with superoffer. They represented during the period 1962 – 1971 the only financial resource for the communitarian budget destined mainly to the European orientation and agricultural warranty fund.

The common custom taxes and other rights established or those to be established by the communitarian institutions on the trades with other countries were carried into effect starting with the 1st of January 1968 in order to harmonise the import or export rights adequate to the exterior frontieres of the European Communities. The custom taxes and the agricultural sampling are gathered through the national administration of each state member after the sampling of the 25% part according to the perception expenses. The contribution to the communitarian budget of the ammounts accomplished by this resource had an interesting evolution: in the beginning (in the year 1971) they represented 25% from the total incomes of the communitarian budget, a few years later they grew amaizingly reaching 48% (in 1977) and then they went continuously down so that in 2006 they represented only 15,87%.

The resorces resulting from the VAT owed by each state member are obtained by applying a fixed share of 0,5% on the calculation base for the VAT, determined eqaualy for every state members. This calculation base cannot overtake 50% from the NGP of the state member[147].

The fourth category of the proper resources based on GBI of the state members destined to take into account the contribution capacity of the state members was introduced in June 1988 through the packet Delors I. This proper resource is the resource budget balance.

In essence, the present proper resources correspond in fact to some simple financial transfers of the state members on the communitarian budget, when the resouce VAT and NGP represent 81% from the total incomes of the communitarian budget. In a nutshell, opposite to the ambitions of the author of the Rome

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[147] Marc Lechantre & David Schajer, *Le budget de l 'Union européenne* , Réflexe Europe, La documentation Française, Paris , 2003, p.139-140

treaty, the financing of the communitarian budget is nowadays ensured through masked national contributions[148].

The reform of the communitarian budget always strikes an intrinsic conservatorism, despite the fact that it represents a challenge on political plan.

Although the present financing system accomplished to provide sufficient resouces for financing the communitarian budget, the debate although goes on regarding the possibility to improve it in order to respect in a great part the relevant financial principles (the conomic efficiency, fairness, stability, vizibility and simplicity, the efficiency of the administrative costs, the financial autonomy). The extension of the Union through the continuation of the integration however announces hardly bearable budgetary efforts for the European Union. The introduction of an integrated administration of the frontiers, the development of the cooperation as regards the defense, the promotion of certain common politics at the level of the Union (of research, of transports), increasing the operations of adminstrating the crises, all of them confer new dimensions to the communitarian budget.

The two main sources of income: the proper resources based on VAT and on the GBI contain many characteristics of the national contributions, they are provided by national treasury and are sometimes presented as expenses places in the national budgets. In sequence, the state members have often the tendency to judge the politics and the communitarian initiatives in terms of profit in report to the national contributions, in stead of evaluating firstly the global value of accomplishment of certain politics at European level.

The proposal of the Commission reffering a new decision regarding the proper resources, in spite of the fact that it has been meanwhile approved by the Parliament, is still blocked in the Council by the state members that had initially been in favour to this decision, but they oppose in the present to its application on their territory.

In May 2006, it has reached to an agreement between the European Parliament, the Council and the Commission according to which the Commission must accomplish a fundamental recesion of the EU budget. The European Commission will examine the way in which the budget functions and in which the best balance can be obtained between continuity and response to all the new challenges as well as the best method to provide the necessary resources to finance the EU politics and if these work the way in which it should function in a Union with 27 state memebers.

The report of the French deputy Alain Lamassoure regarding the future of the proper resources of the European Union which was approved by the members of the European Parliament in the 12nd of March 2007 proposes a reform in two stages:

- ***The first stage***: the new system will be based on the internal gross income: each state member will contribute with approximately 1% of it. The abolition „of every budgetary advantage for each state member" will be a key element of this period and will include the abolition of „the British cheque" until 2013.
- ***The second stage*** *anticipates the gradual introduction* of an authentic system of proper resources that should replace from 2014 the national contributions. This system will be able to includ already existent taxes in the state members, for instance the share part of the participation to the VAT payments or the share part on the energy consumption. Other options would be the taxes on financial transactions, on transport or telecommunication services, the "eco" tax. The fiscal sovereignty will further belong to the State Members.

Every reform of the proper resouces system will be a delicate and difficult exercise which will be put into application with the help of the Parliaments of the state members. The first stage, temporary and of transition, would have as an end the improvement of the present system of national contributions for which it should be put into application the following political principles:

- Equalty between state members: the absence of every budgetary advantage for evryone of the state members;
- Simple presentation for the elected representatives and for the citizens: the importance of presenting the improved financing system in the most simple way so that it should be intelligible and transparent for the european citizens;

[148] www.taurillon.org *Apres la monnaie unique, l' impôt européen?* Pierre- Marie Giard

- Equal solidarity and dignity between the state members: these principles are destroyed by garding some advantages in favour of some, meanwhile others are compensated by humiliating negotiations behind closed doors at the reunions of the European Council;
- Establishing a political connection between the reform of incomes and the recension of the expenses, as it is included correctly in the Interinstitutional Agreement.

But according to the opinion of the European Court of Accounts it is very difficult to accomplish a thoroughly studied reform of the proper resources system of the Community, if the discusions in this sense are associated directly with negotiations regarding financial limits and the amounts that are to be allocated to communitarian politics according to multiannual financial perspectives (as it repeatedly happened).

The goal of the Community's income reform must be the creation of an authentic proper resource in order that the European Union should replace the existent mechanisms. A general accord has been created regarding the fact that the moment hasn't come yet, in the context of a short term vision, for the assessment of a new communitarian tax; yet, it is underlined that this doesn't exclude the possibility of, even if the state members decide to perceive new taxes, they can in the same time or later decide the authorisation of the Union to benefit directly of the new taxes.

The creation of a system of proper resouces based on an already perceived tax in the state members, so that this tax should be partly or entirely swerwed directly to the communitarian budget, would establish a direct connection between the European Union and the European citizens and would contribute to the harmonization of the national legislations in the fiscal field.

The financing of the European Union by a communitarian tax put in charge of the tax payers and not of the public treasuries of the state members is an older problem, but the debates in this field go on even nowadays.

If the EU budget shouldn't been satisfied with the marginal contribution to the financing of the public politics, but it would become a real significant instrument of budgetary and economical politics, then, some say, only a financing by a communitarian tax would allow the European Union to assume itself these missions in a satisfactory way alongside with the states and the local managements. Such a tax is presented as a reinforcement factor of the democratic sense in the European Union and in the European citizenship, by the reassertion of a fundamental principle of the fisc, that is that of the consent to the tax, by clarifing the competences and the responsabilities of the involved institutions and by the relegitimacy of the budgetary authority of the European Parliament. The expected advantages are as well of budgetary order. The present system of proper resouces of the European Union seams really very complex, impenetrable and of nature to advantage an approach only bookeeping based on the level of net credit of ecah state member. A communitarian tax shouldn't lend itself to such an individualistic logic and would diminish the perception that the European budget has the quality of a redistribution instrument.

On an institutional level, the continuity of the assertion of the European Parliament as well as of the co-law giver wouldn't allow to be deprived of any power on the EU's incomes. Voting the dimension of the procentual shares and the object of imposing for a communitarian tax, it would benefit of similar prerogatives to those of the national Parliaments and EU could assume the responsability of its action in front of the European citizens. The European Commission and the Parliament would have a more important responsability to determine the procentual dimension and the taxable object of a sampling from the families and the enterprises' incomes.

The first justification of economical nature for the development of the European fisc is linked to the desire of correcting „negative externals" that occur from the existence of some heterogeneous fiscal politics. The fiscal competition with damaging effects could also be diminished through the sampling of a European tax on the aimed taxable bases, especially the most mobile ones as the very well qualified work ant the capital. Among others, according to the economic theory, a communitarian tax would also constitute an instrument adapted for financing the common goods offer which all the European citizens should take advantage of (the European defense, transeuropean networks or the control of the exterior frontiers). The financial support of creating a unique communitarian tax is less important because, opposite to a wide spread idea, Europe doesn't need new budgetary resources. The GBI resource is calculated in such a manner that the budget should be always balanced, this being an advantage almost unique in the world that makes diminish regularly the importance of these resources. This resource is warranted and it adjusts automatically to expenses in a fixed limit of 1,24% of the communitarian GBI[149]. By introducing a unique communitarian tax, EU by its institutions would have total competence in order to sample its resources without depending on a certain approved procedure. The European Parliament would have the initial competences of a parliament and will have to establish the level of expenses through common politics. It would also be about resources sampled directly from the European tax payers, evaluated according to adequate measurement criteria established by European members of the Parliament.

Choosing the adequate tax remains a delicate problem. It confronts with an old dilemma of the fiscal politics, that of harmonizating principles and requests often contradictory. None of the taxes that could be refrained on the basis of economical arguments don't achieve all the desired conditions, of financial efficaciousness or of short term fez ability. The communitarian tax would have as a goal the financing of the communitarian budget, completing or replacing the present proper resorces formed of custom taxes, the VAT resource and the resource set on the GBI. In reality, the mechanisms of calculation for these resouces are of such a nature that they should warranty the finacial autonomy of the Union. Only the taxes for these resources are a real communitarian tax but they do not represent but 14% from the total financing. The others aren't but subscriptions paid by the state members, sampled from their fiscal resources.

The objective is not that of creating a new resource that shloud add itself to the prevoius ones but to replace a contributive system based on the state members by another that should base directly on the tax payers. However, this does not exclude keeping the present proper resources constituted as custom taxes and agricultural samplings[150].

The tax should be mainly as neutral as it can regarding the assessment of the contributions between the state members in the financing of the Union, taking into consideration a principle of equalty. The objective should be that of an equal system in order that everyone should be taxed according to his real contributive capacity, from the point of view of the refrained common criteria. It is important that these criteria of determination of the taxable base should be equal in all of the state members.

Two solutions have been outlined in this sense:

- Creating a new tax with a common satiety: numerous political inconvenients follow this solution and a new tax would be undoubtedly unpopular;
- Founding an existent tax: this should exist in all the state members and the calculation base should be harmonised at the Union's level.

The options in this case are different. It could be about the taxes thrown upon some products like fuel, alcohol and baccy that are all over as harmonized nuisance taxes. A tax on the CO2 emission, although unanimously accepted and of urgent actuality, wouldn't be sufficient for financing the present communitarian budget.

The sampling of a fraction of the volume of the nuisance taxes on fuel, alcohol and baccy is a solution easy to be applied because the calculation base for nuisance taxes is already harmonised in the European Union and the corresponding physical fuxes are easily identified. The nuisance taxes touch „sensitive" products for tax payers who could become interested of communitarian business. The opponents of this solution pretend that the nuisance taxes are not agreable for the consumers and their transfer to the Union's budget risks to destroy the image of Europe[151].

Another solution should be linked to the VAT. In this case also the calculation base is harmonised at a European level, even if the national shares are different. The efficiency of a communitarian VAT would be without any doubt high. This solution thus presents the inconvenient that the volume of the encashment is strongly influenced by the economic conjuncture, fact that could compromise the stability of the communitarian resources. The track of the VAT is considered to be the most promising one because here there have been made the most progresses in the harmonisation field, and its level of transparency for citizens is high.

It has been pretty much disscussed on the choosing of the tax upon the societies and on the incomes of the physical persons. A communitarian tax on the societies due to its high volume would overtake the needs and its legibility for the citizens would be limited.

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[149] L'impôt européen – Nicolas –Jean Brehon sursa: Le Monde 26.02.2002

150 Institutul Montaigne „Vers un impôt européen?", 2003, Paris, p 27

[151] La creation de nouvelles ressources propres (www.senat.fr)

Beside the indirect taxes mentioned before, the calculation base of the tax on societies isn't harmonised at European level, although there are serious preoccupations in this sense in the present. The efficiency of such a tax on societies would be, also, high, but maybe too dependent on the rythm of economic growth. This solution present however the advantage of the coherency because societies are the first that benefit of the European economic integration. Among others, the affectation of the communitarian budget of the tax on societies would have the effect to neutralize the impact of the delocalization of the societies inside the European Union and to reduce the fiscal competition between the state members. At the same time, this tax doesn't interest at all the individual tax payer and this solution wouldn't sensitize the citizens to European businesses.

At the same time, the European Parliament, as well as the Commission plead more inconvenients regarding this tax on societies. To the technical difficulties related to the absence of a harmonised base between the state members, two more difficulties are:

- The lack of visibility of such a tax in the measure in which it wouldn't been endured by the citizens in their quality of enterprise owners, but in fact it would push, at least partialy, upon the citizens in their quality of consumers and salaried;
- The extreme dependency of this tax to the ecomonic conjuncture which would determine important variations of the encashments of the European[152].

A communitarian tax on the income of the physical persons would suppose a very high level of fiscal and social harmonization so it cannot be taken into consideration only in a short term perspective.

Except a better perception of the European Union's role by the tax payer citizen, the communitarian tax on the income of physical persons has a theoretical justification in the fact that, applied to a regional level, the tax on the income can induce effects of undesired migration. In the same time, it can object that this statement supposes a mobility of the work force bigger than it is in reality. The Commission underlines among others that there is no direct connection between such a tax and the politics of the European Union and the overlapping of the same tax of the national authorities and of the EU's institutions would complicate the administration of the economical and national budgetary priorities.

Finally, taking into account the real risk of growth of the fiscal pression and of the effect of eviction of the fiscal incomes of the state which would result from these, the attribution of the power to collect the tax by the Union should be followed by a sufficiently rigid framing of the European Union's finances, pemitting to assure, as possible, the neutrality of this transfer to the global fiscal pression.

Not even a „candidate" tax can have the claim to be a miracle solution. The instauration of a European tax wouldn't accomplish without certain inconvenient and will not be without any doubt a popular measure.

The institutional obstacles (especially the unanimity rule of the state members resumed by the European Commission), technical (keeping the five criteria established by the Commission) and political (the fear of federalism and of the budgetary branch) however remain as such the introduction of such resources appear little realistic on average term. The affectation of a communitarian tax to a function or a communitarian public good, like the defense and the security or the transport network would allow the elimination of certain political reticences and the excitement of the citizens'adhesion[153].

The idea of a European tax that should replace the present national contributions for financing the communitarian budget remain for the moment unsolved. Its followed objective would be less financial and more political, becoming again present in the terms of constituting and extending the euro area. The present system is confused but acceptable because the states in the Council remain in control on the competences. Maybe the European tax wouldn't become an acceptable necessity but on the day when some of the states'competences (like defense) will be transferred to a unique authority of the Union.

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THE THEORY OF FISCAL OPTIMIZATION. AN ANALYSIS OF FISCALITY IN EUROPEAN UNION MEMBER STATES

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Taking account of the lack in revenues' popularity that is permanent and general within the entire economy, it is legitimate and extremely important to identify the best way to set up revenues in order to reach maximum acceptance of payers.

Starting from the theory of "fiscal optimization", the article aims at analyzing the degree to which European Union member states' fiscal systems comply with the "optimization" from two perspectives: those of payers – by means of specific indices: fiscality rate, fiscal pressure, fiscality relative degree – and those of the authorities that have duties in the fiscality field – emphasizing the amount of fiscal charges in this respect.

Key words: fiscal optimization, fiscal revenues, fiscal pressure

1. The theory of fiscal optimization

The theory of fiscal optimization as a coherent scientific approach is new, but some of its elements have been analyzed for a long time. Even in the 18th century, Adam Smith asserted the idea that a tax may be rated as good if it obeys four rules[154]:

- Economy- assuming that taxes do not require a costly cashing procedure and they do not discourage business either;
- Facility – all taxes must be collected by a procedure convenient to tax payers;
- Certainty – meaning that the payment time, payment ways and the amounts owed by tax payers as taxes must be certain, not random;
- Equity – all taxes must be perceived as "correct".

Starting from the essence of Adam Smith's explanations, the English professor Stephen C. R. Munday, (Headmaster Of Sixth Form, Saffron Walden County High School) said that "all the discussions about ideal fiscality admit the fact that there are three requirements that must always be taken into account":

1. The need for certainty, irrespective of how it is defined;
2. The need to minimize the administrative costs that fiscality involves;
3. The need to minimize the demobilizing effects of taxes[155].

The issue of fiscal optimization is not easy as its requirements contradict one another, which makes it difficult to compose them and to set up a single "objective function" of theirs.

[154] Florescu Dumitru, Coman, Bălaşa – "Fiscality in Romania – Regulation, Doctrine, Jurisprudence", Publ. All Beck, 2005, page 77

[155] Stephen C.R. Munday- "Avantgarde Ideas in Economy", Publ. Codecs, Bucarest, 1999, page 183

Taking account of the lack in revenues' popularity that is permanent and general within the entire economy, it is legitimate and extremely important to identify the best way to set up revenues in order to reach maximum acceptance of tax payers. Legitimacy can be emphasized both from the perspective of fiscal authority that wants best taxes at least to prove the fiscal system's administration capacity and from the perspective of tax payers that are mostly pleased by "average" rather than extremes.

2. The evolution of fiscal revenues in Romania

The argument of the economic calculations used by the fiscal policy is given by the arbitrary feature. What are the reasons for which the government suggested the shift from progressive quotas on income installments to the unique quota of 16%? Why 16%? The natural question refers to the way income quotas are set up; to the way of emphasizing the best tax that helps the economy flourish and go for the better. Yet, in practice, the reason of any fiscal system is not and cannot be objective. It is neither ensuring the "good running" of the economy, nor reducing the taxes' collection costs, as fiscal authorities often show. The fiscal regime is more often subject to discretionary budget needs and political interests, in a world where most specialists keep talking about "fiscal optimization" like an illusion.

During the debates upon the nature of fiscal regime, specialists have precisely left aside the essential element: the general fiscal burden. The real issue does not relate to the progressive or proportional taxing method, but to the general level of taxing. This is an issue that primarily relates to ethics and secondly to efficiency.

The efficiency of tax cashing depends on several factors among which, especially in our country, the most important are : legislation stability, issuing regulatory acts and their clear implementation norms that should not produce misunderstandings; the reduction of government expenses that are unproductive and non-economic; discouraging tax evasion and removing underground economy; a quicker compliance of the fiscal legislation within the European Union.

Analyzing the effects of the 16% quota in Romania in order to identify the relationship between that fiscal step and the government's practical ability to set up the level of the 'best' taxing rate, one can notice that the goal has been accomplished at least from the perspective of fiscal authority.

Evolution of fiscal revenues in Romania during 2000-2008*

Table 1:

Years	Fiscal revenues (million Lei, current prices)
2000	**23504,8**
2001	**32669,9**
2002	**41816,6**
2003	**53248,2**
2004	**66678,3**
2005	**78281,4**
2006	**96773,9**
2007	**115208,8**
2008	**23274,4**

Source: Made by the author with data from www.mefromania.ro

* - The data for the year 2008 include the fiscal revenues achieved during January-February.

It can be noticed that even if on 1st January the single quota –16%- started being applied for most incomes of individuals and businesses, a quota that replaced the progressive taxing (the quotas between 18% and 40% applied in income installments), of individuals' incomes and the 25% quota of businesses' incomes, the fiscal cashing went up from 66,678,3 mil. Lei in 2004 to 78,281.4 mil. Lei in 2005.

In an interview about the single tax in Romania in the "Capital" newspaper, Arthur Laffer, the author of the famous curve that bears his name, the advocate of the theory saying that small taxes stimulate productivity and economy, stated: "The single quota is going to solve many corruption matters because, if it is applied on a large basis, it can lead to the existence of few incentives to break the law. Yet, at the same time, a fiscal amnesty is necessary, which is very difficult. How can you solve all the crimes of the previous fiscal regime when you replace a corrupted system by a mere one? You must start from nothing, but it is very hard". And he also asserted about the fiscal optimization: "The idea is to collect taxes in the least harmful way and spend them in the most profitable way (…); the most important lesson is not to pay people who do not work and not to tax those who do"[156].

3. The evolution of fiscal pressure in Romania

As far as tax payers are concerned, fiscality level/or the rate of fiscal pressure emphasizes the ratio between the total of all fees, taxes, social dues and other fiscal duties charged centrally or locally and an aggregated economic index (G.D.P., G.N.P., national revenue). Both at economic level and at social, economic and financial levels, the issue to size the share of G.D.P. taken by the state is highly important.

Fiscality rate set up as the ratio between the set of fiscal revenues (taxes and social duties) and the gross domestic product[157]:

$$R_f = \frac{V_f}{PIB} * 100$$

provides a picture of the fiscal pressure exerted by the system of fees, taxes and duties upon tax payers, as well as the picture of the political conception regarding the set up of public expenses' financing sources.

The analysis of the fiscal pressure evolution in Romania should start from the emphasis of fiscal revenues as well as from the level of G.D.P. accomplished in our country.

Fiscal pressure evolution in Romania during 1991- 2008

Table 2

Name of indices	**Cashing - billion Lei, current prices (ROL)**								
	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
Revenues-total	-	-	6700	15537	22642	31597	72385	111000	173634
1.Current revenues	-	-	6652	15476	22580	31443	71802	110867	173337
- fiscal revenues	**-**	**-**	**6269**	**14042**	**20804**	**29257**	**67000**	**103992**	**164026**
- non-fiscal revenues	--	-	383	1434	1776	2186	4802	6875	93113
2. Revenues from capital	-	-	48	61	62	154	584	133	297
G.D.P.*	**2203,9**	**6029,2**	**20035,7**	**49773,2**	**72135,5**	**108919,6**	**252925,7**	**371193,8 373798,2**	**545730,2**
General rate of fiscality (%) (Fiscal revenues including social duties/ GDP x 100)	33,2	33,5	31,3	28,2	28,8	26,9	26,5	28,2	30,1

[156] Arthur Laffer: "Fiscal amnesty is a necessary step", Capital, 18 May 2005

[157] Florescu Dumitru, Coman, Bălaşa – "Fiscality in Romania – Regulation, Doctrine, Jurisprudence", Publ. All Beck, 2005, page 74

Partial rate of fiscality (%) (Fiscal revenues/ GDP x 100)	28,2	22,1	20,6	19	20,7	19,4	19,6	20,0	19,5

Name of indices	Încasări realizate- milioane lei, prețuri curente (RON)								
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008 ****
Revenues-total	-	-	-	-	-	-	106975,3	127108,2	27394,5
1. Current revenues	-	-	-	-	-	-	104004,0	123298,9	25451,4
- fiscal revenues	**23504,8**	**32669,9**	**41816,6**	**53248,2**	**66678,3**	**78281,4**	**96773,9**	**115208,8**	**23274,4**
- non-fiscal revenues	-	-	-	-	-	-	7230,1	8090,1	2177,0
2. Revenues from capital	-	-	-	-	-	-	2971,3	3809,2	1943,1
G.D.P.*	**80377,3**	**116768,7**	**151475,1**	**197564,8**	**246468,8**	**288047,8**	**335900,0**	**390800,0**	**440000,0**
General rate of fiscality (%) (Fiscal revenues including social duties/ GDP x 100)	29,3	28,3	27,6	28,0	27,9	27,3	28,8	31,5	-
Partial rate of fiscality (%) (Fiscal revenues/ GDP x 100)	18,6	17,5	17	18,2	18,5	18	19,0	19,5	-

Source: Made by the author with data taken from the 2005 Statistical Yearbook of Romania, www.fmi.ro, www.mfinante.ro

- Data missing

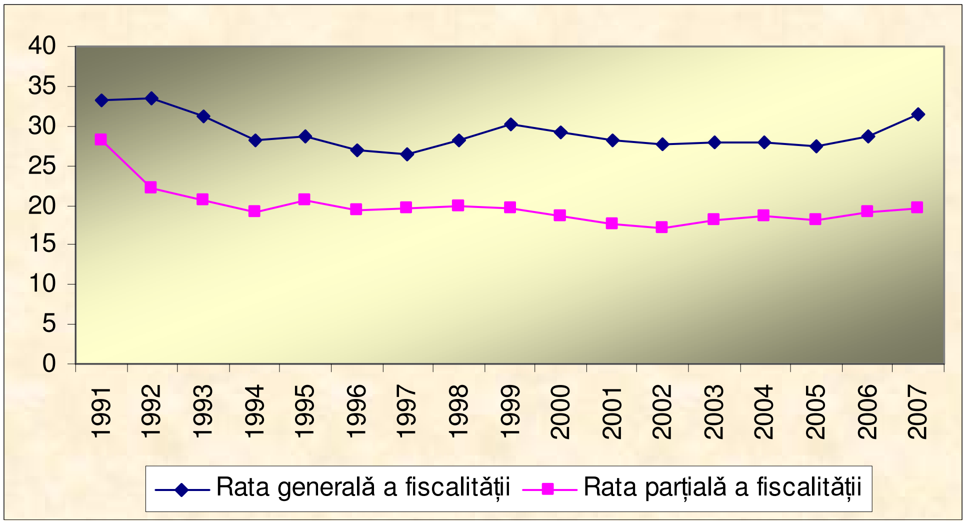
* - The national accounts of Romania have been made up ever since 1989, based on the methodology of the European System of Integrated Economic Accounts 1979 (SEC 1979). In 1998, they started using the new European Account System 1995 (SEC 1995) and in 1998 there was the connection between the two versions of the European Account System.

** - The data shown in the table for the year 2008 emphasize the total of general, public, enhanced revenues cashed between 1 January and 29 February this year.

The overall analysis of the fiscality rate evolution in our country since 1991 up to the present provides an overlook of the fiscal pressure exerted by the tax and income system upon tax payers as well as a picture of the political conception regarding the setting up of public expenses' financing sources. I have highlighted the values of fiscality rate with its two aspects: the general rate set up from the perspective of fiscal revenues' share, including insurance dues in total G.D.P., respectively the partial fiscality rate set up only from fiscal revenues.

Evolution of fiscal pressure in Romania during 1991- 2007

Graph 1



Sorce: Made by the author with data from table 1.

One can notice that general fiscality rate during the analyzed period changed within slight limits and recorded extreme values in 1996 – 26.5%, respectively in 1992 – 33.5%. The overall index trend is about 2% decreasing during the analyzed period.

The partial fiscality degree had a more pronounced evolution, almost 9% decreasing during the analyzed period.

The relative fiscality degree essentially rendered by the sum of main fees and taxes charged on companies and individuals is shown below:

Relative fiscality degree in Romania during 2004-2008

Table 3:

Main taxes	2004	2005	2006	2007	2008
- profit tax	25%	16%	16%	16%	16%
- income tax	40%	16%	16%	16%	16%
- V.A.T.	19%	19%	19%	19%	19%
- social duties	49%	49%	47,5%	45,5%	39,5%*
TOTAL	133%	100%	98,5%	96,5%	90,5%*

Source: Made by the author with data from www.cdep.ro, The Bill of Social State Insurance Budget for 2004- 2008,

-* - They foresee a change in 2008 according to the provisions of the Law of Social State Insurance Budget no.387/2007 (M. Of. no. 901 of 31 December 2007) and the Law of State Budget for 2008 no.388/2007 (M. Of. no. 902 and 902 bis of 31 December 2007) aiming at the reduction of 6% as compared to the level of quotas in 2007; the total reductions for employers is 4.5%, and for employees, the social insurance duties are going to decrease by 1.5% in July 2008, so that: 0.5% for unemployment insurances and 1% for health insurances.

As well as fiscality degree, the relative degree of Romanian fiscality has never been and is not among the highest, and its reduction during only one year (2005, the year that witnessed the shift from progressive percentage taxing to proportional quotas) by over 30% is something that rarely occurs in an economy.

4. Conclusion

In a comparative analysis of the public revenue share of GDP in all the European Union member states, one can get a confirmation of the moderate level of fiscality in Romania:

Public financial resources of EU countries (share of GDP and per capita) during 2000-2006

Table 4:

	Public resources-share of GDP							Public resources/capita in Euros						
	2000	2001	2002	2003	2004	2005	2006	2000	2001	2002	2003	2004	2005	2006
EU-27	…	…	44.4	44.4	44.2	44.7	45.2	…	…	9,054	9,161	9,520	9,980	10,605
EU-25	45.8	45.1	44.5	44.5	44.2	44.8	45.3	9,208	9,411	9,588	9,700	10,070	10,538	11,182
BE	49.1	49.6	49.8	51.1	49.1	49.9	49.1	12,072	12,496	12,900	13,534	13,655	14,211	14,623
BG	…	…	39.6	40.3	42.0	41.6	40.3	…	…	839	917	1,075	1,179	1,317
CZ	38.1	38.7	39.5	40.7	42.2	41.3	40.7	2,281	2,617	3,101	3,230	3,649	4,051	4,518
DK	56.5	56.0	55.4	55.6	57.3	57.8	56.2	18,374	18,737	19,052	19,429	20,789	22,205	22,756
DE	46.4	44.7	44.4	44.5	43.3	43.5	43.8	11,650	11,482	11,548	11,657	11,614	11,848	12,350
EE	36.2	35.0	36.0	36.4	35.9	35.4	36.6	1,611	1,772	2,052	2,337	2,534	2,941	3,602
IE	36.3	34.3	33.2	33.8	35.2	35.4	37.1	9,987	10,398	11,014	11,820	12,886	13,785	15,246
EL	43.0	40.6	40.0	39.3	38.2	38.0	39.5	5,428	5,463	5,738	6,104	6,388	6,804	7,610
ES	38.1	38.0	38.4	38.2	38.5	39.4	40.4	5,987	6,348	6,780	7,115	7,590	8,256	8,992
FR	50.2	50.0	49.5	49.2	49.6	50.7	50.8	11,901	12,239	12,434	12656	13,177	13,858	14,408
IT	45.3	44.9	44.4	44.8	44.2	44.0	45.6	9,479	9,843	10,055	10,380	10,566	10,677	11,435
CY	34.7	35.9	35.9	38.6	38.8	41.2	42.7	5,035	5,532	5,637	6,281	6,660	7,419	8.049
LV	34.6	32.5	33.4	33.2	34.7	35.2	37.0	1,238	1,286	1,414	1,423	1,679	1,993	2,613
LT	35.9	33.2	32.9	32.0	31.8	33.1	33.4	1,267	1,294	1,425	1,523	1,679	2,006	2,338
LU	43.6	44.2	43.6	42.4	41.3	41.7	39.7	21,855	22,616	23,459	24,130	24,761	26,897	28,421
HU	43.6	43.2	42.4	41.9	42.4	42.1	42.6	2,220	2,522	2,948	3,091	3,457	3,714	3,806
MT	34.8	36.6	37.7	37.9	41.0	42.0	41.6	3,769	4,007	4,274	4,208	4,576	4,929	5,148
NL	46.1	45.1	44.2	43.9	44.3	44.9	46.7	12,113	12,586	12,738	12,920	13,377	14,002	15,257
AT	49.8	50.7	50.0	49.3	48.9	48.2	47.8	13,073	13,615	13,662	13,738	14,136	14,372	14,893
PL	38.1	38.6	39.2	38.4	36.9	39.0	40.1	1,847	2,145	2,150	1,926	1,975	2,499	2,855
PT	40.3	40.1	41.4	42.5	43.1	41.7	42.5	4,803	5,037	5,404	5,647	5,919	5,877	6,225
RO	**43.8**	**36.7**	**37.6**	**32.1**	**31.2**	**32.2**	**33.2**	**788**	**736**	**835**	**776**	**875**	**1,185**	**1,492**
SI	43.6	44.1	44.6	44.4	44.2	44.5	44.1	4,634	4,969	5,395	5,635	5,921	6,285	6,682
SK	38.3	37.8	36.6	37.7	35.6	35.6	33.9	1,569	1,656	1,772	2,051	2,241	2,519	2,767
FI	55.2	52.7	52.9	52.4	52.3	53.0	52.5	14,119	14,212	14,636	14,668	15,237	15,888	16,670
SE	60.9	58.3	56.6	57.2	57.5	58.7	57.9	18,026	16,218	16,417	17,205	17,974	18,714	19,511
UK	41.2	41.5	39.9	39.5	40.0	41.2	41.9	11,005	11,332	11,279	10,729	11,656	12,336	13,229
IS	43.6	41.9	41.7	42.8	44.2	47.6	45.9	14,596	12,982	13,740	14,373	16,113	21,039	19,981
NO	57.7	57.4	56.3	55.5	56.6	57.4	58.7	23,447	24,299	25,297	24,198	25,661	30,127	33,665

Source: Eurostat, Economie et finance, Statistique des administrations publiques

The above table shows the size of the public administration sector in each European Union member state.

Our country has the lowest income tax in all the European Union. Almost the same can be said about profit taxes that are among the lowest in the European community. It is for these reasons that the tax revenues' share of GDP is small. Practically, in 2005, Romania recorded the lowest level of revenues from taxes and fees as compared with the countries in the European Union.

According to a survey made up by Eurostat[158], the European Statistics Department, Romania had in 2007 the lowest income tax of all the 27 European Union member states, which is 16%. At the opposite side there are Denmark and Sweden that have an income tax of 59%, respectively, 56.60%. As far as the European average income tax is concerned, it is 38.68%, whereas the average in the Eurozone is 45%.

Romania relatively has the same level of profit taxes, too, that is still 16%, but it is not the lowest. The lowest profit taxes are in Bulgaria, Cyprus, each having 10%, Ireland (12.5%) and Latvia (15%). Romania ranks fifth, after those countries. In the other part of the chart, having the highest profit taxes, there are Denmark (38.7%), Italy (37,3%) and Malta (35%).

Yet, a relative fiscality approach does not have a practical relevance without the connection with its real approach. The 33% rate in 2006 in Romania and 56% in Denmark or Sweden (within the same periods) are not comparable because their basis is different: Romania's GDP in 2006 at purchase parity was 192.96 billion Euros that is equal to 8,900 Euros/inhabitant. The figures rank Romania the 26th (last but one) among the European Union member states that had an average GDP/capita at purchase parity of 23,600 Euros. Hence, the conclusion that both the fiscality supporting power and the real effects of promoting a certain fiscality rate are higher in those countries than in Romania[159].

As a conclusion, fiscality, although never to be popular, is objectively necessary ; the issue is to design a fiscal system to diminish social losses and achieve equity goals that are socially accepted at a given time.

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STRUCTURAL FUNDS – STRATEGIES, OBJECTVES AND FINANCING

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Abstract: The policy of regional development is one of the most important and complex policies of the European Union, a statute that derives from the fact, that through it's objective of reducing the economic and social disparities existing between different regions of Europe, act on significant domains for developing like economical growth, small and medium business (SMB), transport, agriculture, urban development, environmental protection, education, gender equality and so on.

Keywords: Structural funds, economic and social cohesion, community initiative, innovative actions, solidarity fond.

Defined as a policy of European solidarity, the regional policy is based primarily on financial solidarity, mainly by redistributing a part of the communitarian budget established by the contribution of state members towards regions and social groups less prosperous. (for the period 2000 – 2006, the sum has represented almost a third of the EU budget[160]).

The principles of the regional policy have been discussed since 1957, with the signing of the Roma Treaty when the six signing states (Belgium, France, Germany, Italy, Luxembourg and Holland) have agreed on reducing the differences between regions and supporting the less prosper, with the aim of achieving a communitarian economy, solid and unitary.

This need was reiterated in 1958, with the birth of FSE, Social European Fund as a primary instrument of this policy, having as an objective the improvement of labor market in different European countries and reintegration the unemployed. In 1962 the European Fund for Orientation and Agricultural Guaranty (FEOGA) was setup in order to support the common agricultural policy and the rural regions. In 1975 a third fund was establish – the European Fund for Regional Development (FEDR), with the purpose of redistributing part of the contribution of the member states towards the poorest regions of the EU, in order to support their economic development. Thus FEDR redistributes the community budget in productive investments and infrastructure.

An important moment in the development of the regional policy was the adoption of the European Single Act in 1986[161] which introduces the concept of economic cohesion, eliminating the existent economic differences between regions and creates the premises of a an economic and social cohesion policy self sustained and which aimed at facilitating the inclusion to the single European market of the states from the southern European.

In 1994 takes shape a new structural fund, the fourth – the Financial Instrument for Fishing Orientation (IFOP), created by all communitarian structures that were involved in fishing decision makings. IFOP was created due to the enlargement to the north of the EU with the joining of Sweden and Finland in 1995. In the same year becomes active the Regional Committee, a consultative organism established by the Maastricht Treaty having a supportive and consultative role for the European Council in their regional activities.

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[160] It is ablut 35% of the EU budget (http://europa.eu.int/comm/regional_policy)

[161] Single European Act, voted in 1987

Communitarian initiatives

Communitarian initiatives are represented by four programs especially created for ensuring a success of the projects and financing from the structural funds. Each program is financed through a single fund, and together the account for 5.35% of the entire budget allocated to the Structural funds. Initially for the period 1994 – 1999 there were 13 communitarian initiatives, which were reduced through the reform from 1999, to only 4, in order to increase the efficiency of the Structural Funds:

- **Interred III** – financed by FEDR, promotes cross border and interregional cooperation;
- **Equal** – financed by ESF and sustains the development of new ways to fight against discrimination and inequalities regarding access to the labor:
- **Leader+** - financed by FEOGA – the orientation section that also promotes rural development by supporting the initiatives of local action groups (sustained development):
- **Urban II** – financed by FEDR, encourages innovative strategies for regenerating economies and social factor of cities and urban areas in decline.

Financing the Communitarian Initiative implicates a co-financing from the Member States, between 25% in the objectiv1 domain and 50% in the others.

Innovative actions

Innovative actions are a set of measures financed from the budget of structural funds and which have as an objective experimenting the newest ideas that might contribute to the diversification and improvement of the regional development strategies. The structural funds that finance or plan to finance innovative actions are: FEDR, FSE and IFOP. In what regards the budget allocated for Structural Funds, in March 1999, at the Berlin Summit, the European Council has agreed that the resources available for Structural Funds, including assistance for transition, Communitarian initiatives and Innovative actions totalize 195 billion Euros, by objective the spilt this looks like this:

- for objective 1: 69.7% or 135.9 billions Euros for the poorest regions of the EU, including 4.3% for supporting transition in regions that are not eligible for the objective 1 according to the new reglementations;
- for objective 2: 11,5% or 22,5 billions Euros will be allocated for economic and social recon version (including 1,4% for supporting transition);
- for objective 3: 12,3% or 24,05 billions Euros for supporting and modernizing policies linked with education, training and employment outside the regions of objective:
- 0.5% or 1.1 billion Euros of the total Structural Funds is allocated to the Financial Instrument for Fishing Orientation (IFOP) for supporting the fishing policies that are not covered by objective 1;
- 5.35% of the Structural Funds are allocated for Communitarian Initiative (Interreg III, Urban II, Leader + şi Equal);
- 0.65% of the Structural Funds are allocated for innovative actions and technical assistance.

In addition, 18 billions Euros are allocated to the Cohesion Fund and approximately 7 billions Euros are dedicated to the enlargement process for the candidate states. For each of the Objectives, the Commission has created a split of the funds for Member States. The total amount received by each member state as assistance given by structural funds must not higher then 4% of its national GDP.

Economic and social cohesion is one of the must important objectives of the EU. As defined in the article 158 of the European Communities Treaty, cohesion is needed for promoting “general harmonious development” of the community and ask for “a reduction of the disparities between different regions, especially rural ones”. According to article 159, the community acts through structural changes, the cohesion fund and other financial instruments for supporting the achievement of general objectives, defined by the Parliament, or the Commission.

The European Union Solidarity Fund (EUSF)[162] was created in response to the extraordinary flooding disaster that hit central Europe during the summer of 2002. In the aftermath of this disaster it became

[162] Also known as *European Solidarity Fund;*

apparent that a solidarity-based response of the European Union going beyond the maximum use of existing Community instruments was required.

On proposal of the European Commission, the Council adopted on 11 November 2002 the Regulation 2012/2002 establishing the European Union Solidarity Fund (hereinafter "the Regulation). It entered into force on 15 November. According to the Regulation the Fund may be mainly mobilised when a major natural disaster with serious repercussions on living conditions, the natural environment or the economy occurs. A major disaster is deemed to have occurred if the estimated cost of total direct damage exceeds € 3 billion in 2002 prices (i.e. € 3.118381 billion in 2005) or 0.6% of the gross national income of the State in question, whichever is the lower.

In exceptional cases, the Fund can be mobilised for regional disasters that do not reach this threshold, if very specific criteria are met: an extraordinary disaster affecting the majority of the population of a region and having serious and lasting effects on its economic stability and living conditions. The EUSF aims to supplement public expenditure by the individual Member States for essential emergency operations.

The instruments of solidarity for regional development are done according to the NUTS[163] System (the nomenclature for territorial units for statistics) which represents an ierarhic classification on 5 levels (three regional and two local) of the administrative structures that exist in the member states. The nomenclature was created by EUROSTAT in order to place the diverse administrative structures that exist in the member states in one coherent structure. NUTS have no legal power, it is formed on an agreement between the member states and it is not the process of uniformization started at European level in 1988. In 2003, the nomenclature was reformed though a set of rules in order to respond to the changes brought by the enlargement. Thus the NUTS for EU 25 contain:

- 89 NUTS level 1 (while there were 78 in UE 15) – with a population between 3000000 - 7000000 inhabitants; example: German regions (lands) , Belgian regions, Wales, Scotland, autonomous communities in Spain like Catalunia, regions in France and Italy are also classified in this category;
- 1.254 NUTS level 2 (while there were 210 in UE 15) – with a population between 800000 - 3000000 inhabitants; examples: French departments, subdivision of German regions, Austrian regions;
- 1.214 NUTS level 3 (while there were 1093 in UE 15) – with a population between 150000 – 800000 inhabitants; example: germane circles, Spanish and Italian provinces;
- NUTS level 4 and 5 are called Local Administrative Units and represent in fact districts and cities.

At functional level, not like the Solidarity Fund or the Cohesion Fund which function on a project base, the Structural Funds due to their magnitude function on a program based, this being structured according to domains, objectives and regional policies objectives.The principles that stay at the core of the operations regarding structural funds, in the new variant presented in Agenda 2000 are:

a) the principle of programming: in the first stage, the member states will send the European Commission national plans for development and conversion based on their national and regional interest that will contain:

- A detailed description of the current situation in the region/ state taken into account,
- A description of the strategy most suitable to accomplish this objectives;
- Indicating the form and the usage of the structural funds.

In the next stage the member state must petition the Commission with the so called programming documents, documents that can be of two types: DCSC or DUP, the difference being given by their magnitude not be their nature.

b) the principle of partnership means a tight collaboration between the Commission and national/ regional/ local authorities, economic and social partners and other competent organizations, especially by involving them in each stage of the structural funds, from elaborating and approving the development plans and monitoring. This principle highlights the degree of decentralization that characterizes the entire regional policy and the applicability of the subsidiary principle.

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163 www.ifcro.ro/finantare/finantari_postaderare.

c) the principle of addition has in light the component of adding to any structural funds national or local funds, thus this structural funds come in addition to the national ones

d) the principle of monitoring, the control and evaluating is the new element brought by the reform in 1999 in the structural fund domain. Thus according to the new reglementations the state members have administrative attribution and have he obligation to deputies a national authority according to the specifications of each program in which structural funds are used.

The objectives that indicate the actions in which the structural fund will be used are special to each project and are chosen regarding to the objective and priorities.. For the period 2000 – 2006 there the following priorities:

- Regional competivity,
- Social and economic cohesion,
- The development of urban and rural regions (including those dependent by fishing).

Thus, the objectives of 2000-2006 are:

- **Objective 1** (territorial): developing regions less developed(with a GDP per capita under 75% of the EU average, with high unemployment rate, lack of services, poor infrastructure);
- **Objective 2** (territorial): economic and social recon version of regions with structural difficulties (industrial or services regions that are subject to restructuring; the disappearance of traditional activities in rural areas, urban areas in decline or with fishing problems);
- **Objective 3** (thematic)[164]: de developing human resources through professional training programs and promoting them outside objective (Regions in which the GDP per capita is under 90% of the average GDP per capita of the EU).

Structural Instruments in Romania

The construction of the institutional framework regarding the cohesion policy and structural instruments in Romania is based on the *Government Decision no. 497/2004* **regarding establishing the institutional framework for coordinating, implementing and managing the structural instruments, which decrees**:

- Institutional framework at the level of Management Authorities, Payment Authorities and Intermarry Organizations;
- Main attributes of the Management Authorities for the Communitarian Support Framework for Operational Programs, Management Authorities for the Cohesion Fund and Payment Authorities, on communitarian basis;
- An obligation for all Management Authorities, Payment Authorities and Intermarry Organizations to establish audit teams and units;
- The obligation to respect the principle of adequate segregation of functions;
- Flexibility of the institutional framework regarding the cohesion policy and the future programming exercise.

The Government Decision n0. 497/2004 was modified and suffered completion through Government Decision *no. 1179/2004.*

Communitarian support framework Management Authority – The Public Finance Ministry	
Operational Program (PO)	Management Authority (AM)
1 Increase economic competitiveness (POS)	Economic and Commerce Ministry
2 Transport Infrastructure (POS)	Transport, Construction and Tourism Ministry
3 Environment Infrastructure(POS)	Environment and Water Management Ministry
4 Developing human resources (POS)	Work, Social Security and Family Ministry

[164] Objective 3 is also called thematic

5 Agriculture, Rural Development and Fishing (POS)	Agriculture, Forest and Rural development Ministry
6 Regional Development (POR)	European Integration Ministry
7 PO Technical Assistance	Public Finance Ministry
Cohesion Funda Management Authority – The Public Finance Ministry	
Type of project	Intermediary Organization
Transport Infrastructure	Transport, Construction and Tourism Ministry
Environment Infrastructure	Environment and Water Management Ministry
Payment Authorities	
Public Finance Ministry	European Fund for Regional Development Social European Fund (FSE) Cohesion Fund (FC)
Agriculture, Forest and Rural development Ministry – Agency of Payments and Intervention for Agricultural, Food industry and Rural Development	European Fund for Orientation and Agricultural Guaranty – Orientation section Financial Instrument for Fishing Orientation

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10. *** www.mie.ro;
11. *** www.mfp.ro;
12. *** www.uniuneaeuropeană.ro

FUNDING THE STATE BUDGET WITH TAXES AND PUBLIC DEBT FROM THE PERSPECTIVE OF ECONOMIC GROWTH MODELING –THE DIAMOND MODEL CASE[165]

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Abstract: The fiscal lever is of such complexity and range, that is, even in theory, linked to the phenomenon of economic growth – at least, to the phenomenon of the production of goods and services; one link is that taxation is a very effective tool for filling up the coffers of the public budget, but one point is questionable, that is whether, being as effective as it can be, it should be used exclusively, or not. Through this, the object of this paper is, consequently, built: solving the question whether, for the purpose of funding the state budget, public debt is also to be used – or, even, must be used, in conjunction with taxation.

Key words: Cobb-Douglas, effective labor, debt.

Using the demographical perspective of the Diamond model, we will analyze, in this paper, the influence of the public expenses, financed through taxes and public debt, to the balanced growth – and we will accomplish this analysis using the tools the logarithmic utility and the Cobb-Douglas shape of the Solow production function provide us with.

This analysis is very useful, in the case of the production function of Cobb-Douglas type, for practical grounds: the production function, in this shape, is very easily usable – and this especially in an dynamic analysis –, being, furthermore, a very precise (first) approximation of what shapes the production functions applicable to the actual economies should have.

The Solow production function, in its Cobb-Douglas shape, has the following structure:

$$F(K, A \cdot L) = K^{\alpha} \cdot (A \cdot L)^{1-\alpha}, \alpha \in (0,1).$$

The Solow production function, in its *intensive* Cobb-Douglas shape, has the following structure:

$$F(K, A \cdot L) = F(K / A \cdot L, 1) = f(k) = (K / A \cdot L)^{\alpha} \Leftrightarrow f(k) = k^{\alpha}.$$

We must also add this production function satisfies, with no exception, all the assumptions the intensive form Solow production function bounds to.

The amount of capital stock per unit of effective labor, from the demographical perspective of the Diamond model – and, because the Solow economic growth model *is* the mathematical base of Diamond model's economical simulations, of the Solow model too –, is calculable is the following manner:

$$k_{t+1} = [1/(1+n) \cdot (1+g)] \cdot (1/2+\rho) \cdot w_t.$$

The real wage per unit of effective labor, w_t, is calculable, using the Cobb-Douglas shape of the Solow production function, through the use of the following algorithm:

$$w_t = f(k_t) - k_t \cdot f'(k_t) = k_t^{\alpha} - k_t \cdot (k_t^{\alpha})' \Leftrightarrow w_t = k_t^{\alpha} - k_t \cdot \alpha \cdot k_t^{\alpha-1} \Rightarrow w_t = k_t^{\alpha} - \alpha \cdot k_t^{\alpha} \Leftrightarrow$$
$$\Leftrightarrow w_t = k_t^{\alpha} \cdot (1-\alpha).$$

$$\Rightarrow k_{t+1} = [1/(1+n) \cdot (1+g)] \cdot (1/2+\rho) \cdot k_t^{\alpha} \cdot (1-\alpha).$$

[165] This paper is not a tool built for summing up the principal outlines of the Diamond and Solow models, but, instead, is (chiefly) addressed to those who are acquainted with economic growth modeling, in general, and with the bases of the Diamond and Solow models, in particular.

The above stated k_{t+1} equation – with which the effect on the economic growth of the public expenses can be circumscribable, and in dynamics too – is being built according to the above expressed premises, that is taking into account the fact in order to finance the public expenses both incomes generated by taxes and the public debt[166] are used.

But to begin with, we must analyze the basic idea we are, here and in the following lines, minutely analyzing: why do we mention, ant this only, the public expenses? The answer, even if it were not be the final answer, can be thus expressed: the public expenses are, before any others, linked to the *mechanism* of the economic growth – and vice versa.

The public expenses are expenses of a *public nature*, financed by the use of the resources contained by the public (state) budget; in these circumstances, the public expenses *growth* takes place, in principle, and in any economy, given the fact the government acts on the following three levers:

- Goods and services purchases;
- Income transfers (e.g. welfare funds);
- Paying off the interests on the public debt.

In this point of our demonstration, some explaining is required; firstly, and maybe the first, from the point of view of importance, it must be underlined that, because part of the money savings of the young individuals will transform, consequently, not into capital (stock), but into government securities, to the left side of the equation another term will be added – in fact, this term is $b_{t+1} - b$ being the amount of government securities per unit of effective labor.

We say – and use $-b_{t+1}$, and not b_t, because, using a similar expression for – in this realm, where economic growth is interwoven with population dynamics – that of the capital per unit of effective labor, b_{t+1} is a function of the government securities bought in period t.

For the object of our study, it suffices only to sketch the structure of this variable (b_{t+1}) – using a sufficient degree of accuracy, though, in order for the utility of its use, in the domain of taxing and economic growth, not to be meddled with; from this we, therefore, start – from the government securities stock.

Be B_{t+1} the size of the government securities stock, in the period t+1 – these securities are bought in the period t, and, similarly to the mechanism of generating the capital stock, K_{t+1}, the amplitude of this acquisition depends on the interest rate attached to those securities; be r'_{t+1} this interest rate.

This amplitude, also, is determined by the proportion of personal incomes every individual – and, in the end, all individuals – save, in the form of government securities; this proportion is determined, primarily, by the interest rate r'_{t+1} – be it $s(r'_{t+1})$.

In the end, this dynamics can be mathematically modeled like this:

$$B_{t+1} = L_t \cdot [(w_t \cdot A_t) \cdot s(r'_{t+1})] \Leftrightarrow B_{t+1} / (L_{t+1} \cdot A_{t+1}) = w_t \cdot s(r'_{t+1}) \cdot (L_t \cdot A_t) / (L_{t+1} \cdot A_{t+1}) \Leftrightarrow$$

$$\Leftrightarrow b_{t+1} = (L_t / L_{t+1}) \cdot (A_t / A_{t+1}) \cdot w_t \cdot s(r'_{t+1}) \Leftrightarrow b_{t+1} = (L_t / L_t + n \cdot L_t) \cdot (A_t / A_t + g \cdot A_t) \cdot w_t \cdot s(r'_{t+1})$$

$$\Leftrightarrow b_{t+1} = [L_t / L_t \cdot (1+n)] \cdot [A_t / A_t \cdot (1+g)] \cdot w_t \cdot s(r'_{t+1}) \Leftrightarrow b_{t+1} = (1/1+n) \cdot (1/1+g) \cdot w_t \cdot s(r'_{t+1}) \Leftrightarrow$$

$$\Leftrightarrow b_{t+1} = [1/(1+n) \cdot (1+g)] \cdot w_t \cdot s(r'_{t+1}).$$

It must also be added that, because taxes and public debt globally contribute to the financing of the state budget, the total amount of the public expenses will be equal not to the total value of the sum the taxpayers

[166] This debt is materialized, for instance, by the government securities issue – if it were to use only this classic example.

acquitted for their tax taxes they were levied to; so, in the right side of our equation, the term I_t appears – I_t is the amount of tax revenue the state received per unit of effective labor.

Therefore:

$$k_{t+1} + b_{t+1} = [1/(1+n)\cdot(1+g)]\cdot[1/(2+\rho)]\cdot[k_t^{\alpha}\cdot(1-\alpha)-I_t] \Leftrightarrow$$
$$\Leftrightarrow\ k_{t+1} = [1/(1+n)\cdot(1+g)]\cdot[1/(2+\rho)]\cdot[k_t^{\alpha}\cdot(1-\alpha)-I_t]-b_{t+1}$$

As one can notice, starting the analysis from a (given) value of k_t, and, respectively, of b_t, it may seem as if it can be stated for a large(r) value of I_t, the value of k_{t+1} will diminish. It would be like this, but, in this frame, of the existence of the public debt, the most common *status quo* is, in the economy, not that of "a large(r) value of I_t".

In fact, and at least for political reasons, if not, and in the first instance, for economic grounds, the issue of, especially, a large amount of government securities – that is to resort to a deep public debt – is, really, to cut, simultaneously, and not necessarily by the same proportion, the taxes levied on the taxpayers.

Though, the only reachable effect anyone can obtain, by the use of such methods, is anything but a cut – even less a large cut – of public expenses; these will have, and anyway must have, the dimensions needed in order to, among others, pay the interest of the public debt. The k_{t+1} may, therefore, drastically reduce[167].

Through this dynamics, the bottom line has this appearance: the needs of the present are financed, so to speak, with the toil of the next generations, but the story doesn't end here; with a lowering fiscal pressure, the taxpayers tend to consume more (rather than to save more, in one form or another), in every part of their lives. This fact, especially – in these conditions – will make the capital stock to decrease.

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[167] In our study we use the simplification through which public debt is nothing but **internal** public debt. In the real world, however, there are, also, external loans, loans not without interests – which interests must be, naturally, paid.

THE INFLUENCE OF THE FINANCIAL FACTORS ON CASH FLOW, AS DETERMINING FACTOR OF FIRM'S INVESTMENT DECISIONS

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Abstract: Because investment decisions are one of three categories of decision that can be adopted by firms' management (beside the financing decision and the net profit allocation decision), this paper intends to present the influence of the financial factors on firm's cash flow, as determining factor of firm's investment decisions, among the factors which are analyzed, namely dividend payment, information asymmetry, leverage, monetary policy, internal liquidity, and firms' size.

Key words: investment, decision, cash flow

The investment decision is one of three categories of decision that can be adopted by firms' management, beside the financing decision and the net profit allocation decision.The investment decisions have direct influence on the structure of firm's asset structure, moreover, on their degree of liquidity, and consist of spending the financial funds for the purchase of real and financial assets for the firm, in order to gain cash and the growth of the wealth of firm's owners.

The investment decisions and the financing decisions are interdependent, that is the investment decision is adopted in relation to the level of the financing sources, but the option to invest is also crucial, in order to calculate the level of financing capitals and the need for finding their sources. Furthermore, the net profit allocation decisions consist of estimating the amount of money taken from the net profits in order to return it to the shareholders as **dividends**, on one hand, and to determine the amount of money taken from the profits for the purpose of financing the investments.

The share of the net profit distributed as dividends has a direct influence in the size of amount of money taken from the cash flows to be used for financing the investments. The reinvesting of a share of the net profit generates the growth of the self financing capacity of the firm, the financial autonomy's growth and, implicitly, of the firm's value. The dilemma between the use of a share of the cash in order to pay the dividends or to implement some investment projects can grow into a very serious issue when cash flows are not enough to satisfy, fully, both the two categories of decisions (investment and dividends).

In what the cash flow of the investment activity is concerned, its size is estimated in the building stage of the investment project, in the period of investment's exploitation, and at the end if the exploitation period. In the initial stage of the investment project, the firm is confronted with cash outflows in the form of expenses generated by the building up of the project (personnel expenses, research expenses), the price of the purchased assets, and the additional need of circulating capital, who's cause relies in the growth of output capacity, as a result of the project's realization (growth in the size of the stocks and the claims), the opportunity cost[168].

The exploitation carried out by the firm generates cash inflows, materialized in the shape of depreciation and the profit gained as a result of the main activity of the firm. The cash flows from the end of the period of investment's exploitation are cash flows, nonetheless, and are made of the residual value of the investment – the very selling price, or the price of the materials acquired as a result of the liquidation – and the need of circulating capital, recovered through the disappearing of the output capacity, generated by the investment. As a result, the investment projects' adoption must be undertaken by taken into consideration the cash flows required by the various investment projects, at different periods of time, cash flows which, in their turn, are affected by a series of financial factors.

The link between investment and cash flow was studied, on a large scale, between 1950 and 1965[169], and then it disappeared for a while from the investment literature, reappearing only in the 1980, following the

[168] The incomes the firm might have obtained if it would have invested, in some other manner, the funds required by the project.

[169] Meyer, J.; Kuh, E.; (1957); *The Investment Decision*. Cambridge, MA: Harvard University Press

development of information asymmetry models. In 1957 Meyer and Kuh pointed out the importance of finance variables for investments, and the preferences firms have for own funds. The neoclassical investment models were developed, which consider the main factors are materialized, in what investments are concerned, in the real interest rate and taxes. The Q investment theory (Tobin, 1969) can be viewed as a new version of the neoclassic theory, which says the investment demand is determined by the ratio between the market value of a firm's share and its replacement cost[170].

In 1988, Fazzari, Hubbard şi Peterson[171] (FHP) estimated the investment equations as a function of Tobin's Q and the cash flow and considered the cash flow tends to have a far larger effect on investments firms which are confronted with financial constraints make. Kaplan and Zingales[172], in 1997, reinterpreted the results from FHP studies, suggesting that an automatically higher sensibility cannot be foreseen in the case of investments cash flow, in the case of the firms which confront with bigger financial constraints.

The use of Q is based on the principle the desired investment opportunities can be undermined by the participants of the capital market, because of the existing **information asymmetry** of the capital market. In the presence of information asymmetry, on the capital market, the introduction of Q will generate immediate tensions. There are some situations in which the suppliers of the exogenous financial funds cannot precisely evaluate the investment opportunities, given the gaps between the information possessed by the insiders, compared to the outsiders. Q will, thereby, stop the evaluation of investment opportunities by the outsiders only; as such, a possibility appears, for cash flow to affect firm's investments, because this cash flow is correlated to the investment opportunities' evaluation of the insiders.

In order to clarify the role of cash flow in the investment equation, and to improve the evaluation degree of investment opportunities, some authors[173] considered it is high time to take into consideration, for evaluating the investment opportunities by the insiders, a new variable, namely the contractual obligations of the firm, for any new future investment projects.

In the presence of asymmetrical information, which determines gaps between information possessed by the insiders, compared to the outsiders, Q is proven to be an imperfect measure of the investment opportunities of the firm, and for that a hindrance for evaluating the investment opportunities, by the capital market's actors. In this way the need of this supplement variable being taken into consideration can be explained, variable that will take into consideration information about the opportunities available from the insiders only.

It is confirmed that, although cash flow will affect both the investments of the large firms, and the investments of small firms, through the introduction of the second variable the power of the cash flow is diminished in the case of the large firms, remaining constant for the small ones. The reason would be, at least for the second variable, the meaning of the cash flow in the investment equation is possible to be generated by the capital market' information asymmetry.

The information asymmetry, characterized by managers possessing a larger amount of information about the firm than the would-be creditors or shareholders, makes more difficult the prospecting carried out by the latter. The effect of these information problems is the growing of the external financing costs, comparatively to the internal costs. These cost differences is at the base of a certain point of view about how a certain level of investment is built: the cash flow is preferred to the debt, which, instead, will be preferred to the new share issues.

As far as the hierarchy of financing sources, as it exists in the economic literature[174], is concerned, cash flow is the cheapest financing source, followed by debts and, in the end, by the issuing of new shares. Debts can be cheaper than the issuing of new shares, because the loan contract can be created as to minimize the consequences of information problems. Giving the fact the degree of information asymmetry and the agent costs depend on the peculiarities of every firm, some firms are more sensitive to financial factors than others. Thus, a possibility exists, for the small firms, that the investors may not be very well

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[170] Q = the market value of a firm/the replacement value of its assets; adopting factor of the investment decision: if $0<Q<1$, the firm's shares are undervalued; if $Q>1$, the firm's shares are overvalued.

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informed; this might lead to their reticence in increasing the financing funds, and, also, the costs of external financing.

Also, another financial factor, which has an influence on investment decisions adopted by the firm, is the **leverage;** more clearly, the higher leverage firms' investments can be more sensitive to the cash flow than lower leverage firms' investments. The cash flow is the only source of financing for the firms which are characterized by low cash, and for those which don't have access to capital markets, being a relatively cheap source of financing; we can, therefore, state that, among the factors which have an influence on investment behavior, capital structure is one of them.

A higher leverage assumes a higher share of firm's cash flow being used to pay the interests and the debts; for some firms, this might be translated as a high debt capacity, combined with low financial constraints. If the cash flow of the firms is diminishing, it will be not easy for them to deal with these obligations, and they will be forced to diminish the investments, which prove to be far more sensitive to the financial background when the leverage is at a higher level.

The establishment of a link between cash flow, leverage and investments offers a profound image; there is, given the fact the monetary policy and the cyclic factors have a (rather) general influence on the companies. If the cash flow is a powerful determinant of investments, the changes happened in the monetary policy (such as the interest rate) will influence investments and the debt capacity of the firm through cash flow effect.

In this case, it is noted in the present days, **monetary policy** has a larger impact on investments, than had done so in the past. The cash flow of highly geared firms will be far more sensitive to the changes in the interest rate than the cash flows complemented by a minimum sized leverage. The impact of the monetary policy will be felt unevenly through companies: small size firms, highly leveraged firms and firms which rely on the cash flow as source of financing are more sensitive to changes in monetary policy than others.

It was noted, also, the **internal liquidity** is an important dimension of cash flow's sensitivity to investments, because it reflects the capability of a firm to finance its projects without tuning to the capital market. Firms that possess cash reserves can use them for the accomplishment of their desired investment projects, but, if these firms are not facing a difficult access on the capital market, and they predict their internal cash needs, they don't have the need to experience a high level of cash flows.

Firm's size is one of the determining factors of cash flow sensibility to investments, for a number of reasons. Small firms expect to face bigger obstacles when capital increases, the borrowed costs are expected to rise; they obtain smaller evaluations from the part of the analysts and they may have difficult access to the external capital sources. The transaction costs related to share issue decrease in correlation to the size of that issue, which is larger for larger firms, and so the small firms face high costs, whilst large firms face smaller costs. From similar reasons, newer firms face bigger differences between internal financing costs and external financing costs. As a result, smaller and newer firms expect to record an increased sensibility of the investment cash flow.

Smaller firms are, in general, considered to be more sensible to the changes in financial factors than larger firms. The external funds have the tendency to become relatively expensive for them, since the fund lenders possess slightly less information about their creditworthiness. Also, economic shocks which affect the cash flows or the dynamics of intermediaries' loan behavior is probable to have a larger influence on investment decisions of the small firms.

Cash flow can affect investments due to the imperfections of the capital markets, and due to the fact external financing is cheaper than external financing, this playing an important part in investments carried out by the firms which face a series of financial constraints. A high level of the cash flow will lead to the growth of investments, through the use of cheaper internal financing funds and the rise in the collateral backing of the company. We can, therefore, state that, if we wish to see which of the above mentioned determining factors influence investments to a greater extend, firms differ. The results show internal financing sources are far more important for small and highly leveraged firms.

FHP classified firms according to the dividend policy, showing the cash flow tends to affect investments of low dividends' firms to a larger extend than investments of high dividends' firms, by this boosting the hypothesis according to which cash flows affect firms' investments because of the imperfections found in capital markets.

Brav[175] (2005) considers maintaining a certain level of dividends is consistent with the investment decisions. If cash flow is not sufficient enough for both activities to be fulfilled, those who adopt the policies face a dilemma that can be solved in one of the following manners:

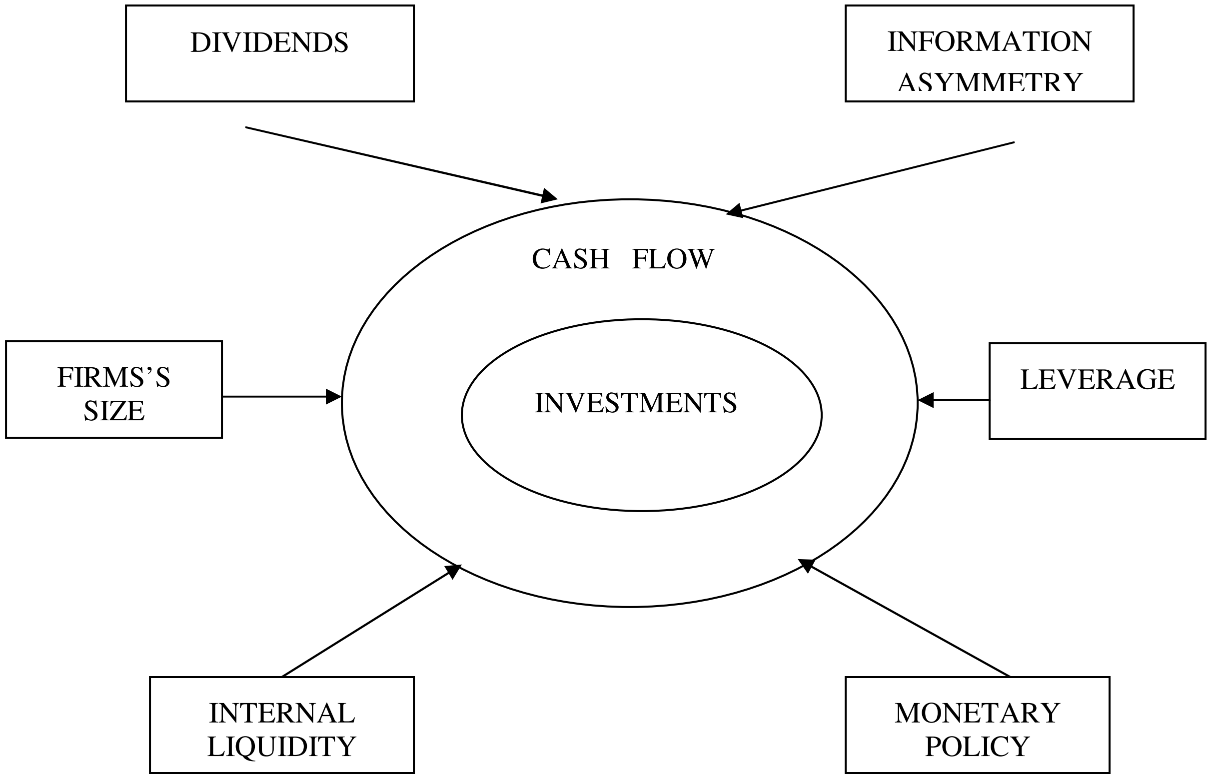
- an increase in external funds, for the completion of cash deficit;
- normal payment of dividends and the abandonment of other investment projects, regardless of their attractiveness;
- partial or total disregarding of dividend payment.

If the first solution is not the optimal one, for a number of reasons, there are another two solutions. On one side, disregarding normal payment of dividends will disturb the investors and will be able to modify their expectations about maintaining the gains of the previous period, and will determine, also, the drop of the share's value of the company. From this perspective, the dividends will be preferable to investments. On the other side, adopting some investment projects will have a long term effect on firm's value, and even more so if certain investment opportunities will not reappear in the near future. Accordingly, investments will be preferable to dividends.

For solving this dilemma, managers must take into consideration the manner in which information about the opportunity of profitable investments will indeed reach the investors, in a way that will allow them the understanding of the reasons behind the decreasing of dividends, or, in other words, the information flow factor.

The graphical illustration of the financial factors which have a sensitive impact on the cash flow, as determining factor which stays at the base of the investment decisions the company adopts, is to be constructed, in my opinion, as follows:

[175] Brav, A.; Graham, J.R.; Harvey, C.R.; Michaely, R.; (2005) Payout policy in the 21th



The influence of the financial factors on cash flow, as determining factor of firm's investment decisions

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CONVERGENCE PROGRAMS OF THE CEE COUNTRIES

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Member States have continued to make progress, at differing rates. In most cases, steps have been taken towards meeting the commitments contained in the country specific recommendations agreed collectively by the Member States in 2007. Having examined the updated convergence program of most CEE analyzed countries, the European Commission finds that their planned budgetary consolidation is consistent with a correction of the excessive deficits.

Key words:real convergence, nominal convergence, Central and Eastern European countries.

1. RECENT DEVELOPMENTS IN AN ENLARGED EU

The Lisbon Strategy is working. It is creating growth and jobs. It is helping position Europe and European citizens to succeed in the age of globalization. It has given Europe a common, pragmatic economic agenda, fully respecting national differences. But complacency would be fatal to Europe's prospects of shaping globalization. Much more remains to do. Progress is uneven between policy areas and some Member States are moving much faster than others.

Economic growth was 3.0% in EU-27 in 2006 and it remained at 2.9% in 2007. Structural reforms have helped increase the potential estimated growth rate of GDP in the euro zone by 0.2 percentage points since 2005 to 2.25% in 2007. Almost 6.5 million new jobs have been created in the last two years. Another 5 million jobs are expected to be created up to 2009. Unemployment is expected to fall to under 7%, the lowest since the mid 1980s. For the first time in a decade, strong increases in employment have gone hand in hand with robust productivity growth.

EU 27 budget deficits have been significantly reduced, from 2.5% of GDP in 2005 to almost 1.1% in 2007. EU 27 public debt has declined from 62.7% in 2005 to just below 60% in 2007.

It is now possible in all but a few Member States to start up a business within one week by means of a "one-stop shop" and there have been important steps in implementing the EU better regulation agenda.

About half of the Member States have developed - or are developing - policies based on a flexicurity approach. Agreement has been reached on a common set of flexicurity principles which Member States should now implement, tailoring them to their own specific situations. All Member States have now set a national R&D investment target. If all of these targets are met, the EU will reach an R&D level of 2.6% of GDP in 2010 (up from 1.9% in 2005). This would be a significant improvement even if the key EU target of 3%.

However, the proportion of GDP spent on R&D in the EU has recently failed to keep up with stronger economic growth rates and decreased to 1.85 % in 2006, with large differences between Member States. This trend moves the EU further away from 3% target. Despite the deficit and debt improvements, the opportunity to use the relatively strong growth conditions to reduce structural deficits has not been fully seized, especially in the euro area.

Many labor markets remain segmented, with well-protected insiders and more precarious outsiders on contracts with uncertain prospects. Education systems are not doing enough to give young people the skills they and employers need. Worker mobility remains still relatively low. Only 2% of working age citizens live and work in another Member State. In some Member States workers still face significant barriers when changing jobs. The Commission has therefore proposed a Job Mobility Action Plan.

Europe is still lagging behind other leading economies in investment in information and communication technologies and in their use to enhance productivity. Many Member States are not on course to fulfill their

Kyoto targets and will need to make a major effort to reach the ambitious targets agreed by EU leaders at the 2007 Spring European Council and to be implemented through the energy and climate change package the Commission will bring forward at the beginning of 2008. Member States have continued to make progress, at differing rates. In most cases, steps have been taken towards meeting the commitments contained in the country specific recommendations agreed collectively by the Member States in 2007.

2. SOME CEE COUNTRIES' CONVERGENCE PROGRAMS

Romania submitted a new update of its convergence program on 5 December 2007, covering the period 2007-2010. The budgetary strategy outlined in the program is not in line with the prudent fiscal policy necessary to contain the growing external deficit and inflationary pressures which put the convergence process at risk. The program envisages a continuation of high deficits, entailing the risk of an excessive deficit. (See table no. 1 for CEE countries) Progress towards Romania's medium-term objective (MTO) of a deficit just below 1% by 2011 is clearly insufficient and is left until the last year of the program period despite strong growth prospects. In view of the risks to the budgetary targets and the significant adjustment that would be necessary after the program period, the MTO is unlikely to be achieved by 2011 as planned.

		2006	*2007*	*2008*	*2009*	*2010*
Romania	*Real GDP (% change)*	*7.7*	*6.1*	*6.5*	*6.1*	*5.8*
	HICP inflation (%)	*6.6*	*4.8*	*5.7*	*4.0*	*3.3*
	Output gap (% of potential GDP)	*2.2*	*2.1*	*2.1*	*1.8*	*1.1*
	General government balance (% of GDP)	*-1.9*	*-2.9*	*-2.9*	*-2.9*	*-2.4*
	Government gross debt (% of GDP)	*12.4*	*11.9*	*13.6*	*14.2*	*14.9*
Slovak Republic	*Real GDP (% change)*	*8.3*	*8.8*	*6.8*	*5.8*	*5.0*
	HICP inflation (%)	*4.3*	*1.7*	*2.3*	*2.6*	*2.7*
	Output gap (% of potential GDP)	*-0.5*	*1.8*	*2.3*	*2.1*	*1.4*
	General government balance (% of GDP)	*-3.7*	*-2.5*	*-2.3*	*-1.8*	*-0.8*
	Government gross debt (% of GDP)	*30.4*	*30.6*	*30.8*	*30.5*	*29.5*
Poland	*Real GDP (% change)*	*5.4*	*5.1*	*5.1*	*5.6*	-
	HICP inflation (%)	*1.4*	*2.1*	*2.5*	*2.5*	-
	Output gap (% of potential GDP)	*0.5*	*0.5*	*0.3*	*0.4*	-
	General government balance (% of GDP)	*-3.9*	*-3.4*	*-3.1*	*-2.9*	-
	Government gross debt (% of GDP)	*48.9*	*50.0*	*50.3*	*50.2*	-
Hungary	*Real GDP (% change)*	*3.9*	*1.7*	*2.8*	*4.0*	*4.1*
	HICP inflation (%)	*4.0*	*7.9*	*4.8*	*3.0*	*2.9*
	Output gap (% of potential GDP)	*0.8*	*-0.8*	*-1.4*	*-1.0*	*-0.4*
	General government balance (% of GDP)	*-9.2*	*-6.2*	*-4.0*	*-3.2*	*-2.7*
	Government gross debt (% of GDP)	*65.6*	*65.4*	*65.8*	*64.4*	*63.3*
Bulgaria	*Real GDP (% change)*	*6.1*	*6.4*	*6.4*	*6.8*	*6.9*
	HICP inflation (%)	*7.4*	*7.2*	*6.9*	*4.4*	*3.7*
	Output gap (% of potential GDP)	*0.8*	*0.6*	*0.0*	*-0.4*	*-0.2*
	General government balance (% of GDP)	*3.2*	*3.1*	*3.0*	*3.0*	*3.0*
	Government gross debt (% of GDP)	*22.8*	*19.8*	*18.3*	*17.4*	*16.9*
Czech Republic	*Real GDP (% change)*	*6.4*	*5.9*	*5.0*	*5.1*	*5.3*
	HICP inflation (%)	*2.1*	*2.4*	*3.9*	*2.3*	*2.1*
	Output gap (% of potential GDP)	*0.9*	*1.8*	*1.4*	*0.7*	*0.5*

	General government balance (% of GDP)	***-2.9***	***-3.4***	***-2.9***	***-2.6***	***-2.3***
	Government gross debt (% of GDP)	***30.1***	***30.4***	***30.3***	***30.2***	***30.0***
Estonia	*Real GDP (% change)*	***11.9***	***10.5***	***7.5***	***7.0***	***6.8***
	HICP inflation (%)	***6.6***	***10.1***	***12.5***	***7.2***	***4.9***
	Output gap (% of potential GDP)	***2.0***	***2.8***	***1.3***	***-0.3***	***-1.7***
	General government balance (% of GDP)	***-0.3***	***0.3***	***0.7***	***1.0***	***1.2***
	Government gross debt (% of GDP)	***10.6***	***9.4***	***8.3***	***7.2***	***6.4***
Latvia	*Real GDP (% change)*	***11.2***	***7.4***	***5.2***	***6.1***	***6.7***
	HICP inflation (%)	***4.4***	***6.6***	***8.6***	***5.6***	***3.6***
	Output gap (% of potential GDP)	***3.6***	***2.7***	***0.1***	***-1.2***	***-1.5***
	General government balance (% of GDP)	***3.6***	***2.6***	***1.3***	***1.0***	***0.9***
	Government gross debt (% of GDP)	***4.0***	***2.7***	***2.3***	***2.0***	***1.8***

Table no. 1 Convergence Programs of the CEE Countries

The long-term sustainability of Romania's public finances has not yet been assessed as calculations on age-related cost projections are still under way. The national debt was 12.4% in 2006, well below the 60% reference value set in the EU Treaty, but it is increasing. In view of the Commission assessment and the need to ensure sustainable convergence, Romania is invited to: (i) significantly strengthen the pace of adjustment by aiming for substantially more demanding budgetary targets in 2008 and subsequent years; (ii) restrain the envisaged high increase in public spending, review its expenditure composition so as to enhance the economy's growth potential and improve the planning and execution of expenditure within a binding medium-term framework; (iii) adopt policies to contain inflationary pressures, complementing the recommended tighter fiscal stance, with appropriate public wage policy and further structural reforms.

Slovakia submitted a new update of its convergence program on 29 November 2007, covering the period 2007-2010. The program is consistent with a correction of the excessive deficit by 2007. Progress towards Slovakia's medium-term objective of a deficit just below 1% slows down, however, in 2008, and the MTO is planned to be reached only at the end of the program period despite strong growth outcomes and prospects (see Table no. 1).

Slovakia is advised to stand ready to adopt a tighter fiscal stance, in particular in view of possible inflationary pressures after the disinflation effect of past exchange rate appreciation fades out. As regards the long-term sustainability of public finances, Slovakia appears to be at medium risk. In view of the Commission assessment and the recommendation under Article 104(7) of 5 July 2004 and also given the need to ensure sustainable convergence and smooth participation in ERM II, Slovakia is invited to: (i) exploit the strong growth conditions to strengthen the pace of structural adjustment in 2008 and strictly implement the envisaged structural consolidation thereafter, (ii) introduce further structural reforms to improve the labor market performance and stand ready to adopt a tighter fiscal stance, in particular in order to contain possible inflationary pressures, especially after the disinflation effect of past substantial exchange rate appreciation fades out.

Having assessed the budgetary developments in Poland since the adoption of a new Council recommendation, last February, the European Commission concludes that the deficit is likely to be below 3% this year. But, at the same time, it is expected to rebound above 3% in 2008, according to the Commission's autumn economic forecasts based, inter alia, on the draft budget adopted by the outgoing government. This calls for additional measures to put the Polish budget firmly on a sustainable path, especially in view of the positive economic outlook enjoyed by the country. In February 2007, European Union finance ministers (ECOFIN Council), on a recommendation by the Commission, found that the budgetary situation had improved in Poland, but not sufficiently to correct the excessive deficit situation by 2007. This deadline was agreed back in 2004, when Poland joined the EU, according to a first ECOFIN Council recommendation under Article 104(7) of the EU Treaty.

Poland informed, in September this year, that it expected a deficit of 3.0% of GDP in 2007 after an outcome of -3.8% in 2006. According to the autumn forecast of the Commission services, the 2007 deficit outturn will be even better, reaching 2.7% of GDP, mainly thanks to an incomplete execution of planned expenditure (see Table no. 1). Also the structural improvement will reach 0.9 percentage point of GDP, which more than satisfies the Council recommendation. Against this background, the planned budgetary adjustment fulfils the Council recommendation concerning 2007.

But the autumn forecast published by the Commission on 9 November points to the risk that the deficit may rebound and breach the 3% reference value in 2008 and 2009, if no additional policy actions are taken. This is because a number of deficit increasing measures were adopted without counteracting measures by the Parliament before the October 2007 elections. The Polish authorities are, therefore, invited to submit, as soon as possible after the new government has taken office, an updated convergence program describing additional consolidation measures for 2008 and the following years. The updated fiscal strategy should be geared towards making permanent the correction of the excessive deficit in 2007 and making progress towards the medium-term objective of a structural deficit of 1% of GDP.

Hungary submitted a new update of its convergence program on 30 November 2007, covering the period 2007-2011. Hungary must take adequate action to ensure the correction of the excessive deficit as planned, where necessary through additional measures. Reinforcing fiscal governance and completing the structural reforms which are essential to improve the long-term sustainability of public finances are crucial in moving towards lasting convergence. The program plans to continue the correction of the high deficits of the past years through a frontloaded adjustment effort (see Table no. 1).

Thanks to the consolidation measures and structural reforms, Hungary is set to considerably outperform its 6.8% of GDP deficit target for 2007. It also improves the target for 2008 to 4% of GDP compared to the previous program which, in view of the better-than-expected outcome in 2007, is both feasible and desirable. However, the lower deficit targets are combined with higher-than-previously planned expenditures on the back of better-than-expected revenues, which cannot be counted on after 2008. Moreover, from 2009 the achievement of the budgetary targets is subject to increasing risks, linked mainly to possible expenditure overruns if the wide-ranging reform agenda is not fully carried out. Ensuring the adjustment is durable requires a strengthening of fiscal governance and the completion of structural reforms. This is also crucial in order to improve the long-term sustainability of public finances, for which Hungary remains at high risk, and to move towards lasting convergence.

In view of the Commission assessment and of the recommendation under Article 104(7) of 10 October 20063 and given the need to ensure sustainable convergence, the Council should invite Hungary to: (i) rigorously implement the 2008 budget, take adequate action to ensure the correction of the excessive deficit by 2009 as planned; and allocate the better-than-expected revenues to further deficit reduction, also given the insufficient margin in 2009 in view of the risks, thereby also contributing to accelerating the pace of debt reduction towards the 60% of GDP threshold; (ii) ensure permanent expenditure moderation by continuing to enhance fiscal rules and institutions and by adopting and swiftly implementing measures announced in the fields of public administration, healthcare, and the education system; (iii) in view of the level of debt and the increase in age related expenditure, improve the long-term sustainability of public finances and continue to reform the pension system as announced after the initial steps taken in 2006-2007.

Bulgaria submitted a new update of its convergence program on 7 December 2007, covering the period 2007-2010. Bulgaria, which has enjoyed high growth since 2003, has carefully refrained from a pro-cyclical fiscal stance and is aiming for ambitious but necessary budgetary surpluses. To ensure sustainable convergence with the rest of the EU, it is vital that it continues on this path with a view to containing inflation and external imbalances, in particular by saving all unexpected revenues (see Table no. 1).

The program proposes an upward revision of the MTO2 from a balanced budget to a surplus of 1½% of GDP, which will be comfortably met throughout the program period. Safeguarding macroeconomic stability and sustaining catching-up in a context of rising external imbalances and high inflation will require the continuation of tight fiscal policies and further improvements in the quality of public spending, including in health care. Fiscal institutions and public sector wage policy need to contribute to overall wage moderation in line with productivity gains. The long-term sustainability of Bulgaria's public finances has not been assessed as calculations on age-related cost projections are still under way. But the current and planned structural surpluses are helping and will help reduce the already low level of public debt.

In view of the Commission assessment and also given the need to ensure sustainable convergence, Bulgaria is invited to: (i) continue avoiding a pro-cyclical fiscal stance with a view to helping contain existing external imbalances, notably by saving all proceeds from any budgetary over-performance and respecting expenditure ceilings; (ii) adopt policies to contain inflationary pressures, including by contributing to wage moderation through a prudent public sector wage policy and preserving competitiveness; (iii) further strengthen the efficiency of public spending, in particular through full implementation of program budgeting, reinforced administrative capacity, and a reform of the health care system.

The Czech Republic submitted a new update of its convergence program on 30 November 2007, covering the period 2007-2010. In view of an expected general government deficit below 2% in 2007 – much less than estimated by the program itself – the budgetary developments and strategy are consistent with a correction of the excessive deficit in 2008 – by a wider margin than initially planned. However, this is conditional on continuing expenditure restraint and a close monitoring of the possible fall in revenues following the introduction of a flat tax in 2008 (see Table no. 1).

Owing to the positive macroeconomic outlook and a better-than-expected 2007 budgetary outturn, the Czech Republic also ought to achieve stronger-than targeted fiscal consolidation afterwards. The main risks are in its reliance on reductions in public sector employment and the lack of information on the consolidation measures after 2008. The Czech Republic remains at high risk with respect to the sustainability of public finances. Initial steps have been taken to reform the health care system, but further measures are still awaited regarding reforms in this field and in the field of pensions. The debt remains at around 30%.

In view of the Commission assessment and also in the light of the recommendation under Article 104(7) of 10 October 2007, and given the need to achieve sustainable convergence, the Czech Republic is invited to: (i) exploit the likely better-than-expected 2007 budgetary outcome to bring the 2008 deficit below the 3% of GDP reference value by a larger margin; (ii) exploit the high rate of growth in the economy by strengthening the pace of adjustment; (iii) in view of the projected increase in age-related expenditure, improve the long-term sustainability of public finances through the necessary pension and health care reforms.

Estonia submitted a new update of its convergence program on 29 November 2007, covering the period 2007-2011. Estonia's program plausibly aims to maintain a sound budgetary position throughout the period with continued surpluses above the MTO. However, macroeconomic imbalances that have accumulated in the economy are expected to moderate only gradually. The budgetary targets seem plausible. But the macroeconomic imbalances that have accumulated during the years of very high growth of close to 10% or more – notably wage growth exceeding that of productivity, price pressures and high net borrowing vis-à-vis the rest of the world – are expected to moderate only gradually and the deceleration path of the economy is surrounded by downward risks (see Table no. 1).

The long-term sustainability of the Estonian finances is good with almost no public debt, and age-related expenditure costs having already been dealt with. In view of the Commission assessment and also given the need to ensure sustainable convergence and a smooth participation in ERM II, Estonia is invited to contribute to reducing risks to macroeconomic stability by: (i) aiming for a broadly neutral fiscal stance in 2008 and beyond so as to contribute to an orderly adjustment towards a balanced convergence path, (ii) complementing the recommended fiscal stance with appropriate public wage policy and further labor market reforms so as to contain inflationary pressures and sustain rapid productivity growth.

Latvia submitted a new update of its convergence program on 29 November 2007, covering the period 2007-2010. For Latvia, the risks to the budgetary targets are high owing to large macroeconomic uncertainty and past slippages from expenditure plans. A considerably tighter fiscal stance is urgently needed to meet the programs aims in a context of large economic imbalances and excessive demand pressure. Latvia urgently needs to adopt a tighter fiscal stance to meet the programs aims in a context of strong inflationary pressures (Latvia had the highest inflation rate in the EU at about 10% in 2007 and increasing), deteriorating cost competitiveness and sharply increasing net foreign liabilities. While medium-term expenditure ceilings have been introduced, they remain to be tested (see Table no. 1).

By contrast the long-term sustainability of the Latvian public finances is good, with a public debt of around 10% and low exposure to the future age-related expenditure costs on account of past pension reforms. In view of the Commission assessment and given the need to ensure sustainable convergence and a smooth participation in ERM II, Latvia is invited to reduce overheating pressures and risks to macroeconomic stability by: (i) aiming for significantly more ambitious budgetary targets in 2008 and beyond; (ii) carefully prioritizing public expenditure within the overall public sector expenditure limits set within the medium-term budget planning framework, and re-examining taxation instruments to avoid demand stimulus in sectors which do not significantly strengthen the economy's medium- and long term supply potential; (iii) adopt further policies to contain inflationary pressures, including through responsible public sector wage-setting, thus contributing to the sharp reduction in whole-economy wage growth needed to break the current cost-price dynamics and put a stop to the rapid deterioration in Latvia's competitiveness.

3. CONCLUSIONS

Having examined the updated convergence program of CEE countries, the European Commission finds that its planned budgetary consolidation is consistent with a correction of the excessive deficit in 2007. But it should speed up consolidation thereafter so as to create a safe budgetary margin more quickly and to counter any possible inflationary pressures. Romanian convergence program projects a continuation of high deficits despite strong growth. This creates the risk of an excessive deficit and is not in line with prudent fiscal policy. All CEE countries have been experiencing a period of strong economic growth. The increasing deficit of Romania since it joined the EU and its volatility are a matter of serious concern. Romania needs to aim for more healthy budgetary targets to avoid breaching the rules of the Stability and Growth Pact and to contain the growing external deficit and inflationary pressures which pose a risk to macroeconomic and financial stability. Some CEE countries' planned budgetary consolidation is consistent with a correction of the excessive deficit in 2007. But looking beyond the correction of the excessive deficit, faster progress towards the medium-term objective is advised, in particular to contain possible inflationary pressures.

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FOREIGN DIRECT INVESTMENT FLOWS AND ECONOMIC GROWTH

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Trying to explain economic growth is one of the fundamental questions in economics and has generated a large body of research. The importance of technology for economic growth provides an important link between FDI inflows and host country economic growth. It is theoretically straightforward to argue that FDI inflows have a potential for increasing the rate of economic growth in the host country. Inflows of physical capital resulting from FDI could also increase the rate of economic growth but it is argued in this paper that the most important effect comes from spillovers of technology. MNE operations in the host country can result in technology spillovers from FDI whereby domestic firms adopt superior MNE technology which enables them to improve their productivity. Technology spillovers thereby generate a positive externality that should allow the host country to enhance its long-run growth rate.

Key words: foreign direct investments, technology spillovers, competitiveness, economic growth.

1. Introduction

The economic development of emerging markets and developing countries depends to a large extent on the possibility to make profitable investments and accumulate capital. Having access to foreign capital and investments allows a country to exploit opportunities that otherwise could not be used. Recent experiences with opening capital accounts in emerging and developing economies, however, have proved to be a mixed blessing, as it is becoming increasingly clear that not all types of capital imports are equally desirable. Direct investments are much more resilient to crises, therefore the question is what countries can do to attract more of such capital flows.

While the economic determinants of FDI flows to developing countries have been analyzed to a considerable degree, it is rather astonishing that the importance of changes in political institutions and of other relevant policies in host countries have received relatively little attention. In the 1990s, most existing studies on the influence of policy-related variables on FDI flows consisted of international cross-country studies. Within this framework, it has been found, for example, that there is a negative link between institutional uncertainty and private investment (Brunetti and Weder, 1998), a positive relationship between FDI and intellectual property protection (Lee and Mansfield, 1996), and a negative impact of corruption on FDI flows (Wei, 2000).

The first attempt was made by Jun and Singh (1996), who regressed an aggregated indicator for political risk, based on a number of sub-components, and several control variables on the value of foreign direct investment inflows. For their data sample of 31 developing countries, the political risk index is statistically significant and the coefficient implies that countries with higher political risk attract less FDI. Likewise, Gastanaga et al. (1998) examined the link between various political variables and foreign investment inflows. They found that lower corruption and nationalization risk levels, and better contract enforcement are associated with higher FDI inflows. Yet they state that their findings do not always hold up, which may be due to the relatively small country sample of 22 developing countries.

More recently, several studies have analyzed the relationship between fundamental democratic rights and FDI: Harms and Ursprung (2002), Jensen (2003), and Busse (2004) found that multinational corporations are more likely to be attracted by countries in which democracy is respected. Li and Resnick (2003), on the other hand, argue that competing causal linkages are at work. They found that democratic rights lead, above all, to improved property rights protection, which in turn boosts foreign investment. Apart from this indirect impact on FDI, increases in democracy may reduce FDI.

In previous studies it was also shown that only few indicators for political risk and institutions are closely associated with FDI. These are government stability, law and order, and quality of the bureaucracy. In addition to the three mentioned indicators, we find that investment profile, internal and external conflict, ethnic tensions and democratic accountability are important determinants of FDI flows.

Until now, empirical evidence on a positive relationship between FDI inflows and host country economic growth has been elusive. When a relationship between FDI and economic growth is established empirically it tends to be conditional on host country characteristics such as the level of human capital, see for example de Mello (1999) and Borensztein et al (1998). The difficulty in proving a positive effect from FDI on economic growth provides a strong incentive for further empirical studies. Neoclassical models of economic growth only allow FDI to have a level effect on growth due to diminishing returns to capital. However, the endogenous growth theory provides a framework for studying the link between FDI and economic growth that makes it possible to take the characteristics of FDI into account and should improve the chances of confirming the theoretical relationship by empirical evidence.

The paper argues that it is technology spillovers from MNEs to domestic firms that provide the most important link for a positive effect from FDI on economic growth. But are there differences in the growth-enhancing effect of FDI between different types of host countries such as developed, developing and transition economies? Furthermore, is there a threshold level of technology that host countries need to achieve in order for FDI to have a positive effect on economic growth? Are there other host country characteristics that affect the ability of FDI to enhance the rate of economic growth?

The aim of the paper is to analyze whether FDI inflows have a positive effect on host country economic growth. The paper contributes to the mixed results of earlier research by the finding that FDI inflows have a positive effect on host country economic growth in developing but not in developed economies.

2. FDI inflows and economic growth

FDI inflows can affect host country economic growth in several ways. The purpose of this section is to provide a description of the potential growth enhancing effect of FDI.

2.1. Firm-specific advantages, knowledge capital and externalities

What implications does the importance of knowledge-capital and technology for MNE operations have for the growth enhancing potential of FDI inflows? As argued above, advanced technology is an important component of knowledge capital and technology in many cases forms the basis for an MNE’s firm-specific advantage. Not only is technology very important as a firm specific advantage for many MNEs, it also provides a link between FDI and economic growth.

The non-rival characteristic of technology implies that MNEs try to protect their technology by using brand names and patents. Since the MNE is dependent on its firm-specific advantage (often in the form of technology) for profitable business operations as argued by Hymer (1960), the MNE has an incentive to try to prevent spillovers of technology to other firms.

Spillovers of technology are an externality that can occur through several different channels including imitation, reverse-engineering and supplier linkages. When spillovers do occur it implies that the MNE is unable to internalize all of the returns to its technology resulting in a positive externality since the social return on investment is higher than the private return. It is argued in this paper that it primarily is the positive externalities from technology spillovers that allow FDI to enhance the rate of economic growth1. The emergence of theories of endogenous growth provides a framework that shows how positive externalities can improve long run economic growth. Positive externalities provide non-diminishing returns to capital and therefore enhance growth also in the long run. Endogenous growth theories therefore support the idea that FDI could enhance economic growth. Balasubramanyam et al (1996, p. 95) argues that the ‘new growth theory … provides powerful support for the thesis that FDI could be a potent factor in promoting growth’.

2.2 Physical capital and labor

We argued above that technology spillovers provide externalities that should have a positive effect on economic growth in the host country. Besides of knowledge-capital, FDI can also generate an inflow of physical and human capital to the host country. As the size of the host country physical capital stock increases the productive capacity of the host country also increases. Unfortunately the growth enhancing effect of an ever growing stock of physical capital is not endless. Even though additional capital can have important effects on economies with a low capital-labor ratio, diminishing returns imply that accumulation of physical capital cannot function as a permanent source of long-run growth. Since Solow type models rules out capital as a source of long-run per capita growth, in such a framework FDI can only affect growth through an inflow of capital in the short run while the economy is in transition toward steady state.

Empirical research on the role of capital accumulation for economic growth has not been conclusive. Easterly and Levine (2001) used a growth accounting framework and reached the conclusion that investment in physical capital is relatively unimportant in explaining long run economic growth since technological progress accounts for most of the cross-country variation in growth. However, Bond et al (2004) argues that this conclusion is premature since the modeling framework in Easterly and Levine is too restrictive.

An inflow of FDI is not likely to generate a large inflow of labor to the host country. Except for management, most of the MNE employees are expected to be recruited from the host country labor force. Furthermore, when investment takes the form of brown-field FDI it is not uncommon that MNEs lay off a substantial share of the incumbent labor force as usually done during privatizations. Therefore, a small effects from FDI on economic growth through effects on the host country stock of labor is expected.

Based on the discussion in this section the conclusion is reached that the primary effect from FDI inflows on host country economic growth should arise as a result of technology spillovers rather than through an increase in the stocks of capital and labor. This view is shared by other studies such as de Mello (1997).

2.3 Greenfield and brownfield FDI

The growth enhancing ability of FDI is affected by the chosen mode of FDI. It is argued in this paper that the effects of FDI inflows on variables such as technology spillovers and physical capital is expected to differ between greenfield and brownfield FDI. Greenfield FDI implies that the MNE constructs new facilities of production, distribution or research in the host country. The result is an increase in the host country stock of physical capital that can be substantial, especially for developing economies that tend to be capital scarce. Under brownfield investment, on the other hand, the MNE acquires already existing facilities in the host country. Brownfield FDI should therefore only result in a limited increase in the stock of physical capital since there is a change in ownership rather than an inflow of new capital.

Greenfield and brownfield FDI should affect host country growth differently since Greenfield FDI results in a larger inflow of physical capital. While brownfield FDI results in a small inflow of physical capital, Javorcik (2004) argues that brownfield FDI in the form of a merger or joint venture could maximise the potential for technology spillovers. Unfortunately, lack of appropriate data precludes an empirical analysis of this interesting research problem.

Effect on growth of:	Developed economies	Developing economies
Technology spillovers from FDI	+ High absorptive capacity implies a high potential to adopt technology leakages and realise spillovers - An already high host country level of technology reduces the potential for further improvements from spillovers	+ Low host country level of technology indicates a high potential for improvement even if spillovers are small - Low absorptive capacity implies that only a limited share of an MNE technology leakage can be turned into spillover through adoption
Physical capital inflow from FDI	+ Market structure implies existence of increasing returns to investment - Large per capita stocks of physical capital suggests decreasing returns to investment	+ Small per capita stocks of physical capital implies increasing returns to investment - Market structure studies indicate that constant returns to scale dominate in developing economies

Table no. 1 Host country ability to enhance economic growth through FDI inflows

The developed economies have larger per capita stocks of real capital than developing economies. Consequently these economies should be closer to experience diminishing returns to capital than developing economies when there is an inflow of physical capital. Table 1 summarises the discussion and presents an overview of the differences in the ability of developed and developing economies to realise the growth enhancing potential of FDI inflows.

What conclusions can be drawn based on the summary in Table 1? It does not seem to exist a clear indication whether developed or developing economies should experience the strongest growth effects from FDI inflows.

The discussion in this section suggests two objectives for the analysis of the paper. Firstly, can it be verified that FDI inflows indeed enhance economic growth in the host country? Secondly, how does the growth enhancing potential of FDI differ between developed and developing host countries?

The paper has argued that the two main channels through which FDI can affect host country economic growth are technology spillovers and inflows of physical capital. The paper discusses and models the effects of FDI inflows on host country economic growth. Based on this discussion the paper argues that technology spillovers provide the strongest potential for FDI to enhance economic growth. Foreign MNEs have a technology advantage over domestic firms and MNE entry in the form of FDI results in a positive externality in the form of technology spillover from the MNE to domestic firms. The domestic firms are thereby able to improve their level of technology and become more productive.

The paper investigates whether there are differences in the growth enhancing effect of FDI between developed and developing economies. The paper contributes to the mixed results of earlier empirical studies by the finding that FDI inflows have a positive effect on host country economic growth for developing but not for developed economies.

Foreign direct investments (FDI) are a factor movement which affects the international location of production, patterns of trade, and the way national firms internationalize.

In this paper we utilize firm data on manufacturing plants in four Central and Eastern European Countries (CEECs), namely Bulgaria, Hungary, Poland and Romania, between 1995 and 2004 in order to trace the location of multinational enterprises (MNEs) and estimate the determinants of their location choice.

Since the beginning of the transition process, CEECs have received a constantly increasing amount of foreign direct investments, which being made not only by financial capitals but also by fixed assets, knowledge (both codified and tacit) and technology played an active and dynamic role in enhancing the industrial restructuring process and driving the (re)integration of CEECs into the world economy. Several studies provide in-depth analyses on the contribution of MNEs to the different phases of transition processes. Despite all this interest, very little is known about the factors influencing multinational location choice.

Several reasons explain the need for mapping FDI and understanding their behaviour in location choice processes. First of all, this would help to identify which location advantages make more profitable for firms to produce abroad, provided that they possess organisational and internalisation advantages (Markusen, 1995; Dunning, 1977); secondly, it would directly show the spatial distribution of the benefits generated by FDI, though the mechanism is far from being automatic.

Central and Eastern Europe has been only marginally considered in the empirical literature on firm location choice. A number of difficulties have impeded empirical analysis on this issue in transition countries. In particular, data on foreign firm location and economic and social characteristics of narrowly defined locations have not been readily available since recent times. This explains why among the works quoted above, only two of them focus on multinational firm location choice in CEECs, though from a very limited perspective. In particular, Disdier and Mayer (2003) test how French firms choose the location (at country level) for their production plants abroad within a set of 14 Western European countries and six CEECs. They found that the East-West structure effectively influence French firms location choice in Europe, suggesting that competition for FDI attraction is stronger among CEECs than between Eastern and Western European countries. This difference, however, decreases over time, indicating that CEECs are perceived by French firms as more and more similar to EU countries.

We consider, in fact, multinational firms' location choice belonging to four CEECs. Two of them, i.e. Hungary and Poland, advanced faster on the way to EU membership than the other two, namely Bulgaria and Romania, which still are candidate countries. Moreover, we compare two small with two large countries, thus implicitly considering potential biases deriving from country size. The composition of the set of location alternatives is particularly important, since it allows a better comprehension of multinational firms' location patterns in transition countries, a world whose extremely diversified economic realities have been able to accommodate a large number of multinational firms pursuing different strategies of internationalization.

3. Conclusions

The paper has argued that the two main channels through which FDI can affect host country economic growth are technology spillovers and inflows of physical capital. The paper discusses the effects of FDI inflows on host country economic growth. Based on this discussion the paper argues that technology spillovers provide the strongest potential for FDI to enhance economic growth. Foreign MNEs have a technology advantage over domestic firms and MNE entry in the form of FDI results in a positive externality in the form of technology spillover from the MNE to domestic firms. The domestic firms are thereby able to improve their level of technology and become more productive. The paper attempts to verify whether FDI inflows enhance economic growth. The paper finds that FDI inflows have a positive effect on host country economic growth for developing economies.

The discussion on host-country impact has focused on host developing economies both because they are the principal recipients of FDI from developing countries and because it is the development impact of such FDI that matters the most. The impact of FDI from developing countries on host developed economies is likely to be much less significant than that on host developing economies, because of its much smaller size relative to total FDI in host developed countries.

Although modest in size relative to global FDI flows, FDI from developing countries assumes considerable importance for host developing countries. The direct and indirect effects of the FDI package on financial resource flows and investment, transfer and diffusion of technology, export activity and employment can usefully supplement domestic efforts of host developing countries in those areas. The industrial distribution of developing-country FDI and the technological attributes of developing-country TNCs suggest that developing-country foreign affiliates may be able to interact more effectively with domestic firms in host developing countries than affiliates of TNCs from developed countries.

However, apart from the potential economic benefits of FDI from developing countries – as also in the case of FDI from developed countries – there may also be a number of risks, economic as well as non-economic, for host developing economies. The challenge for host developing economies is to minimize the risks, and benefit to the maximum extent possible from these new sources of FDI. In that context, national and international policies matter.

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TRANSFER PRICING APLLIED IN EUROPEAN COUNTRIES

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This paper provides a background discussion of the arm's length principle, which is the international transfer pricing standard that OECD Member countries have agreed and should be used for tax purposes by MNE groups and tax administrations. The paper discusses the arm's length principle, reaffirms its status as the international standard, and sets forth guidelines for its application in a few European countries.

Key words: arm’s length principle, transfer pricing, OECD guidelines

1. General Considerations

The role of multinational enterprises (MNEs) in world trade has dramatically increased over the last 20 years. On one hand this role reflects the increased of integration in case of national economies and technological progress, particularly in the area of communications. On the other hand the growth of MNEs generated increasingly complex taxation issues for both tax administrations and the MNEs themselves since separate country rules for the taxation of MNEs cannot be viewed in isolation but must be addressed in a broad international context.

In order to apply the separate entity approach to intra-group transactions, individual group members must be taxed on the basis of ***arm's length principle*** in their dealings with each other. However, the relationship among members of an MNE group may permit the group members to establish special conditions in their intra-group relations that differ from those that would have been established by the group members that have been acting as independent enterprises operating in open markets. To ensure the correct application of the separate entity approach, OECD Member countries have adopted the ***arm's length principle***, under which the effect of special conditions on the levels of profits should be eliminated.

Arm's length principle is the international standard that OECD Member countries have agreed in terms of determining transfer prices for tax purposes. It is set forth in Article 9 of the OECD Model Tax Convention as follows: where "conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly".

These international taxation principles have been chosen by OECD Member countries as serving the dual objectives of securing the appropriate tax base in each jurisdiction and avoiding double taxation, thereby minimizing conflict between tax administrations and promoting international trade and investment.

Transfer prices are significant for both taxpayers and tax administrations because they determine in large part the income and expenses, and therefore taxable profits, of associated enterprises in different tax jurisdictions. Transfer pricing issues originally arose in dealings between associated enterprises operating within the same tax jurisdiction. The domestic issues are not considered in this Report, which focuses on the international aspects of transfer pricing. These international aspects are more difficult to deal with because they involve more than one tax jurisdiction and therefore any adjustment to the transfer price in one jurisdiction implies that a corresponding change in another jurisdiction is appropriate.

The authoritative statement of the arm's length principle is described in paragraph 1 of Article 9 of the OECD Model Tax Convention, which forms the basis of bilateral tax treaties involving OECD Member countries and an increasing number of non-Member countries. Article 9 stated that: "[When] conditions are made or imposed between ... two [associated] enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly."

In respect of arm's length principle, the contractual terms of a transaction generally define explicitly or implicitly how the responsibilities, risks and benefits are to be divided between the parties. As such, an analysis of contractual terms should be a part of the functional analysis discussed above. The terms of a transaction may also be described in correspondence/communications between the parties other than a written contract. Where no written terms exist, the contractual relationships of the parties should take into consideration the economic principles that generally govern relationships between independent enterprises.

2. Transfer Pricing in Europe

This Chapter is presenting some general consideration in terms of transfer pricing in some European countries, like taxing authority and law, regulations, pricing methods, transfer pricing penalties, documentation requirements, categories of documentation required, deadline to prepare documentation, deadline to submit documentation, statute of limitations on transfer pricing, assessments, return disclosure – related party transactions, transfer pricing scrutiny, advance pricing agreements.

2.1. Austria

Taxing Authority is the Federal Ministry of Finance.

The current Regulations in transfer pricing in Austria are the OECD Transfer Pricing Guidelines. In this country are no statutory provisions dealing specifically with transfer pricing.

In respect with the **priorities and pricing methods allowed** in Austria are no binding rules.

There are no special **transfer pricing penalties**. If inter-company transactions are not carried out at an arm’s length price, the tax authorities may consider that the difference should be treated as a hidden distribution of profits. The effect of this is that certain expenses become non-deductible expenses and withholding tax is payable on the deemed distribution, subject to treaty relief.

Is no special provisions in which that consider the **reduction in transfer pricing documentation penalty** that could be gained if the tax payer satisfies certain conditions.

Documentation Requirements should follow OECD guidelines. Taxpayers are advised to maintain adequate supporting documentation justifying their transfer prices, as this can shift the burden of proof to the tax authorities.

In terms of **types of information required** as part of taxpayers documentation there is no specific categories of documents required, but a written transfer pricing contract or other documentation is highly recommended.

The deadline to prepare and to submit transfer pricing documentation is just on time. There are no specific limitations on assessment for transfer pricing adjustments.

The risk that transfer prices are scrutinized during a tax audit are high.

2.2. Belgium

Taxing Authority is Ministry of Finance, Federal Finance department.

Tax law is the Belgian domestic tax law and numerous interpretation circulars issued by the Ministry of Finance.

In respect with **regulations and rulings** in transfer pricing, in Belgium exist the follow provisions:

I. Circulars issued by the Belgian tax authorities mainly make reference to the OECD guidelines.

II. a. Belgian Income Tax Code:

- as from 19 July 2004 the arm’s length criteria as determined in article 9 of the OECD guidelines has been implemented in Belgian domestic tax law under article 185 § 2 and with cross-reference in article 235, 2° for non-residents:
- Article 185 § 2 applicable as from 19 July 2004: if conditions are made between two related companies belonging to a multinational group in their commercial or financial relation which differ from those which would be made between independent enterprises, then any profits

which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

Where profits on which an enterprise of a Contracting State have been charged to tax in that State are also included, according to the previous paragraph, in the profits of the enterprise of the other Contracting State and taxed accordingly, and the profits so included are profits which might have been expected to have accrued to the enterprise of the other State if the conditions operative between the enterprise had been those which might have been expected to have operated between independent enterprises dealing wholly independently with one another, then the first-mentioned State shall make such adjustment as it considers appropriate to the amount of tax charged on those profits in the first-mentioned State.

These newly implemented stipulations can, however, only be invoked in case an international procedure for avoiding double taxation has been introduced (for instance a bilateral tax treaty or a EU Arbitration treaty) or a (national) ruling has been filed.

b. Other transfer pricing regulations in Belgian domestic tax law

- Article 26: If a Belgian company grants abnormal or gratuitous benefits to a related entity, the so-granted benefit can be added back to its taxable result, unless the receiving entity has been taxed (in Belgium) on such received benefits.
- Article 79 and 207: The company that receives an abnormal or gratuitous benefit may not deduct tax losses carried forward, investment deductions and dividend received income from the received benefit. As from the financial year 2003 (for companies closing per 31 December 2003) the losses of the year may not be deducted either.

There are no specific **transfer pricing methods** allowed in Belgian domestic tax law. Circulars issued by the Belgian tax authorities mainly make reference to the OECD guidelines.

Also, are no specific penalties **for transfer pricing transactions**. General penalties apply upon assessment of the Tax Inspectors' audit. The Tax Inspectors can reject all or part of the expenses and amend the taxable profits of that year imposing income tax for the extra profits assessed plus penalties (interest) for late payment of tax which can reach 200% of the main extra tax assessed.

In respect with the **reduction in transfer pricing documentation penalty** that could be gained if the tax payer satisfies certain conditions, is no specific regulations.

There are specific **requirements** in Belgian domestic tax law.

Based on the circulars issued by the Belgian tax authorities, general requirements for documents supporting any transaction apply, with reference also to OECD guidelines.

In practice, tax authorities are paying more and more attention to the transfer pricing applied within groups of companies. In this respect, upfront documentation is becoming a necessity in order to substantiate intra-group transactions. The Belgian tax authorities have announced that the absence of documentation may trigger an in-depth transfer pricing investigation.

Types of information required as part of taxpayers documentation requirement. No specific for related parties' transactions or for transfer pricing issues. General rules apply, i.e. written contract (especially for royalties or services with analytical description of services, basis for fees calculation, terms and conditions for transactions, etc), invoices, supporting documentation for payments.

Deadline to Prepare Documentation. Upfront documentation is becoming a necessity in order to substantiate intra-group transactions. **Deadline to Submit Documentation** is upon request of the Tax Authorities.

In respect with **statute of limitations on assessment** for transfer pricing adjustments is not specific for inter-company transactions or for transfer pricing issues, thus general rules apply: According to the Belgian general statutes of limitation, the tax authorities can carry out a tax audit for a financial year up to three years as from the closing date of that financial year (in cases of fraud this period is extended to five years). However, in certain specific circumstances other assessment periods may apply.

Assessments. The assessment year starts 1 January and ends on the following 31 December. The corporate income tax can be assessed until 30 June of the year following the assessment year.

For corporations with an accounting year ended on 31 December, the assessment year is the following calendar year. When the accounting year ends at another date, the tax year is the calendar year in which the accounting year ends.

In the absence of documentation substantiating the intra-group transactions, **the risk** is high that the tax authorities trigger an in-depth transfer pricing investigation.

In accordance with ability that Belgium territory could enter into Tax Authority approved multi lateral or unilateral advance pricing agreements between group companies, the Belgium authorities says that: a preliminary tax ruling can be applied for in order to ascertain the tax regime of the transaction. The timeframe for the tax authorities to deal with the ruling request is set in principle at 3 months, this timeframe can however be changed in mutual consent between taxpayer and tax administration.

During this period the transaction cannot take place if upfront certainty is required. A positive decision will be valid for maximum 5 years.

2.3. Denmark

Taxing Authority is Ministry of Taxation.

Transaction-based preferred over profit based. The **transfer pricing methods** allowed are CUP[176], Resale Price, Cost Plus, Profit Split, TNMM[177].

In Denmark the **documentation requirements** are contemporaneous.

Types of information required as part of taxpayer's documentation requirement are the follow:

- Description of the involved entities
- Description of the type of intra group transactions
- Analysis of the functions and risks undertaken and assets employed by the involved enterprises
- Information about the transfer pricing method applied
- Comparability analysis

Deadline to prepare documentation is by the date for filing the tax return. **Deadline to submit documentation** is on request from the Danish Tax Authorities.

The limitation on a transfer pricing assessment is 1st May in the sixth year after the end of the calendar year replacing the income year.

Is no **advance pricing agreements** regime in place, but Danish tax authorities have entered into a limited number of bilateral APAs

2.4. Germany

The Taxing Authority is Ministry of Finance.

The Tax Law is Gewinnabgrenzungsaufzeichungsverordnung (Tax Ordinance on Transfer Pricing (10/17/2003)).

The current transfer pricing and regulatory provisions. In addition to the main statutory provisions mentioned above, there are draft statements of the Ministry of Finance (10/18/2004) which explain certain details of the transfer pricing. The most important is so called "Gewinnabgrenzungsaufzeichnungsverordnung" (10/17/2003) Principles for the Examination of Income Allocation in the Case of Internationally Associated Enterprises and Other Related Parties

The priorities follow OECD Transfer Pricing Guidelines.

Traditional transactional **pricing methods** are preferable to the transactional profit methods. Profit based methods are not accepted since they are not following the dealing-at arm's length principle.

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[176] Comparable uncontrolled price method compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.

[177] Transactional net margin method examines the net profit margin relative to an appropriate base (e.g. costs, sales, assets) that a taxpayer realizes from a controlled transaction. Thus, a transactional net margin method operates in a manner similar to the cost plus and resale price methods.

The **penalty** is applied if taxpayer fails to submit TP documentation. Regular penalty is calculatea at a percentage of 5 to 10 % of estimated income correction and the minimum penalty is in amount of 5.000 euros. This penalty is also due in a loss situation. The late filing penalty of up to 1 million euros is 100 euros per day of delay..

Penalties may not be imposed if the taxpayer is not responsible for lack of appropriate documentation. A loss situation could lead to a lower rate within the 5 to 10 % margin.

Documentation Requirements: General fiscal code - Gewinnabgrenzungsaufzeichnungsverordnung

Types of information required as part of taxpayer's documentation requirement are the follow:

1. General information on shareholder relationships, organizational and operative group structure, area of operations
2. Description of intercompany transactions (incl. related parties)
3. Functions and Risks analysis
4. Transfer pricing methods analysis
5. Separate documentation of extraordinary transactions

Deadline to prepare documentation is contemporaneous (just on time). For extraordinary transactions the deadline is 6 months after the year end. **Deadline to Submit Documentation** is within 60 days upon tax authority's request.

There is no specific **statute of limitations**. It is accepted that there is no exact transfer price. Thus, a certain range of prices is possible. If the taxpayer can prove that his price is within that range an adjustment is not possible

Assessments are possible according to general adjustment principles normally within four years after filing the tax return, starting with the beginning of tax year after the filing year.

Advance Pricing Agreements are generally available but restricted to 'big' cases, due to German reluctant attitude toward APAs.

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TRANSFER PRICES. ROMANIA VS. NORTH AMERICA STATES

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The role of multinationals in Romania has increased since 1 January 2007, due to the increased integration of national economies and technological progress, particularly in the area of communications. This type of growth presents complex taxation issues for both tax administrations and multinationas, themselves, since separate country rules for taxation cannot be viewed in isolation, but must be addressed in a broad international context. In order to apply the separate entity approach to intra-group transactions, individual group members must be taxed on the basis that they act at arm's length in their dealing with each other. In this context, transfer prices are significant for both taxpayers and tax administrations because ther determine in large part the income and expenses, and therefore taxable profit of associated enterprises in different tax jurisdictions.

Multinational enterprise, associated company, transfer prices, arm's length transaction, tax jurisdiction

What is tranfer price?

Transfer prices are the prices at which an enterprise transfers physical goods and intangible property or provides services to associated enterprises. By associated enterprises, we understand, that one of the enterprises participates directly or indirectly in the management, control or capital of the other or if the same persons participate directly or indirectly in the management, control or capital of both enterprises.

Transfer pricing issues originally arose in dealings between associated enterprises operating within the same jurisdiction, but with time and the growth of world economy and increased integration of national economies, this issue should be dealt at international level. And these international aspects are more difficult to deal with because they involve more than one jurisdiction and therefore any adjustment to the transfer price in one jurisdiction implies that a corresponding change in another jurisdiction is appropriate.

Transfer pricing in Romania vs. North America

In order to achieve the balance between the interest of taxpayers and tax administrators in a way that is fair to all parties, it is necessary to consider all aspects of system that are relevant in a transfer pricing case. One such aspect is the allocation of the burden of proof. In most jurisdictions, the tax administration bears the burden of proof, which may require the tax administration to make a prima facie showing that the taxpayer's pricing is inconsistent with the arm's length principle. It should be noted, however, that even in such a case a tax administration might still reasonably oblige the taxpayer to produce its records to enable the tax administration to undertake its examination of the controlled transactions. In other jurisdictions the taxpayer may bear the burden of proof in some respects. Some OECD Member countries, in respect of Article 9 of the OECD Model Tax Convention, have been established burden of proof rules in transfer pricing cases which override any contrary domestic provisions. Other countries, however, consider that Article 9 does not establish burden of proof rules (paragraph 4 of the Commentary on Article 9 of the OECD Model Tax Convention). Regardless of which arty bears the burden of proof, an assessment of the fairness of the allocation of the burden of proof would have to be made in view of the other features of the jurisdiction's tax system that have a bearing on the overall administration of transfer pricing rules, including the resolution of disputes. These features include penalties, examination practices, administrative appeals processes, rules regarding payment of interest with respect to tax assessments and refunds, whether proposed tax deficiencies must be paid before protesting an adjustment, the statute of limitations, and the extent to which rules are made known in advance.

This Article focuses on the main issues of principle that arise in the transfer pricing area in North America region and Romania.

From the analysis of the legal requirements in United States, Canada and Romania, we conclude that there are a few common issues to be discussed and harmonized, as follows:

a) the name of local taxing authority and what are the main statutory provisions in effect in each country;
b) the current transfer pricing and regulatory provisions in effect in each country;
c) details of the various transfer pricing methods allowed, and the priority with which each method is regarded;
d) the specific penalties that the governing Tax Authority will impose on a transfer pricing transaction if the tax payer is found not to be in compliance with the transfer pricing rules imposed by that country;
e) certain conditions that the tax payer has to satisfy in order to obtain the reduction in transfer pricing documentation penalty;
f) governing tax authority requirements that ask the taxpayers to prepare and maintain written documentation to confirm that the amounts charged in relating party transactions are consistent with the arms length standard;
g) types of information required as part of taxpayers documentation requirement;
h) the deadline to prepare transfer pricing documentation;
i) the deadline for submitting transfer pricing documentation;
j) statute of limitations on assessment for transfer pricing adjustments;
k) when do any assessments based on transactions begin;
l) disclosures required with respect to relating party transactions;
m) the level of risk of transfer pricing issues being scrutinized during the audit by the governing tax authorities;
n) if the state have the ability to enter into Tax Authority approved multilateral or unilateral advance pricing agreements between group companies;
o) the length of such agreements.

No.	**Issues in discussion**	**United States**	**Canada**	**Romania**
1	Taxing Authority and Tax Law	Internal Revenue Service	Canada Customs and Revenue Agency (CCRA)	National Fiscal Administration Agency
2	Regulations and Rulings	Extensive transfer pricing regulations issued under various sections of Internal Revenue Code	Section 237 of the Income Tax Act, the OECD guidelines, IC 87-2R International Transfer Pricing	Fiscal Code Fiscal Procedure Code, article 42, 79 and 219 Ministry of Finance Order 222 as of 8.02.2008 OECD Guidelines
3	Priorities and Pricing Methods	Best method under the Transfer Pricing Regulations	Traditional methods are preferable to the transactional profit methods	The price comparison method, the cost-plus method, the resale price method, any other method recognized in the transfer prices guidelines issued by

No.	Issues in discussion	United States	Canada	Romania
				the Organization for Economic Cooperation and Development.
4	Transfer Pricing Penalties	20% and 40% penalty on underpayment of tax due to Transfer pricing adjustment	10 % penalty on total transfer pricing adjustments, plus non deductible interest	0,1% penalty per day for tax due to transfer pricing adjustment (if it is a profit) A fixed penalty of 2000 – 3500 lei for physical persons and 12000 – 14000 lei for enterprises
5	Reduction Penalties	No penalties apply; there was reasonable cause and the taxpayer acted in good faith with respect to the transaction	The transfer pricing penalty is reduced under the following conditions: - adjustments are less than the lesser of \$5million or - 10% of taxpayers gross revenue	Not applicable
6	Documentation Requirements	Extensive and contemporaneous transfer pricing required	Contemporaneous documentation required	Transfer pricing file
7	Categories of Documentation Requires	Extensive and contemporaneous transfer pricing documentation required include: (i) complete description of the transfer pricing method selected; (ii) complete description of the alternative methods considered; (iii) complete description of the controlled/related party transactions, (iv) complete description of the comparables used and how comparability was evaluated	Statutory required information: - Details of the property/ service involved; - Terms and conditions of the transaction; - Participants of the transaction; - Functions performed, property used and the risks assumed by the partied; - Data and methods considered and the analysis performed to determine the transfer prices; - The assumptions strategies and policies that influenced the	Transfer pricing file includes: - group information, including structure of group, history and financial information, details of group activities, business strategy, changes from the previous year, the assumption used to choose the method to determine the transfer price; - taxpayer information, including a detail presentation of transaction with affiliates, comparative analysis, affiliates and

No.	Issues in discussion	United States	Canada	Romania
			determination of the method applied.	permanent establishment, methods considered to determine the transfer prices, other information.
8	Deadline to Prepare Documentation	By filling date of income tax return	Corporations – within 6 months of year end Partnerships – within 5 months of fiscal year	Within 3 months of a written request from National Fiscal Administration Agency, which can be extended only once, at the written request of taxpayer with a maximum of 3 months
9	Deadline to Submit Documentation	Within 30 days of a request from the internal Revenue Service	Within 3 months from the date of service of a written request from the CCRA	Within 3 months of a written request from National Fiscal Administration Agency, which can be extended only once, at the written request of taxpayer with a maximum of 3 months
10	Statute of Limitations on Transfer pricing	General statute of limitations rules apply	Individuals, trusts and Canadian controlled companies – 6 years from date of initial assessments Other corporations – 7 years	Not applicable
11	Assessments	Not applicable	Not applicable	Not applicable
12	Return Disclosure – Related Party Transactions	From 5471 and 5472 disclosure related party transactions. These forms are required to be filed with the filer's US Income tax return	Tax return disclosure of transactions with shareholders associated/related parties	Financial statements disclosure of transaction with shareholders associates or other related parties
13	Audit Risk/Transfer Pricing Scrutiny	High	High	High
14	Advance Pricing Agreements	Advance Pricing Agreement Program in effect. The APA Program covers unilateral, bilateral and multilateral APAs. Appropriate APA term is	Unilateral and bilateral/ multilateral available but bilateral/ multilateral preferred.	Advance pricing agreements can be unilateral, bilateral and multilateral. Appropriate APA term is determined

No.	Issues in discussion	United States	Canada	Romania
		determined on a case-by-case basis.		on a case-by-case basis (up to 12 months for a unilateral APA, up to 18 months for bilateral and multilateral APA)

Analysis of Transfer Pricing Legal Requirements in United States, Canada and Romania

As it could be seen, the Romanian legislation offers place for improvement, the transfer pricing being a challenging domain both for taxation and economic matters within the Romanian economy. Up to now, it has been identify only a few adjustments made by Fiscal Authorities. For example, the rent charged by a company having a shareholder relation of 5% with a Romanian company has been increased up to the amortization cost plus 30%.

Conclusion

In conclusion, countries need to reconcile their legitimate right to tax the profits of a taxpayer based upon income and expenses that can reasonably be considered to arise within their territory with the need to avoid the taxation of the same item of income by more than one tax jurisdiction. Such double or multiple taxation can create an impediment to cross-border transactions in goods and services and the movement of capital.

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APPRECIATIONS CONCERNING ECONOMIC POLICIES COORDINATION IN EMU

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Abstract: This paper intends to put into light the particularities of economic policies coordination in general and, more specifically, in the Economic and Monetary Union. The coordination of economic policies and especially of the common monetary policy with the national budgetary policies is determined by growing interdependences between member states and by the existence of some public goods within the Union and it aims at a quicker adjustment of shocks and at stabilizating the economy in the Eurozone. Realizing an efficient coordination of economic policies reprezents a necessary condition for achieving a stable and durable economic growth within the Union and it implies increasing the credibility of the authorities, transparency of the economic policies and, least but not last, increasing cooperation (dialogue) between authorities.

Key words: coordination, national budgetary policies, common monetary policy, external effects, economic interdependence, public goods

1. Introduction

The Economic and Monetary Union is an original construction that individualizes itself through the distribution of the economic policy competences between a common monetary power represented by the European Central Bank, according to the federal principle and a budgetary power represented by the national governments, according to the subsidiarity principle. Consequently, the Economic and Monetary Union disposes of a single currency and 15 national budgets (presently). On this background, the coordination of the economic policies in the Economic and Monetary Union focuses on two fundamental aspects, namely: on the one hand, the coordination of the common monetary policy with the national budgetary policies, and on the other hand, the coordination of the national budgetary policies.

The issue of the coordination of the economic policies in the EU constitutes the topic of numerous studies and debates, but at the same time, it is explicitly provided by the Maastricht Treaty as well. Thus, in compliance with art. 2, the common objectives of the European Community are to "promote a harmonious and balanced development of the economic activities, a durable and non-inflationist growth, a high degree of convergence of the economic performance, a high level of employment and social protection, the increase in the level and quality of life, the economic and social cohesion and the solidarity between the member states. With the purpose of achieving these objectives, art. 3 of the Maastricht Treaty shows that the actions of the member states and of the Community must consider the implementation of an economic policy based also on the close coordination of the member states' economic policies. In addition, art. 103 specifies that the economic policies of the member states are "a problem of general interest and must be coordinated".

2. Doctrinary approach

The economic doctrine often addresses the issues of how conducting economic policies and economic policies coordination. At the risk of gross oversimplification, two main schools of thought can be emphasized.

The first is represented by the Keynesian economists. They emphasize market failure and thus the need for an activist management of the economy. Price stability and growth are seen as conflicting objectives, at least in the shorter term, and macroeconomic policies are directed at guiding aggregate demand in order to achieve an optimal trade-off. The focus is on cyclical stabilisation of the economy. Both monetary policy and fiscal policy are called to contribute to this task, which imposes the need for close coordination in order to obtain the maximum results.

The reference model which allows the analysis of the monetary policy coordination with the budgetary policy, elaborated by the Keynesian economists Hicks and Hansen, is the IS- LM model. The IS- LM model reflects the interdependency relations between the equilibrium on the market of goods and services and the money market equilibrium and allows the analysis of the possible interventions of the state, either through the fiscal- budgetary policy for influencing the real sphere, or through the monetary policy for influencing the money sphere, or by combining the two types of policies. The fundamental conclusion resulting from the IS- LM analysis is the following: coordinating the monetary policy with the fiscal-budgetary policy would have a higher efficiency compared with the situations when the two economic politics instruments would be used singularly.

By contrast, the neo-classical economists highlight the potential for government failure and are more sceptical on the effectiveness of policy intervention. The long-run neutrality of money is stressed. Instead of short-run stabilisation greater emphasis is placed on appropriate incentives and credible institutional design for long-run stability. From this perspective a stable economic environment (and price stability in particular) is regarded as pre-conditions for growth. In this context, the coordination between fiscal and monetary policies would be needed for ensuring the stability of the economy.

These two main schools of thought have exercised their influence in various ways over time, both within the academic environment and in policy circles. The 1960s were no doubt the heyday of keynesians. Faith in macroeconomic demand management was then severely affected in the 1970s and 1980s, both by the theoretical assault of new classical economics and incurrance of stagflation. The Maastricht Treaty and reforms aiming at better control of public finances in a number of countries around the world in the 1990s reflect the new consensus and the lessons learned from the earlier experience.

2. The necessity of economic policies coordination and particularities in EMU

The coordination of the economic policies within the Economic and Monetary Union and especially of the common monetary policy with the national budgetary policies is imperative as a consequence of the interdependences that exist between the member states and of the presence of collective (public) goods within the union.

As regards the first aspect, the increase in the economic interdependences between the member states, it generates an enhancement of the external effects, first of the negative ones, produced by the policy promoted by one member state on other member states. For instance, the aggravation of the budget deficit of a member state may generate an increase in the interest rate on a long term, which eventually will be covered by all the governments when they pay their public debt. Moreover, taking into account the priority objective pursued by the European Central Bank, namely the stability of prices, it is possible that the aggravation of the budget deficit or the public debt of a member state may lead to an increase in the interest rate on a short term by the monetary authority, and the effect would be suffered by all the member states of the Monetary Union. Consequently, it may be ascertained that whereas the economic policy promoted by one of the member states is perceived as unsustainable, there may appear reactions from the markets and the European Central Bank that will be suffered by all the member states of the union. Of course, besides the external negative effects, there are also positive effects in the Monetary Union that are many times neglected or minimized, such as the diffusion of the technical progress, the training of manpower, the creation of some common transportation or telecommunication networks etc.

Concerning the second aspect – the presence of collective goods in the Economic and Monetary Union – these goods are represented by the monetary stability, the credibility of the monetary policy of the European Central Bank, the sound management of the public finances, the stabilization of the euro area's economy etc.

With a view to limiting the negative external effects and to expanding the positive ones and preserving the collective goods, special importance is granted – within the Economic and Monetary Union – to the coordination of the economic policies and particularly to the common monetary policy with the national budgetary policies.

Generally, regarding the coordination of the economic policies, two perspectives stand out [3], namely:

- the so-called "coordination – public good", which would have as an objective the creation and preservation of international public goods that are based upon rules. For instance, the Stability and Growth Pact is considered a coordination instrument of the national budgetary policies in the euro area and intends to contribute to the preservation of a stabile and non-inflationist monetary union, through the "control of the public finances".
- the second perspective considers the coordination as a response to the external effects of the national economic policies and would have as an objective the maximization of the collective welfare. Such coordination is called "strategic coordination" and is based on the capacity of governments of exercising discretional policies, based on mutual agreements. This form of coordination is, nonetheless, more difficult to achieve, as it implies the co-operation of the participating parties with a view to elaborating an assembly of policies based on the differential use of the available economic policy instruments.

Therefore, it is estimated that the simplest coordination form is the one based on rules or constrictions, as they could preserve a certain decisional independence, or at least the illusion of such independence.

Within the Economic and Monetary Union, since the national budgetary policies are under the responsibility of the member states, it was considered indispensable to set budgetary rules (provided both by the Maastricht Treaty and the Stability and Growth Pact), which – by ensuring the budgetary discipline – may contribute to a balanced and durable economic growth. The arguments invocated in favour of a set of budgetary rules focus on the display of contagion (contamination) effects, on the background of the promotion of an inappropriate budgetary policy by a state, both between the member states of the union and between the budgetary policy and the monetary policy. Nevertheless, the coordination through budgetary rules shows certain disadvantages that are in fact present in relation to any kind of rules. Thus, it is estimated that a "good" budgetary rule should respond to all exigencies, among which it should: be simple and transparent, be constantly modified, be in conformity with the budgetary results and be constrictive. Besides these exigencies, the specialized literature [4] invokes other conditions as well: the rules should offer certain flexibility to the public authorities and favour – to a certain extent – the economic growth. The flexibility condition implies the fact that, in applying the rule, the implications of some events should be kept in mind (such as fluctuations of the economic growth, unforeseen shocks) on the budgetary results. As for the conditions of favouring the economic growth, it would imply no conflict whatsoever between the application of the rule and the action of the public authority in favour of the economic growth. Taking into account these exigencies that should be met, the construction of a "good" rule is difficult to achieve. For example, the increase in the flexibility reduces the simplicity of the rule, and it is hard for a simple and transparent rule to consider the favourable effect of the action of the public authority on the economic growth. Consequently, the budgetary rules will be eventually a compromise between different exigencies.

With a view to correcting some drawbacks of the budgetary rules, in 2005 (March) the Stability and Growth Pact was reformed, which brings significant changes regarding the preventive and corrective procedures from the original pact. At the same time, the new pact pays more attention to the co-operation between the member states of the union, the European Commission and the EU Council and improves the surveillance of the observance of the budgetary rules.

The amendaments brought to the Stability and Growth Pact (which make the budget laws be more flexible, but also more complex) aim at a better management of public finances, but the manifestation of the positive effects will finally depend on the manner of applying the new framework by the member states of the Union, the European Commission and the EU Council.

One of the most concerning issues and at the same time difficult in the matter of economic policies within EMU is represented by ensuring an efficient coordination of the common monetary policies with the budgetary politics of the 15 member states. In the euro area, the common monetary policy has as priority objective maintaining the stability of prices (defined as an annual increase of under 2% of the harmonized index of the consumer price) on medium term. However, the economic divergences which exist between the member states of EMU make the impact of the common monetary policy become non-similar. For example, the common monetary policy can appear as being too restrictive for the countries which register an increase of the GDP under the increase of the interest rate (such as Germany or Italy), while for other countries, where the increase rate of the GDP is superior to the interest rate (for example Ireland) the common monetary policy is perceived as being expansionist. As a result, the transmission of the common monetary policy has asymmetric consequences since the national financial systems, the economic structures and the shock adjustment mechanisms are different.

Perceiving differently the interest rate established by the central bank also appears in the case of the USA where Fed establishes the interest rate for all the member states. However, we appreciate [6] that the main difference between the Euro area and USA consists in the high degree of mobility of the working force in the USA and the capacity of the American federal budget of promoting the resource transfers between the states. Such elements do not appear within the European Union where the federal budget has a small percentage (under 1% of the area GDP), and the language barriers, the non-recognition of degrees etc. limit the mobility degree of the working force. At the same time, according to some, the skepticism which is manifested towards the euro currency would mostly be due to the ECB monetary policy, which would not support the economic growth and the structural reforms (such as it is the case of the USA or Japan).

In this context, there were several proposals [6] of modifying some articles of the Maastricht Treaty. For example, the modification of article 105 of the EU Treaty is supported so that the common monetary policy to have as objective, besides the stability of prices, the support of the economic growth and the occupying of the working force as well.

Under the current conditions, EMU is characterized by a bigger number of member states- of different sizes and with different economies from the structural point of view – and also by manifesting some behaviors of the type "clandestine passenger" [5]. Such behaviors appear from the small states, which, especially under the conditions of a macroeconomic shock, benefit from the economic policies for sustaining the economic growth promoted by the bigger states without supporting any cost or take advantage from the interest rate decrease without having a lower inflation. In this context, achieving collective actions which would ensure the economic growth in EMU and would also counter-attack the opportunist temptations, would be of high importance.

3. Conclusions

The economic divergences which exist between the member states of the UEM, and also the asymmetrical consequences of transmitting the common monetary policy call for an efficient coordination between the common monetary policy and the national budgetary policies as well as for important structural reforms for the achievement of a stable and durable economic growth in the Euro area. The history of the international monetary systems proves that the lack of a real coordination of economic policies is the source of the most important monetary instabilities.

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THE STRENGHTENING OF ROMANIAN LOCAL FINANCIAL AUTONOMY’S LEVEL IN THE EU CONTEXT

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The Romanian local public finance should be continuously improved by the time it will correspond totally to the requirements of European Union, taking into consideration that the consolidation of public finance at the level of territorial public administration depends on the measure of decentralization and of the strengthening financial autonomy’s level. At the same time, local government must be in accord with European Union legislation as Maastricht Treaty and. European Charter of Local Self-Government

This study is primarily intended to provide the stage of Romanian financial autonomy in the context of European Union with the help of its relevant indicators and the establishments of legislation limits.

Key words: Romanian integration, European Union, local public finances, local financial autonomy, local budget, own revenues, expenditures, competences

Introduction

Local authority financing is currently at the heart of the political debate. All the European Union’s member states are faced with the challenge of reconciling the need to control and reduce public spending with greater financial autonomy in local government. They are accordingly seeking ways of achieving an equitable distribution of financial resources among the different levels of government in a context of budgetary cutbacks at every level of public administration. At the same time, local fiscal policy has to be judged in the light of the Maastricht criteria which say that candidates for the monetary union must – among other things – not run an excessive deficit (a general government deficit of more than 3% of national gross domestic product and a general government debt of more than 60% of national gross domestic product).

1. Revenues indicators

For the analyze of local financial autonomy are relevant the realized revenues and not the forecasted revenues. In this context, local authorities must avoid the differences to big between forecasted revenues and realized revenues. A healthy autonomy level supposes, also, a good forecasting of local budget.

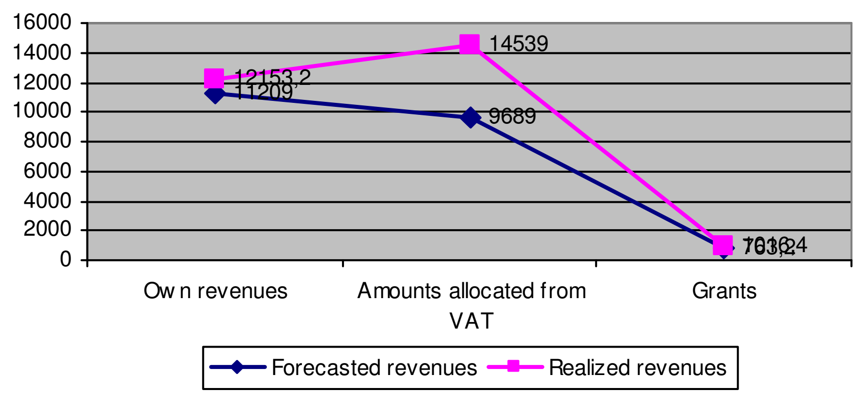

Figure 1: Local public revenues in 2006 (mil. Lei)

Source: www.gov.ro and Romanian Statistical Yearbook 2005 – 2007

Local authorities succeeded to make a good forecasting for own revenues and grants, but there are big differences at the amounts allocated from VAT. The percentage of realized revenue from VAT is 150%. In this context, it is relevant the local authorities must try to be more independent and do not depend by the transfers from the state budget, because the transfers are insecure.

a) The level of financial autonomy

In accord with principle of subsidiarity [The Treaty of Maastricht, Title II, Art. G, 3b], local government must try to resolve its own problems and for these it needs own resources. High own resources give independence to the local authorities in the way haw there are spent the own resources, demonstrating financial autonomy.

The level of financial autonomy, as an indicator of revenues, is determined with the relation:

The level of financial autonomy = Own revenues / Total local revenues * 100

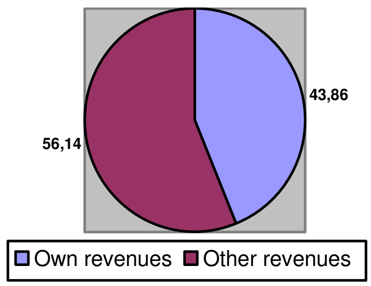

Figure 2: The level of financial autonomy in 2006 (%)

The level of financial autonomy forecasted is 51,7 %, but the level of financial autonomy realized is 43,86%. Being under 50%, the local governments still demonstrate the dependence from the state budget transfers. This dependence suggests a low local financial autonomy and it is absolutely necessary to rise the own revenues. In the same time, Romania's situation is better than the average of EU-15 member states in 2004, when local tax revenues from total tax revenues represented 17,7%.

Until 2003, Romanian own revenues represented 25% - 30% from total local revenues, but after the new rules established by The local public finances Act, own revenues have grew up (own revenues includes also quotas from income tax) [The local public finances Act, Art. 5(1)]. Another way to rise the own revenues is given by Fiscal Code – local authorities can rise local tax with 20%[Fiscal Code, Art. 282] and can - but generate a high fiscal level and local governments avoid to use this method.

b) Percentage of local public revenues

The local financial autonomy is bigger if own revenues in total local public revenues are bigger (local tax and quotas from income tax)

Revenues	**2004**	**2005**	**2006**
Own revenues	46,8	45,93	43,86
Amounts allocated from VAT	47,43	47,31	52,47
Grants	5,77	6,76	3,66

Table 1: Dynamic of local public revenues percentage in 2004-2006 (%)

Source: Romanian Statistical Yearbook 2005 – 2007

The year 2006 keeps the same rate of quotas from income tax mentioned by the new local finances act [The local public finances Act, Art. 32 (1)]. Quotas from income tax , 7550 million lei, represent 62,12% of total own revenues in 2006, towards 2005 when quotas from income tax were 4799 million lei, represented 51,1% from total local own revenues. The transfers from the state budget to local budget eliminate the amount allocated from income tax, but keep amounts allocated from VAT and grants. The amounts allocated from VAT in 2006 are bigger than previous years, but grants are smaller.

For obtaining bigger own revenues, were raised building tax, transport tax, yacht tax in 2006.

c) The amount of state transfers to local budget in total state revenues

The amount of state transfers to local budget in total state revenues show the level of state implication – central administration – in the sustaining of local budget. As a rule of local financial autonomy, is indicate this amount to be smaller.

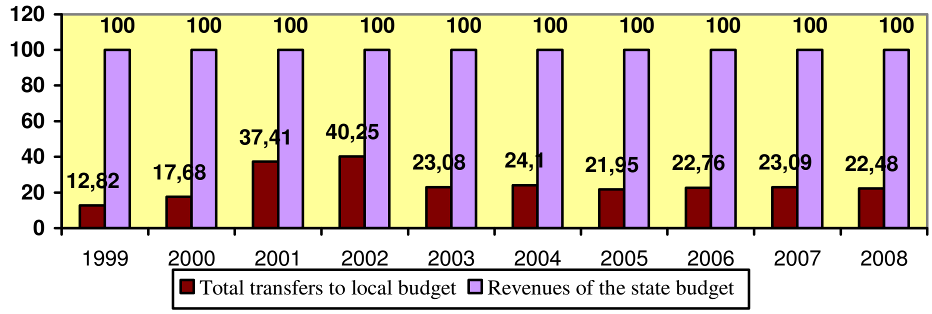

Figure 3: The evolution of state transfers to the local budget in total revenues of central public revenues (%)

The total transfers from state budget to local budget in Romania show big fluctuations over years, about 12,82% in 1999, 40,25% in 2002 and 22,66% in 2006 and 22,48 in 2008. These fluctuations are possible as a result of the decentralization process which supposes the reducing of transfers and the sustaining of exclusive competences from own resources.

The quotas from income tax are considered as own revenues. The income tax is collected at the state budget. At the end of the month, central authorities transfer 47% to local budgets, 13% to county budget and 22% in a special account of general departments of county public finances for the equilibrium of local and county budgets. The sum of percentages (47+13+22 = 82 %) demonstrates that to the state budget remain only 18% from the income tax.

d) Fiscal revenues

A relevant place in total local revenues belongs to the fiscal revenues. Local public revenues are collected using local fiscal policies, which are part of national fiscal policies. The tax redistribution is used to assure fiscal revenues to local authorities. The disadvantage of the redistribution system is the state consideration - if it shares its revenues with local authorities, it has the right to control haw the resources are used (specially, the opportunity of local authorities' decision-making). Another disadvantage is local taxes are established by national law and, so, local public administration doesn't enjoy of a real local autonomy.

Fiscal revenues have risen over the 2004-2006 period. The evolution is shown in the following charter:

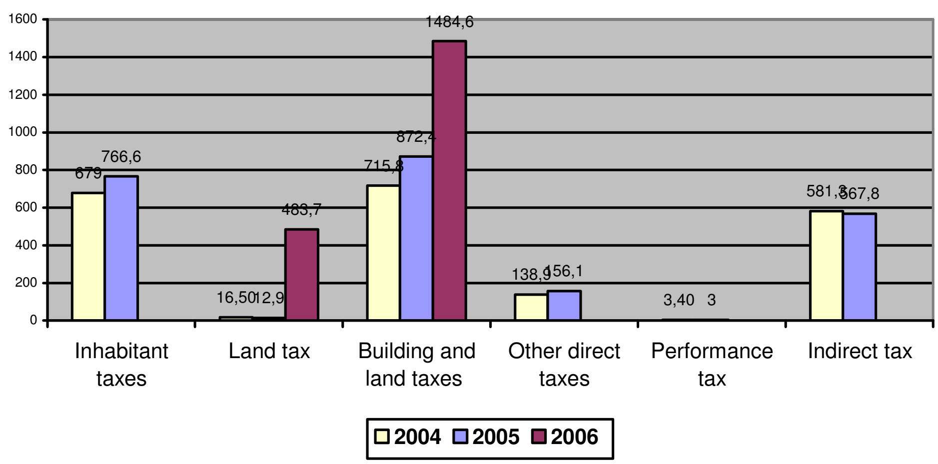

Figure 4: The evolution of local fiscal revenues in 2004-2006

Land tax is an important source of local fiscal revenues in Romania, but also in majority countries of the European Union. The transformation of land fee in land tax in 2006 generated a rising of these revenues. Indirect tax registered regress.

In general, the evolution of fiscal revenues in Romania is a positive one and this contributes to the implementation of local autonomy financial principle. If local administrations have the capacity to generate own revenues, they will succeed to detach from the state budget transfers.

e) The ratio of local public revenues to gross domestic product (GDP)

In Romania, total revenues of the local budgets represented 27708,6 million lei in 2006, meaning 8,4 % from GDP. In the same period of time, in the EU-27, the ratio of local tax revenue to GDP represented 11,2%.In this context, the ratio of local tax revenue to GDP in Romania is not faraway to the average of EU-27.

2. Expenditure indicators

a. The level of covering local public expenditures with own revenues

The impact of decentralization process can be analyzed using the level of covering local public expenditures with own revenues indicator:

The level of covering local public expenditures with own revenues = Own revenues/Local public expenditures * 100

This indicator is preferable to be big because local public administration can demonstrate its capacity to cover local public expenditures with own revenues and, so, its financial autonomy.

	2002	**2003**	**2004**	**2005**	**2006**
The level of covering local public expenditures with own revenues	24,45	28,09	24,39	46,57	47,86

Table 2: The level of covering local public expenditures with own revenues in 2002-2006 (%)

Data table shows a low capacity to cover the local public expenditures with own revenues in the period of time 2002 – 2004. Starting with 2005, this indicator raise to 47,86% in 2006. This rising demonstrates a good start for implementing the local financial autonomy.

b. Ratio of local expenditures

In Romania, the capital expenditures in local public budget imposed by the necessity of development of local public investments must rise as a condition of local public autonomy. The current expenditures are still too big. In 2006, the capital investments to local expenditures represented 19, 72%. In the same period of time, the average of EU-27 of capital investments to total local expenditures was 12,7%.

	Romania (million Lei)	**EU-27 (million Euro)**
Total expenditures	28761	1322956
Intermediate consumption	7076	331259
Compensation of employees	11608	453157
Interest	330	22186
Subsidies	16	44349
Social benefits	2998	196180
Other current expenditure	1061	76483
Capital transfers payable	0	29912
Capital investments	5672	168419

Table 3::The ratio of local expenditures in EU countries in 2006

Source: Eurostat

c. Local public expenditures to GDP

A relevant indicator for the level of taxpayer satisfaction is local public expenditures to GDP. This indicator allows estimating the amount of local public expenditures in accord with the economic and social development of each state. In 2006, local public expenditures represented 8,4% of GDP in Romania and 11,4 %of GDP in EU-27.

d. Local public expenditures to total public expenditures

Local public expenditures to total public expenditures is another important indicator for the ocal financial autonomy. In 2006, local public expenditures represented 41% of total public expenditures in Romania and 44,70% in EU-27.

	Romania (million Lei)	**EU-27 (million Euro)**
Local public expenditures	28761	1322956
Total public expenditures	68498	2959098

Table 4: Public expenditures in 2006

Source: Eurostat

Conclusion

Local public authorities in Romania, in accord with local autonomy principle, subsidiarity principle have big competences and the power to make expenditures established by Local public finances Act and Decentralization Act. The local financial indicators show the presence of financial autonomy in Romanian reality, but the funds are insufficiently for to perform good local public services as in others European Union countries. In spite of this, financial autonomy and the decentralization process make progresses as a result of the experience of local authorities in the funds management.

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THE INFLUENTIAL FACTORS ON THE EXCHANGE RATE IN ROMANIA

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Abstract: The exchange rate between foreign currencies is a variable which depends on internal and external factors. By their nature, actors which influence the exchange rate can be economic, monetary, financial and psychological.

The stability of the exchange rate determines the predictability, homogeneity and continuity of the macroeconomic policies, whilst a greater volatility in the development of the national currencies exchange rate not only affects the accuracy of the forecasts but enhances its sensitivity as well, respectively the effect of its internal or external factors. In the following, I intend to highlight and to ascertain the fluency of these factors over the exchange rate in Romania, before and after its adhesion to the European Union.

Key words: exchange rate, influential factors (of influence), foreign currency, balance of payments, inflation rate, currency depreciation, currency appreciation.

1. Introduction

The exchange rate is one of the most synthetic prices in the economy, the expression of a generalized balance on the real market, the monetary market and the capital market. The development of the exchange rate is influenced by the degree of economic growth, by the evolution of prices on the asset an services market (inflation), by the national economies' ramified structure, by external competitiveness and international openness as well as by the political stability and the governments ability to solve the internal crisis which an economy may have to face at a given time. The number of factors that directly or indirectly influence the exchange rate make it difficult to model such a complex and dynamic economic variable. But at the same time, the existent links between the foreign currency market, the monetary and the capital markets make that the short term, medium or long term evolution of the exchange rate itself has an influence over the global economic balance.

The exchange rate is not a static measurement but a dynamic one. The evolution of the exchange rate is determined by a number of factors which do not have a linear influence, but a particularly complex and inconsistent one, a single factor being able to neutralize the influence of others or several factors may act in the same direction.

1. One of the most important factors that influence the foreign exchange rate is the *position of the balance of payments.* The equilibrium external balance of payments depends on the import and export value, on the product efficiency and competitiveness, on the level of the prices, on international services and international market conjuncture. In return, the exchange rate influences the equilibrium of the external balance of payments, as a consequence of the connection between them. The depreciation of the foreign currency stimulates export growth, reduces imports and generates a tendency equilibration of the balance of payments.
2. *the ratio between the foreign currency demand and offer* has an influence over the foreign exchange rate, since the demand in foreign currency depends on the loan value, on the international services needed, on the credit reimbursements terms and on the interest rate;
3. *the increase in the circulating monetary mass* contributes to the depreciation of the national currency, and the actions to restrict monetary mass determine the appreciation of the national currency;
4. *credit encouragement or limitation* influence both the national economy and the exchange rate;
5. *increased interest* discourages credit demand, diminishes the circulating monetary mass and generates positive effects on the national currency's exchange rate. Decreasing the interest facilitates access to the credit, determines implicitly the growth in the circulating monetary mass and national currency depreciation;

6. the ratio between the export prices and the prices of imported assets influences the foreign exchange rate;
7. *the increase in internal inflation* determines the national currency depreciation, and the decreasing inflation index reflects positively on the national currency rate;
8. budget deficits and surpluses;
9. *tax policy and the structure of the budget expenditure* stimulate or restrain domestic production, public sector input;
10. *economic policy measures* which favor or enclose economic trades;
11. banks buying or selling foreign currency on the foreign currency market;
12. increased *output* reflects in competitiveness, export growth and insuring the internal balance;
13. investments directed towards high productivity and efficiency areas;
14. the degree of coverage of imports over exports.

The analysis of the determining factors of the foreign exchange rate evolution also implies knowing an issue particularly difficult to define, and that is if the analyzed determining factors of the foreign exchange rate themselves have not been influenced by the evolution of the foreign exchange rate. Thus, economic theory and practice show that the active or passive balance account of the current balance of payments or of the capital determines the foreign currency demand and offer, and through the mechanism of foreign currency demand and offer, the balance influences the exchange rate development. But is also true that economic theory and practice proves that the development of the exchange rate can stop or encourage import or export, stimulate or decelerate the input or issue of foreign capital in a country.

2. Influential factors on the foreign exchange rate in Romania in the period pre and post adherence to the European Union

In Romania, there have been a series of changes regarding foreign currency and international transactions. It started from one of the lowest GDP/per capita level in Europe (1985- 1989). The ROmanian New leu (RON) had an exchange rate set on three currencies (dollar, pound, german mark), but, in the context of accentuated inflation, this system overcharged the exchange rate with undesirable implications: decreasing competitiveness on the external market, deteriorating the net exchange index.

Starting from 1991, the ROmanian New leu “internal convertibility in the current account” has been introduced, but the parallel foreign currency market maintains. A decision has also been taken (which later proved to be damaging) to convert in Romanian leu dollar deposits to the internal banks. The decision was revoked shortly afterwards. At the end of 1991, the exchange rate regime is managed floating (BNR intervenes to amortize fluctuations).

Ever since the beginning of the transition period, the interdependency relationships between the exchange rate, the inflation rate and the imbalance of the foreign balance of payments have constituted controversial issues of the Romanian economy. In establishing the role that the ROmanian New leu exchange rate has in redressing the macroeconomic imbalance, there have been two options: that of anti-inflationist anchor and that of an influential tool of the external balance of payments. The extent to which one of the two options prevailed reflected in the evolution of the exchange rate.

Generally, there has been an attempt to maintain the balance between the necessity of ROmanian New leu depreciation in order to stimulate export and avoiding prices to increase. In the Romanian economy, marked by serious structural imbalances and by an important corrective component of the inflation, the exchange rate has been one of the determining factors in the price movement, but not the most important one.

The import structure on groups of merchandise, defined by the great importance of the interchangeable component (raw materials, energy) contributed to the fact that the import demand has a reduced flexibility comparing to the price. The GDP, import, export, investment and input evolution in Romania in the 1989-2006 period is according to the table below:

Tabelul nr. 1. The evolution of the main macroeconomic indicators in Romania during 1989-2006

(Values=millions RON)

Year	GDP	Export	Import	Investments	Input
1989	80.000	16.780	13.500	23.640	56.390
1990	74.652	11.585	18.467	14.669	59.190
1991	59.468	9.217	11.608	8.473	45.130
1992	54.376	12.607	1.671	8.014	41.870
1993	45.690	8.611	1.071	6.435	34.744
1994	70.186	14.488	15.516	11.289	53.405
1995	79.602	17.892	21.567	14.341	64.734
1996	76.605	17.556	23.163	14.731	63.256
1997	70.759	16.976	21.107	12.347	61.161
1998	74.377	16.825	22.795	12.041	67.148
1999	70.147	19.654	23.044	10.790	62.259
2000	73.429	24.135	28.269	11.418	62.842
2001	81.869	16.908	33.629	14.317	69.743
2002	90.155	31.947	37.086	16.173	75.748
2003	103.056	35.775	43.514	18.597	88.277
2004	117.626	42.262	52.919	21.414	100.296
2005	126.583	41.693	54.785	23.979	110.932
2006	143.488	46.474	63.857	25.287	126.607

Source: Processing of the Statistic Yearbooks data and data on www.insse.ro

From the analysis of the data taken from the Statistic Yearbooks one can observe that the evolution of Romania's GDP during 1989-2006 is an oscillating trend. Thus:

1. in the 1989-2003 period there is a decrease in the Romanian GDP, that concurs with the beginning of the social movements; the yearly maximum decrease is registered in 1991;
2. the years of 1991 and 1995 mark a national GDP growth;
3. the period between 1995-1999 represents a period of decrease of the national GDP, except for 1998 when there is registered a slight appreciation;
4. starting with the year 2000 one can notice that the Romanian GDP has entered an ascendant trend, registering for the first time a GDP greater than during the communist period in 2002.

The evolution of the prices on the external market for import, respectively export, difficult to anticipate and incontrollable by the national authority, strongly affect the exchange rate of an economy, such as the Romanian one. Moreover, they have deprived the Central Bank from quantifiable and predictable elements in defining the exchange rate policy. In the context of Romania's import and export commercial inflows, those products whose prices formed on the exchange market are exogenous variables (oil products, cereals, chemical compost) have an increased weight, and the Romanian economy remains a receptor of these external trends.

In the actual conditions of the Romanian market, liberalizing prices imposed itself as an objective requirement for the setting on economic fundamentals, on one hand of the ratios in the internal prices system, and on the other hand of the ratios between the internal and external prices. Concurrent to that, there has been the need to develop the restructuring process at a macroeconomic level, and the syncope and the inconsistencies have amplified the otherwise inevitable inflationist phenomenon.

The actual dynamics of the exchange rate reflected, with few exceptions, an overvalued level. The nominal depreciation index reveals an evolution systematically under the dynamics of the inflationist process (according to the price indexes calculated by the National Statistics Commission). Given the inflationist potential of every sudden movement in the exchange rate, the monetary authority pursued a “nominal target” using the methods specific to the ROmanian New leu managed floating.

Overestimating the exchange rate generated distortions in the economy, equaling a subsidy given to the importers, respectively a tax bared by the exporters. Despite this, depreciation cannot be automatically accepted as a balance lever in reestablishing the equilibrium trade balance. Given the structural nature of the imbalance, solving it can only be made by using a macroeconomic policy mix (fiscal, budgetary, commercial, and monetary) corroborated with the reorganization of the real sector.

The exchange rate balance lever acts like an exogenous stimulus with limited effects over time. It cannot be efficiently used to correct some temporary imbalances. On a long term, the determining factor is economic competitiveness, in which productivity plays an essential part. Beyond the direct effect of the national currency overvaluation reflected in the balance of payments, there are also indirect effects that appear and which are less noticeable. Not being able to appropriately evaluate the production factors, the price system is the first one being affected. The typical case for the Romanian economy was that of the oil products.

In the foreign currency market area, overvaluation generated serious dysfunctions whose final consequence was the irrational distribution of resources and the input of inflationist forecasts. The monetary policy has been globally affected negatively, in that direction that dysfunctions induced by the exchange rate have been counteracted by increased interest levels.

During the first 10 months of 2005, the Romanian foreign trade continued to register an increased pace of growth of 16,9% on export and respectively 24,1% on import.

A positive aspect is noticed in the evolution of the net exchange rapport index (the ratio between import and export unitary value indexes) which has been of 103,5% during the first 10 months due to the more accentuated growth of export prices comparing to the import ones for most of the merchandise groups, representing an improvement by 3,5%. The ratio of gross exchange (the ratio between the physical volume of export and import indexes) was of only 98,6%, the increase in the physical volume of export and import) outmatching the export one by 6,1%.

By analyzing the exchange rate evolution corresponding to the two main currencies that prevail in the foreign exchange reserves, meaning ROL/EUR and ROL/USD, afferent to the period between 31.01.1995 – 31.05.2006, the following aspects were noticed:

1. since the putting into circulation as a scriptural currency (in 1999) and until its circulation (in 2002), the single European currency had an increasing trend;
2. a modulation point in the evolution of euro has been in 2003 when euro became a nominal anchor for monetary policy promoted by the BNR. Since that moment, the dollar lost ground against the single European currency. The national currency rate no longer follows a managed, linear trajectory comparing to the two other foreign currencies.
3. after the adoption of the direct inflation targeting regime and on the grounds of a free foreign currency quotation, a component of the current account’s complete liberalization policy, the national currency knew historical appreciations comparing to the two currencies composing the foreign currency reserves: the euro and the American dollar. This appreciation has also been encouraged by the success of BNR in fighting against inflation.

3. Factors of influence over the foreign exchange rate during Romania’s adhesion to the European Union

Romania adhered to the European Union the 1st of January 2007. Even if we have been members of the European Union for over a year, the nominal and real convergence process towards the euro zone will have to continue, perhaps even faster than before. Romania’s objective is to enter the Exchange Rate Mechanism (ERM2) and to subsequently adopt the euro. In order to accomplish this objective, the inflation rate will have to decrease substantially in the following years. This mission may be considered difficult considering the inflation persistence and the inflation rate forecasts in Romania.

January 2008 brought an increase of 1,6 % in the industrial production, comparing to December 2007, and by 6,1% comparing to last January, an increase maintained by the electric and thermal energy, natural gas and water, which increased by 5,1% and by the processing industry which increased by 2,4%.

After the 2007 progress, constructions have increased their weight in the GDP from 7,4% in 2006 to 9,1%, outranking for the first time agriculture, which went from 7,8% to 6,6% in 2007. For the year 2008, signals show a sustained progress of the sector in which Romania is the European leader, since the increase registered in January was of 29,5%.

Regarding the utilization of the gross domestic product in 2007, the population's input contributed the most, with 8%, to the economic growth, both as a consequence of the proportion as high as 77% that it holds, and also on the account of its increase in volume. If last year, the GDP forecast reduced the proportions held by the current account and budgetary deficiency to 13,9% of the GDP, and respectively 2,33% of the GDP, the forecast for this year is not as optimistic, even if January is the second consecutive month when the pace of export growth exceeded the import one. The import growth decelerated by 11,3% comparing to January 2007, while exports increased by 16,9%. As a consequence, the evolution of the trade balance deficit decelerated to 2,8%, until 1,4 milliards of euro, comparing to over 80% in January 2007.

Experts estimate that the pace of export growth will maintain more alert this year comparing to 2007, especially in the capital goods and high value-added products area. The weight of the commercial deficit in the GDP will position itself to aproximately 16% of the GDP at the end of the current year, while the BCR prognosis indicates a current account deficit increase up to 15% of the GDP.

Surprisingly, a solution to save the economy at a loss would be the registration of an agricultural year favorable both to the progress of the GDP, the equilibrium trade balance, and to the inflation. The satisfactory agricultural production would impose a slower pace of imports in this segment and implicitly lower inflation "costs", thus reaching the maximum rate in the last two years. Reaching the maximum of the inflation rate in the last two years, 7,97 % in February, forced the National Bank to increase the monetary policy interest to 9,5% per year.

The inflation target of the National Bank is of 3,8 % with a margin of plus/minus a percentage point, but BNR revised the inflation prognosis to 5,9%, from 4,3 % in the previous version. Practically, 2008 is the second year when Romania misses the inflation targeting. Analysts stipulate the decrease in the prices of food products in the second part of the year, after the issue of the new agricultural harvest, so that inflation will decrease fewer than 6% towards the end of the year, and the pressure on the ROmanian New leu would diminish. The national currency would have a closing rate of 3,5 RON/euro at the end of the year.

A practical solution and at all neglectful might be the depreciation of the ROmanian New leu in order to dilute these deficits, and a lower rate than 3,7-3,8 RON/euro would be beneficial to the balance of payments. This might be possible if one considers the fact that in April, the ROmanian New leu – euro registered a very low level. The ROmanian New leu rate has not reached such a low level since the 27th of December 2007, when BNR had listed a reference exchange rate of 3,5282 RON/euro. But the ROmanian New leu has appreciated significantly comparing to the dollar as well, by 0,54% up to 2,2350 RON/dollar, a level which it has not reached for almost eight years, since the 15th of August 2000, when BNR had listed a reference exchange rate of 2,2349 RON/dollar. In Romania, the RON gained value during the last days of the month of April, on the grounds of foreign exchange repatriations from abroad before holidays and of the fact that large international companies operating locally bought domestic currency in order to pay the taxes to the state.

National Prognosis Commission experts (CNP) made some estimation for the period between 2009 and 2013. Some of these examples might be:

1. the GDP growth will be of 5,9% in 2009, the GDP increase for 2010 being estimated to 5,8%, 5,8% for 2011 and of 5,7% for 2013;
2. the industrial production will increase by 5,3% in 2009, by 5,5% in 2010 and in 2011, and in 2012 and 2013 it will increase by 5,4%;
3. the yearly average inflation is estimated to 3,4% for 2009, for 2010 to 3,3%, for 2011 to 3,0% , and for 2012 to 2,7%, and for 2013, CNP maintained its forecast of 2,5%;
4. the current account deficiency will maintain at over 10% of the GDP during 2007 – 2013;

5. the average of the foreign exchange rate will be of 3,25 RON/euro in 2009, 3,20 RON/euro in 2010 and of 3,15RON/euro in 2011, and during 2012 – 2013, the exchange rate is estimated to 3,10 RON/euro.

4. Conclusions

In conclusion, the exchange rate represents one of the criteria of nominal convergence, the criteria regarding the inflation rate depending on its accomplishment. With respect to the stability of the foreign currency exchange rate, the national currency must fit a fluctuation band of maximum +/- 15% for two years before Romania's entry into the Exchange Rate Mechanism 2(ERM 2).

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TURNAROUND MANAGEMENT AND BUSINESS ADVISORY SERVICES PROGRAMMES

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Abstract: In this paper I present the link between TAM and BAS Programme and EBRD financing. The purpose of the TAM and BAS Programme is to promote economic transition through advice and mentoring at the enterprise level and to develop a sustainable infrastructure of business advisory services. There are strong parallels between the work of TAM and BAS and investments of the EBRD, which may invest in companies after a TAM /BAS project ends. The EBRD and its financial intermediaries have invested 722 million Euro in 163 enterprises that have received funding from TAM and BAS programme. This funding has contributed to a total project value of 1,66 billion Euro.

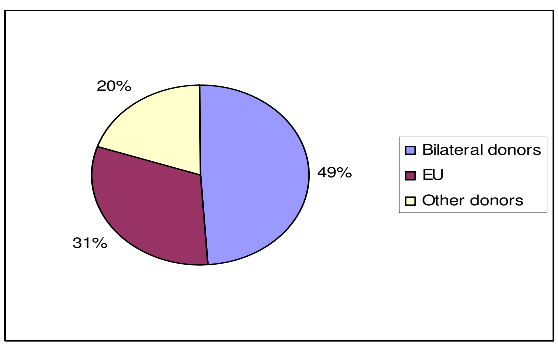
Key words: TurnAround Management , Business Advisory Services, European Bank for Reconstruction and Development, micro, small and medium – sized enterprises

Business Advisory Services (BAS) Programme

The EBRD's TurnAround Management and Business Advisory Services Programmes are complementary schemes aiming to help enterprises adapt to the demands of a market economy. Both TAM and BAS work directly with individual enterprises, providing industry specific advice. These include restructuring of the business, improving its products, reducing operating cost, advising on local and export markets and helping to develop business planning skills at managerial level.

The TAM and BAS Programme is administrated by BERD and partly funded by EBRD and partly by donors. The biggest single donor is European Union, which has provided funding through the European Agency for Reconstruction, EuropeAid, Phare and Tacis. Bilateral donors include Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxemburg, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom and the United States. The Programme is also been funded by multilateral donors, including the Baltic Technical Assistance Special Fund, the Central European Initiative, the EBRD's Early Transition Country and Russian Privatization Center. The following chart shows the sources of funding for TAM and BAS since 1993.

Chart 1: Sources of funding for TAM and BAS since 1993



The BAS Programme works with micro, small and medium – sized enterprises from agribusiness to manufacturing and tourism to define their business need and to identify services to be provided by local consultants. By using local consultants BAS combines the dual role of assisting SMEs in their business expansion with contributing to the professional development of local accredited business consultants.

The Programme's aim is to raise awareness of the benefit of using external consultants and to directly improve the supply and quality of local advisory services. In order to be qualified for consideration under BAS, enterprises should meet the following conditions:

- be majority privately and locally owned
- have been in existence for at least two years

- have little or no previous experience of using external consultants and do not have resouse to finance a complete project
- be able to demonstrate potential for growth and a capacity to absorb the assistance given
- operate in all sectors except banking and financial services, military product or services gambling.

The consultants involved in Programme must have the relevant experience, capacity, resources and general competences to undertake the assignment successfully. They are evaluated and accreditation will be granted for a specific advisory service types and sector of competence. The BAS programme provides a grand of about 50%, on average, of the total net project cost to a maximum of 10000 Euro

From its inception in 1995, BAS has carried out about 6000 projects and utilizing over 66,5 million of donor funding. Currently, BAS operates in 18 countries through 29 office and working with 1765 local consultants approved by local offices. Some 82 companies which have been selected for BAS assistance have subsequently mobilized 209 million euro in loans and investment, of which 51% were invested by EBRD and EBRD – related financial intermediaries.

Business Advisory Services (BAS) Programme in Romania

The Programme started in Romania in 2006.Until 2007 September has undertaking about 35 projects for micro, small and medium – sized enterprises with nearly 230,000 euro of donor funding. The total advisory project value is nearly 500,000 euro.

The following charts show the distribution of BAS projects by sector in Romania and the distribution of BAS projects by consulting areas.

Chart 2: The distribution of BAS projects by sector

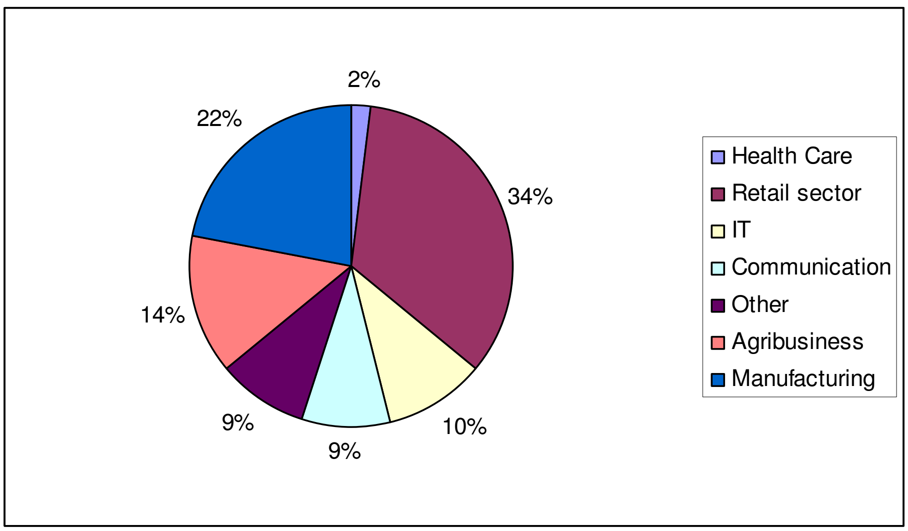
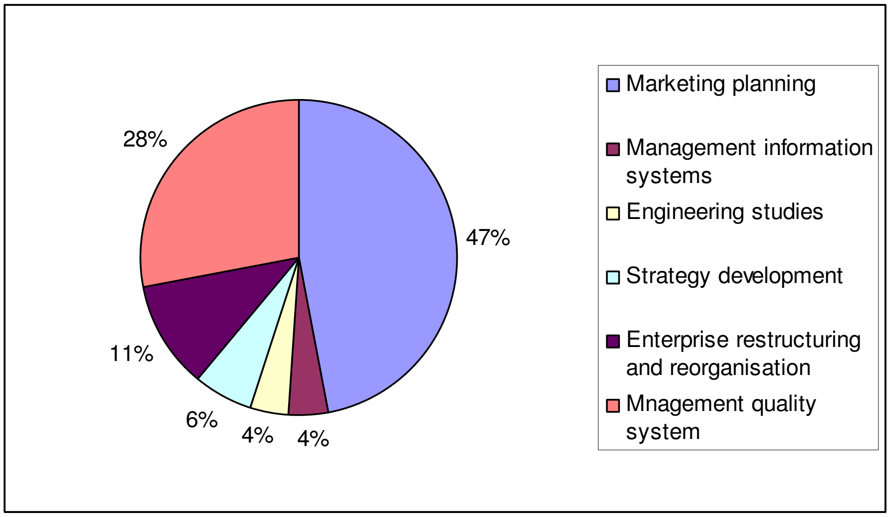


Chart 3: The distribution of BAS Project by consulting areas



TurnAround Management (TAM) Programme

The objective of the TAM Programme is to support economic reform by helping enterprises of all size to transform themselves so that they can operate successfully in a free market economy and help to develop new business skills at senior management level so as to be able to survive and compete in market economy.

TAM Programme work with experienced directors and senior managers from economically developed countries to improve technical and commercial know – how in local companies. They help to introduce a new management culture and to improve management skills. Projects involve extensive restructuring, encompassing all aspects of an enterprise's activities. The strong management skills developed by each company receiving TAM support is a new and sustainable resource that continues to evolve once the project is completed. The skills developed by managers can also help to restructure and revitalize particular industry sectors. The TAM Programme has the following objectives:

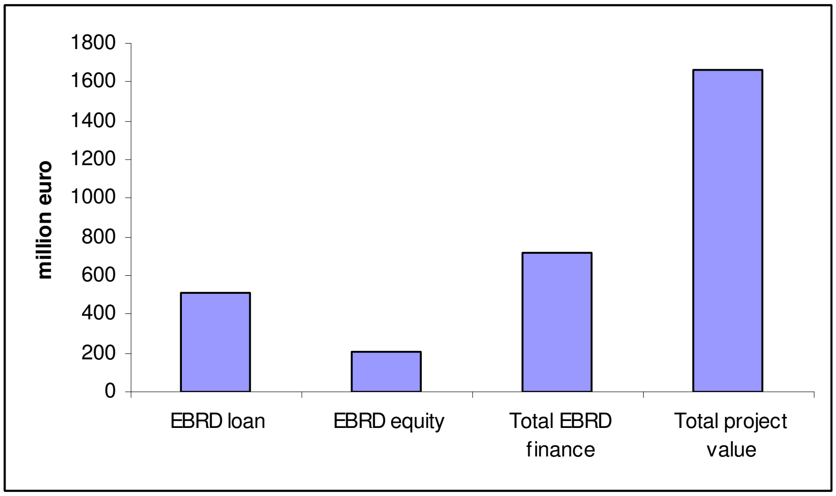
- Build the confidence of SME to operate successfully and adapt to international markets
- Assist SME to comply with industrial legislation and develop sound environmental practices
- Establish strategic direction and attract external investment and finance
- Help management prepare a business plan based on international business practices.
- Improve SME competitive position with marketing strategies and network of international contracts
- Introduce new and industry specific business skills directly to the senior management of SME
- Achieve sustainable results by changing the enterprise business culture and improving business viabilit

Since 1993, TAM Programme has carried out about 1500 enterprise restructuring projects in all of the EBRD's countries of operations, involving over 96 million euro in donor funding. Some 97 companies which have been selected for TAM assistance have subsequently mobilized 1,6 billion euro in loans and investment. About 41% of this have been provided directly by EBRD or by banks that act as intermediaries for EBRD financing.

Conclusions

Following EBRD investments, TAM senior adviser are able to assist in investment monitoring and to act as non executive broad members for EBRD equity investments and BAS consultants are able to provide advice for specific post – investment problems.Some EBRD investments were made with enterprises that undergone both TAM and BAS projects. The EBRD and its financial intermediaries have invested 722 million euro in 163 enterprises. This funding has led to co- financing with a total project value of 1,66 billion euro (see Chart 4).

Chart 4: EBRD funding in TAM and BAS projects



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THE USE OF CHARTS FOR THE TECHNICAL ANALYSIS OF THE SHARES QUOTED ON THE STOCK EXCHANGE

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The evaluation of the future levels, that the different shares quoted on the stock exchange will be traded at, is a complex activity, which involves gathering and processing a high volume of information and also experience and a little flair in their interpretation. ***The Technical Analysis*** *is a statistical method for estimating the evolution of the shares prices depending on the past evolution of these and on the volume of the transactions. It relies on using the charts for prices and volumes of the shares and also on a series of measures based on these. Its aim is to forecast the evolution on short term of the stock prices by considering the hypothesis that the historical trends reiterate in time and that there is a logical explanation regarding this evolution.*

Key words: Technical Analysis, shares, stock exchange, candlestick chart

1. Introduction

The evaluation of the future levels, that the different shares quoted on the stock exchange will be traded at, is a complex activity, which involves gathering and processing a high volume of information and also experience and a little flair in their interpretation. When establishing the shares that have to be bought, two analysis methods are used by the investors on the stock exchange: the fundamental analysis and the technical analysis. In addition, market information regarding the future events that will influence the price of a specific share are to be considered.

The technical analysis is a statistical method for estimating the evolution of the share prices depending on the previous evolution of these and on the volume of the transactions. It relies on using the charts for prices and volumes of the shares and also on a series of measures. Its aim is to forecast the evolution on short term of the stock prices by considering the hypothesis that the historical trends reiterate in time and that there is a logical explanation regarding this evolution. The selling/buying decision is influenced by quantifiable financial factors, but also by emotional factors, which are not quantifiable (the fear, the uncontrolled desire to gain) which leads to mistakes. Such mistakes tend to repeat in time, which provides behavior models that can be apprehended after a rich practical experience only.

In order to carry out its objectives, the Technical Analysis relies on the use of charts, but also on statistical indicators.

The charts are made both for prices and for transactions' volume. On a price chart you can see three essential elements: the evolution trends, the thresholds and the patterns.

The trends of price evolution must be followed on long term or short term, depending on the investor's profile. In case of long-term trends, the chart should be drawn for a period of 3-5 years or even for the entire transaction's period. This way, we can identify the general trend of that share, but also the eventual cycle oscillations.

Another important element the charts provide are *the thresholds or the levels*. These represent minimum values (support level) and maxim values (resistance level) of the prices repeatedly reached in a specific period.

Regarding *the patterns*, these represent an estate of different trends or a combination of trends and levels. Generally, a share evolution trend is repeating in time under the influence of some psychological factors. The investors know that a long period of time with low decreases of a share price is followed by an accelerated growth on a short period, situation which increases the chances for such a model to repeat itself. The identification of a behavior model of a share price helps the investors to estimate its future evolution.

2. Chart Types

The technical analysis uses more ***types of charts***, such as: simple or line charts; bar charts; candlestick chart; point and figure chart; volume histogram. The first four types of charts show the evolution of trade prices, while the fifth one regards the transactions' volume.

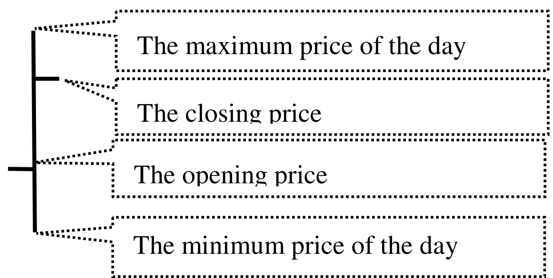
1. The Simple Chart

It is used to follow the trends on long and medium term. The chart is drawn by the union with a continuous line of the closing price level for every day of trading. Between the advantages of this type of chart we can underline its simplified elaboration and interpretation, and as disadvantages we can notice the lack of any information regarding the price oscillations during a trading session.

2. The Bar Chart

A vertical line is drawn for each trading day, on which four elements are represented:

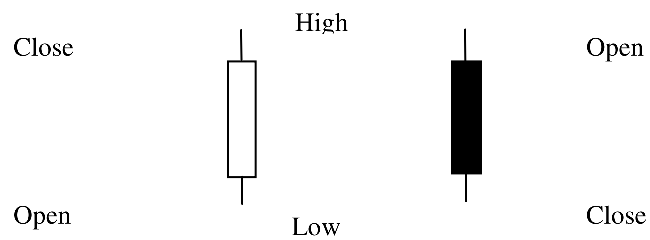
- The top of the vertical line represents the maximum price reached in a trading day;
- The bottom of the vertical line represents the minimum price reached in a trading day;
- The short horizontal line to the left shows the opening price of the day;
- The short horizontal line to the right shows the closing price of the day.



- As compared with a simple chart, this one provides more information through the four characteristic prices of the day.

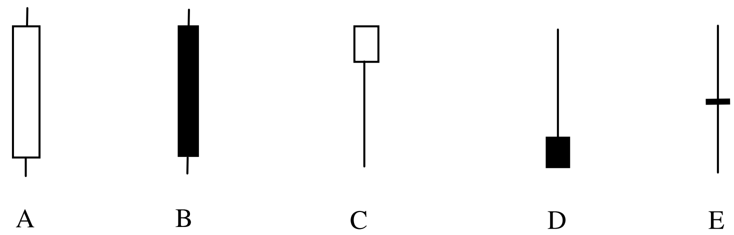
3. The Candlestick Chart

It offers information on the evolution of a price during a day, but also information regarding the movement direction. The representation of the price chart for a trading day is done with the help of a "candle" which has two elements: the body and the shadow (wick) of the candle. This is represented like this:



The body of the "candle" is different painted depending of the price evolution sense, as white or green if the closing price is bigger than the opening price and black or red in vice versa situation.

The price changing during a trading day forms a chart shape which allows the observation of the trends.



A – Known as “the bull sign” reflects a constantly increasing trend, in which the market is opening near the minimum and it is closing near the maximum;

B – “The bear sign” shows a constantly decreasing trend, in which the market is opening near the maximum and it is closing near the minimum;

C- “Without top wick” (Shaven Head) shows an increasing trend, which generally appears after a decreasing of some days. Usually, after the appearance of this sign, it will appear an inversion of the price decreasing trend.

D – “Without bottom wick” (Shaven Bottom) shows a decreasing trend, which usually appears after a few days of growth, symbolizing an inversion of the increasing trend;

E – “Doji Star” represents a body in which the opening and the closing are the same. It can represent a signal of trend change or of indecision of the investors. For many times the appearance of this shows a trend inversion.

4. The Point & Figure Chart

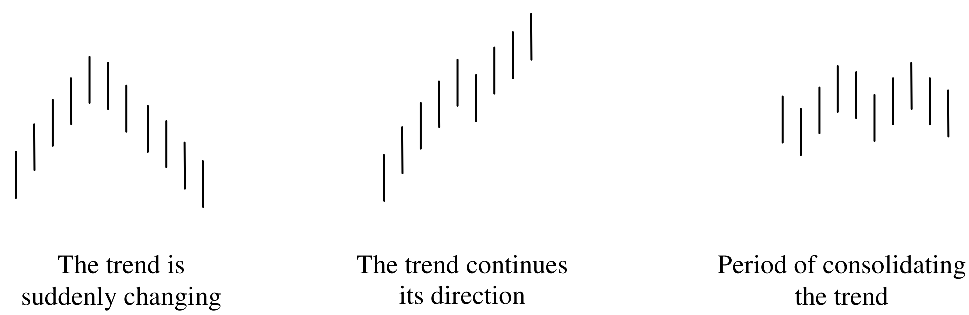
This chart is more rarely met, in which the price increasing is represented by increasing rows of “X”-es, while the decreasing is represented by decreasing rows of “0”-es.

5. The Volume Histogram

For the estimation of share selling price its trend should be correlated to transactions volume. A correlated analyze of the prices and volumes is often more useful than a simple price analyze. The prices and volumes correlated analyze is realized by the combination of a price chart with a volume histogram.

3. The Returning Signals and Patterns

The shapes that different types of charts take offer clues regarding the next evolution of share price. When ***interpreting*** these, the users of the Technical Analysis start on the assumption that the history is repeating. For this reason they looked for the identification of some *returning signals* and *patterns* on which it can be anticipated the future evolution of the share trading price. On a chart, three possible situations can be identified:



The returning signals appear in the first situation, when the trend direction is changing.

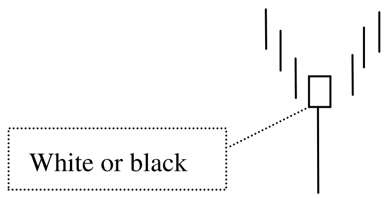
Examples of returning signals identified with the help of the charts:

Hammer & Hanging Man

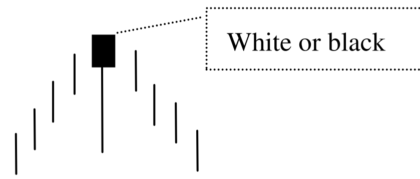
The increasing signal is given by the appearance of the *hammer* lay-out (the end of the decreasing trend), and the falling signal by the appearance of the *hanging man* lay-out (the beginning of the upward trend). Both lay-outs can be recognized after three criteria:

– the real body is very little, so the day opening price is close to the closing price. Its color is not important;
– the down wick is two times bigger than the body height, so that a little minimum price is reached during the trading session;
– the up wick doesn't exist or is very little.

Graphically, the two lay-outs are described as:



Hammer

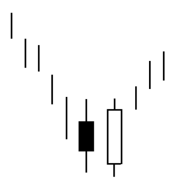


Hanging Man

Engulfing Pattern

More signals looking for a possible trend change are obtained by the combination of more lines on the chart. A first such combination, known as engulfing pattern, combines two lines of different colors, as:

– A smaller black body followed by a white body who covers the little body, meaning the beginning of an upward trend (A);
– A smaller white body followed by black body that covers the little body, meaning the beginning of a decrease trend (B).



A

B

The recognition of this kind of lay-out is based on three requirements:

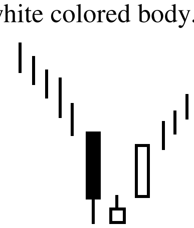
– the existing of a trend clearly defined, of an increase or a decrease, even if this one is on short-term;
– the existing of two bodies of different colors that compose the lay-out engulfing. The exception of this rule is when the first body is very little or is a Doji star;
– the second body must cover the first one and to define the trend direction.

Star

The Star lay-out is represented by a little body that precedes a big size body. It can have four representations: morning star, evening star, doji star and shooting star.

The Morning Star

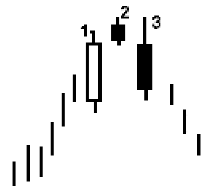
It shows the beginning of an upward trend. It is composed of three bodies: the first is a black one, followed by a small sized body, and in the third day a white colored body.



The Evening Star

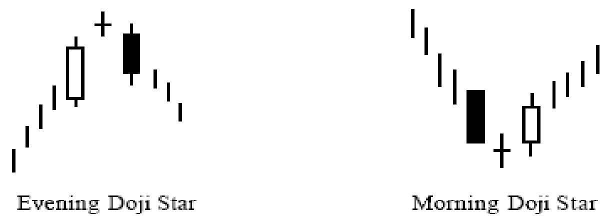
It shows the beginning of an heir trend. It is composed also of three bodies, the first is a white colored one, and the others are black. Besides, it must be accomplished also three conditions:

- to exist a gap between the first body and the second one;
- the third body must close more lower than the closing of the first body;
- to exist a smaller volume in the first day of transaction than in the third day.



The Morning & The Evening Doji Star

It is met when it appears a Doji sign situated above the transaction ceiling price from the day before on a bullish market (the evening doji star) meaning the end of the upward trend, or when appears a Doji sign situated below the floor price from the day before (the morning doji star) meaning the end of the heir trend.



The Shooting Star

It is a configuration made of a little body (white or black) with a long wick up, showing the change of the upward trend. The signal of changing trend it is more powerful if between configuration body and the others bodies exists a gap.

Regarding the patterns, these can be identified by closely watching the charts for a bigger period of time.

The Head-Shoulders" Pattern

It signalizes a future descendent trend for a specific share. The chart has three tops, the central one being higher than the extremes, which have about the same height.

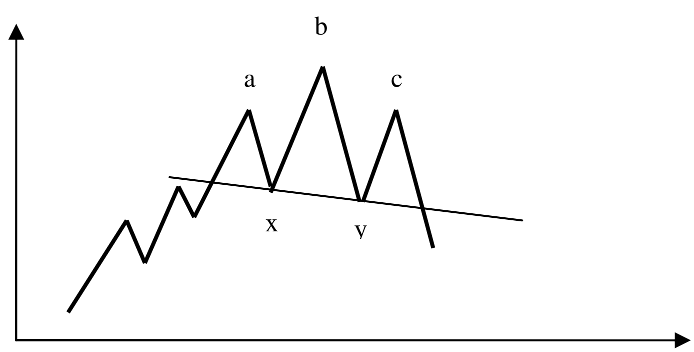


Fig. 1: The "Head-Shoulders" pattern

a – left shoulder; b – head; c – right shoulder.

The signal for changing the trend is the line of the “neck” that unifies a minim of the left shoulder (x) with a minim of the head (y).

The Double Bottom pattern

It is contrary tot the Head-Shoulder model and signalizes an ascending trend for the share. The chart has a “W” shape, with two minimum values recorded in a period of a few weeks, with a maxim level inserted between them.

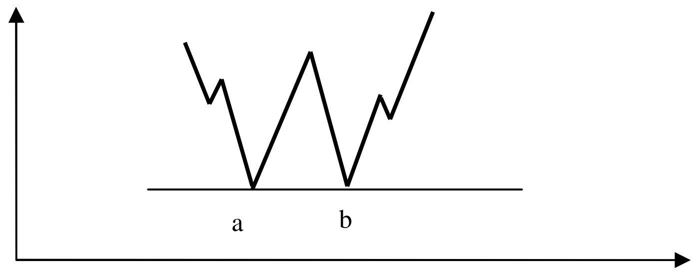


Fig. 2: The Double Bottom Pattern

The increasing trend is more powerful if the second minim is smaller than the first one, because the uninitiated panicked investors will exit the market.

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FISCAL POLICY AND WELFARE STATE IN THE ENLARGED EUROPEAN UNION

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Abstract: It is considered that fiscal competition is able to determine a reduction of tax rates, a greater efficiency in the use of public funds and a better allocation of equity. On the other hand, fiscal competition can affect the transfer effects of taxation on the economy impeding the normal functioning of international trade and capital markets. The bitter competition inside Europe, following the elimination of the borders, of the free goods, services, and individuals' flow, produces a huge pressure on the national protection systems in order to reduce social costs. Taxation can contribute to development and to welfare through three sources: the firstan foremost the tax system must collect enough funds in order to finance public services and social transfers at a high level of quality. Secondly, taxation influences the economic decisions and should offer incentive for more employment and for an efficient and lasting use of the natural resources.

Keywords: fiscal policy, welfare state, tax competition

1. The welfare state in European Union

In order to induce the people's welfare, the social state welfare state acts in the following directions: pensions' system and benefits for descendents, healthcare and transfers in cases of illness or disability, the system of family supports, the social assistance area and the unemployed support. The social politics' main instrument is the social insurance system. The public system's social insurance benefits are financed by employees, employers and state's contributions. The corporations and the insurance agents, with self-administration, perform programs based on occupational insurance schemes. Today the welfare state manifests itself differently; each country adapts and/or reforms the social politics starting from the two classical models: the residual one, the achievement model and the redistributive one. At this moment, the great majority of documents issued by the European Institutions make reference to the *„European Social Model"*. Presently, in Europe there are as many social models as number of member states. The literature dealing with the welfare state makes a distinction between four models: Nordic, Continental, Mediterranean, and Anglo-Saxon, the later is also named the liberal or the residual model. Anglo-Saxon states, UK and Ireland have economies focused on the free marked in assigning resources, promoting the decrease of the state position and the markets liberalization. These states resorted to cut-off in wages combined with a policy based on diminishing the social rights for those unemployed; diminishing the providence-state budget's costs were accompanied by a powerful tax relaxation, which offered advantages in the global tax competition. The Anglo-Saxon countries have a less extensive welfare state where social assistance is seen as a last resort and primarily oriented to people in working-age. The Continental European states, more conservatives - Austria, Belgium, France, Germany and Luxembourg – promoted the insurance based on labour and on bended rights. The politics which were promoted in those countries had to realize the concern's harmonisation of the busiest (beneficiary of a large system of social security) and of the not-busiest (more and more numerous and very dependent on the first category). Scandinavian states – Sweden, Denmark, Finland and Nederland - insist on the generality of social welfare and on solving politically, then economically, the society's evolution. The Mediterranean countries, including Greece, Italy, Portugal, and Spain, focus their welfare spending on old-age pensions and typically concentrate on employment protection and early retirement to exempt groups of the working age population from participating in the labour market. Strong labour unions in the formal sectors have compressed the wage structure. In Europe there is a social submodel in transition, where neither the neo-liberal solutions, nor the social state built in Occident are applicable. The Eastern Europe needs a social model which has to provide a new type of sustainable balance between the social security and the economic competition. The growth of the investments in infrastructure and in research-development are elements of public politics compulsory for the Eastern countries, and especially for Romania. These elements will bring to the society's general development, to the consumption growth, to business development and the most important, to more and better paid employment positions (jobs). The concept of this principle remained intact during all the crises which affected those states, proving in the same time the resistance towards external transformations. At the end of the last century, a new program entered the European Institutions' agenda. In 2000, the European Council met in Lisbon and adopted a series of needed measures in order to have *„the most competitive economy the world had ever known",* the central binominal being the two dimensions: *economic dimension and social dimension.* One year later, in Gothenburg, to those two dimensions it was added a third one, thus referring to the environment protection.

From the realities of great importance with which the Union economy deals and which put their print on the political decisions from Brussels, we mention: The European Union passes an economic recession period; the social inequalities are growing; the providence-state is less and less capable to reduce inequalities, due to the fact that it has difficulties to finance social projects (their financing supposes tax growth; but this action affects the competition of the European economy); a process of population ageing with an ascending trend; environment protection supposes high costs, more and more difficult to support.

The bitter competition inside Europe, following the elimination of the borders, of the free goods, services, and persons' traffic, produce a huge pressure on the national protection systems in order to reduce social costs. „The solution" which came from the European Institutions in order to remove the competition considered to be unfair proved to be that of *„national social regimes harmonisation",* first of all regarding the right to work. Certainly, after the new member states integration, the tax competition of the East led to pressures regarding the diminution of the taxation in the EU of the 15 countries. This competition can be also considered unfair. In this sense we can forecast two scripts. The first script is considered to be tax harmonization at direct taxation level (we mention that the majority of indirect taxation depends already on the union politic), so to avoid cross-border corporate mobility and, implicitly, problems of labour forces in the tax inactive states. A second scenario, which we considered better, would be to adopt at the level of the first member states a politic of tax relaxation. In this way a pulse of the aggregated offer will be given to the economic growth.

2. GDP and the social protection expenditure

Economic progress is ultimately measured by the gross domestic product (GDP) of a country. GDP is the central measure of national accounts, summarising the economic position of a country or region. GDP is equal to the market value of all final goods and services produced in a given period of time. GDP per capita in purchasing power standards (PPS) may be used to measure the material living standards of a country, one way of determining wealth. The PPS is essentially an artificial currency, whose exchange rates with the euro and other European currencies are calculated using purchasing power parities (PPP). One PPS buys the same volume of goods/services in all countries. Thus, use of the PPS eliminates price level differences between countries, allowing a fairer comparison of living standards. To the level EU-25 in the year 2005, GDP per capita is of 23500 euro. The new members states NMS-10 have the values much more (euro per capita): Latvia 11000, Poland 11700, Lithuania 12200. The states with the values most big (euro per capita) am: Ireland 32299, Denmark 29900, Netherlands 28900, The Austria 29700. Is remarked Luxemburg with eldest value, 58000 euro per capita. Romania and Bulgaria have most little values scilicet 8100 respectively 7500. If social protection expenditure is expressed in terms of. Outside EU-25, expenditure is highest in Norway (9154 per-capita PPS (purchasing power standards), the PPS), just below Luxembourg differences between countries are more pronounced. Within EU-25, Luxembourg had the highest expenditure in 2004 (12180 PPS per capita), followed by Sweden (8756 per capita) and Denmark (8470 per capita). The countries with the lowest expenditure is the Baltic States: Latvia (1220 per capita), Lithuania (1448 per capita), Estonia (1625 per capita). In Romania the social protection expenditure in 2004 is 1089 per capita. The disparities between countries are partly related to differing levels of wealth and also reflect differences in social protection systems, demographic trends, unemployment rates and other social, institutional and economic factors. In 2004 gross average social protection expenditure accounted for 27.3% of GDP in the EU-25 countries. In 2004 the EU countries with average or above-average ratios (27.3% or more) accounted for 42.2% of the EU population, the group with between 22% and 27.3% for 32.7% of all EU inhabitants, those spending between 17% and 22% of their GDP on social protection for 23.6% and countries spending less than 17% of their GDP for only 1.5% of the EU population. The countries with the highest ratios — Sweden (32.9%), France (31.2%), Denmark (30.7%), Germany (29.5%), Belgium (29.3%), Austria (29.1%) and the Netherlands (28.5%) — spend (in relation to GDP) more than twice as much as the three with the lowest ratios — the Baltic countries Latvia (12.6%), Lithuania (13.3%) and Estonia (13.4%). Taking the EU-15 countries as a whole (for which long series dating back to 1990 are available), after peaking at 28.7% of GDP in 1993, social protection expenditure fell to 26.9% by 2000. This ratio then rose continuously from 2001 to 2003 (27.7%) to end on 27.6% in 2004. Over the period 2000-2004, expenditure on social protection as a percentage of GDP in EU-25 was about 0.3% lower than in EU-15. Significant rises were recorded in Belgium (26.5% to 29.3%), Ireland (14.1% to 17%), Luxembourg (19.6% to 22.6%) and Portugal (21.7% to 24.9%). The situation was somewhat different in countries which continued to show strong GDP growth. In 2004 in particular, the share of social protection expenditure in GDP decreased in the Estonia (14% to 13.4%), Latvia (15.3% to 12.6%), Lithuania (15.8% to 13.3%) and Slovakia (19.3% to 17.2%). This increase reflects faster growth in social protection expenditure than in GDP, which slowed down in the European Union in 2003 in comparison with 2002 and speeded up in 2004 in comparison with 2003. Social protection expenditure goes to areas that either are not particularly affected by the economic situation (such as health expenditure and pensions) or are in fact countercyclical (unemployment or social exclusion). In 2004 out of the total EU-25 expenditure on social protection, social benefits accounted for 96.2%, administration costs 3.1% and other expenditure 0.7%. The structure of social protection expenditure in EU-25 in 2004 is following: old age (39.9%), sickness/health care (27.2%), family/children (7.5%), disability (7.8%), survivors (4.3%), unemployment (6.3%), housing (1.9%), administration costs (3.1%), social exclusion (1.4%) and other expenditure (0.7%).

3. Fiscal policy in European Union

Tax systems have, from the historic point of view, a national character, being drown in the specific conditions of the national economy. Thus, the volume, the structure, and the tax rates correspond with the allocated levels of stabilization and of redistribution. Tax systems can contribute to the increase of capitals mobility, to the development of financial markets, to the growth of competition, to a more efficient allocation of material and financial resources, with consequences on the economic development. Globalization amplified the elasticity and the mobility of tax bases but, raised a series of new problems regarding tax administration in the new conditions. Some countries reacted at the negative effects determined by globalization; they reformed the tax system, through the implementation of new profitable treatment measures for capital incomes, so that the capital wouldn't immigrate to other states. Taxation can contribute to development and to welfare through three sources: the first the tax system must draw enough funds in order to finance public services and social transfers at a high level of quality. Secondly, taxation influences the economic decisions and should offer incentive for more employment and for an efficient and lasting use of the natural resources. Thirdly, the taxation system reallocates the income, and this action must be done in a way it bonds the effective demand and the social balance through covering some gaps in income distribution. The tax systems of the EU member states suffered major changes from this point of view, by implementing various tax reforms. The measures regarding taxations, which raise much the inequality and strangle the demand, will hardly contribute to a dynamically growing economic region as called for in the Lisbon Strategy.

3.1 The consequences of tax competition

The question is if the EU Member States take advantage for the implementation actions of tax policy, which contributes to coordination in the EU, or accept the tax systems which are less and less distorted due to tax competition. If the capital is mobile and the taxation level defers from state to state, multinationals can use a full set of tax optimization strategies. The methods used are two: the transfer for profit shifting in low taxation areas and the implementation of some financial departments in fiscal paradises for financing investments. These types of strategies of non-payment of taxes put pressure on governments, because the states with a higher tax rates lose incomes and subsequently small or medium-sized companies (SMEs) hang back, because they can not use similar strategies; but with all this they take part to the competition on the same market. When the multinationals don't use profits, but the productive investments in order to use the tax differences between different states, the pressure grows further, in order to reduce finally the tax rate. This process, known under the name of tax competition, doesn't appear in the domain of corporate taxation. Due to the fact that the financial welfare is also more mobile as the invested capital from a productive point of view, the same logic can be applied to the taxes on personal capital income or on capital gains. Generally, labour force is less mobile than capital and labour force with a poor qualification is less mobile then labour force with a high qualification. A very immobile tax base is consumption, especially the consumption of primary commodities. Consequently, tax competition drives to an essential change in the tax structure. Governments are blackmailed regarding the reduction of tax level for factors with a high mobility and to raise the fiscal burden on sources less mobile, in order to protect the revenues. In the situation of a tax competition, taxes will shift, consequently from taxes on income and goods to taxes on consumption. The main results of the taxation evolution in EU during the last decades confirm exactly the fact that this phenomenon happened.

3.2. The evolution of taxation in EU

Indeed, statutory tax rates of corporate income decreased drastically. From the evolution of statutory rate on corporate income tax (CIT) in the period 1995-2006 we can observe a decrease of these rate for the EU of the 15 member states (except Spain which maintains a statutory rate at the level of 35%) from an average of 38,0 % in 1995 to 29,5 % in 2006. We exemplify a decrease of the statutory rate in Ireland from 40% to 12.5%, Portugal from 39.60% to 27%, Greece from 40% to 29%, Luxembourg from 40.90% to 29.63%, Italy from 52.20% to 37.25%, Germany from 56.80% to 38.64%. At the level of the new member states we can also see a considerable reduction of the statutory rate for the corporate income during the period 1995-2006: in Cyprus from 25% to 10%, Latvia from 25% to 15%, Lithuania from 29% to 15%, Poland from 40% to 18%, Slovakia from 40% to 19%, the Czech Republic from 41% to 24%, Romania from 38% to 16%. But Malta (35%) and Slovenia (25%) kept the same statutory rate.

The process is far of being closed. Now, Germany prepares the new tax reform for corporations, carrying downwards the statutory rate under the level of 30%. Denmark intends to reduce this rate from 28 to 22%. These initiatives will certainly contribute to intensify the pressure on other countries. Due to the fact that the term „high-tax location " is a relative term, it isn't foreseeable a "race till the finish". It is known that the tax base differs from state to state; the fiscal authorities decide a number of deductions, exemptions, etc. This is why the tax base is changed, like the tax rate, and so result the effective tax rate. The literature supports the existence of some possibilities of calculation of the effective rate: a) using the data with a historical character b) anticipated approach. The effective rate obtained using data with a historical character are based on macroeconomic data (national accounting books) or from the aggregation of financial information offered by the corporations. The anticipated approach considers that the future forecasted taxes will be paid according to the corporations' development projects. Two methods of calculate effective tax rates are formed of the effective average tax rate – EATR and the effective marginal tax rate - EMTR. These rates are generally more reduces then the statutory rates, but these also followed a descending curve since the mid-1980s.According to the Institute of Fiscal Studies, the EATR in the EU-15 declined between 1982 and 2005 by 11.0 percentage points, while the EMTR fell by 10.0 points. The figures provided by the Zentrum für Europäische Wirtschaftsforschung point to an even more pronounced downward trend, with an average decline of the EATR in the EU-15 of 13.6 points from 1984 to 2003. The fact that tax revenues from corporate income have remained broadly stable as a proportion of GDP (gross domestic product) (3%) in EU in 1995 is often taken as evidence against the hypothesis of harmful tax competition. From this can result the fact that the competition determines a growth of the corporate income tax rate but states broaden their tax base. It can not be determined an evident relation between a reduction of the statutory tax of the corporate income and of the collected incomes from this taxes. In the case of the new member states the diminished tax rate are accompanied many times by a low level of the corporate incomes related to the GDP, in opposition with the EU of the 15. One of the most frequently used indicators in order to express the real tax burden or effectively direct or indirect imposed on different types of economic income or on activities possible to be taxed by the member states are represented by the implicit tax rates. Implicit tax rates are different for each economic function. These are calculated as the ratio between total tax incomes coming from a category (consumption, labour and capital) and a representation of the potential tax base defined using the data about production and incomes from the national books. These rates allow tracking the tax burden level during the ages and in different states. The implicit tax rate (ITR) on capital that reached a value of 27.3% in 2005 for the EU of the 27 is is lower in the new Member States, like Lithuania (11.4%), Slovakia (14.4%) but, also, Germany (23.3%) and Greece (8.1%) record a low level of capital tax. But Sweden (46.5%) records the highest level.More and more EU Member States are starting to introduce a dual system of income taxation. While labor income remains to be taxed progressively, a flat tax that runs far below the top rates of labor income taxes is applied to capital income. Since capital income is much more concentrated than labor income, the shift towards dual income taxation corresponds to a large tax relief in favor of the wealthiest. As acknowledged by the EU Commission, the tax burden on labor income displayed an upward trend until the mid-1990s. It was recorded a level of about 36% in the EU of the 15 and has remained rather balanced since then. In 2005 the implicit tax rate on labour at the level of the EU of the 27 was 35.2%. Sweden (46.4%) is the state with the highest labour tax followed by Italia (43.1%), Belgium (42.8%), France (42.1%), Finland (42%), the Czech Republic (41.3%), Austria (40.9%), Hungary (40.4%). The lowest level of ITR on labour can be noticed in Malta (22.1%), Cyprus (24.6), UK (25.5%), Ireland (25.6%), Romania (26.7%). The analyse of the implicit tax rates evolution for the period 1995 and 2005 in EU shows a substantial growth of the implicit tax rate on labour starting with the first period of the '70 and till now, while the implicit tax rate on consumption kept balanced. The average effective capital tax fluctuated sometimes significantly from a year to the other. The implicit labour tax rate was always higher then the implicit rate on capital and consumption, and the difference grew during the analysed period. These ITRs are computed only in this report and are commented in detail in the next chapters. They are here juxtaposed to highlight three main facts: first, that average effective tax rates on labour remain well above those for consumption and capital; second, that the decline in labour taxation is slow and has indeed shown signs of slowing down; third, that nevertheless there seems to be some convergence between the ITRs as that on consumption and that on capital show signs of an increasing trend since their 2001 trough. During the ages, the worries concerning more and more the unsatisfied general performance of the EU labour market brought in light the high tax burden on labour and led to repeated calls to reduce it. The statutory tax rate on personal incomes diminished arriving in 2007 to 38.68% at the level of the EU of the 27, value which confirms the tax shift from individuals with high incomes to those with low incomes. Several member states had even introduced a general flat tax on personal incomes, (e.g. Romania 16% in 2005). In most EU states, the social contributions have a great impact at the ITR level on labour then the personal income tax (PIT). The exception is made by Denmark, Ireland and UK where the personal income tax has a greater weight then the social contributions. In Denmark the part of social contributions is very small so that the welfare costs are financed through general taxation. From the states with the highest weight of social contribution (but with a PIT not to small) we mention the Czech Republic, France and Italy. An other group of states would be Romania, Poland, Slovakia and Bulgaria who have a very high level of social contributions, but also the personal income tax under the level of 20% from the total of labour tax . Starting from 1990, the VAT was the first of the indirect taxes which grew, in order to equal the public revenues. To exemplify, member states with lower VAT level have used the existing corridor of between 15 and 25%, allowed by the European Directive with reference to VAT, in order to approach the upper limit of the spectrum.. Obviously, the share of VAT revenues in total taxation has been rising. Moreover, the tax burden on resources like energy or gasoline grew. The ecological effect of these taxes depends on whether the user has indeed a possibility to seek alternatives. Taxing the energy use of certain industries is most likely justified on ecological grounds, since energy-saving technologies are often available and become more attractive this way. In many other cases, however, the so-called „green" taxes have no other effect than to burden low-wage earners in particular, because poorer households spend a higher percentage of their income on energy bills and heating costs. As shown, the general predictions about the consequences of tax competition are confirmed by empirical proof. The main result is not so much a decline in total tax revenue, but a structural change in the tax system. This change primarily concerns the distributional impact of tax policy. All considered changes relieve high-income earners while raising the tax burden on the lower end of the income scale. This is true particularly for the shift from direct to indirect taxes, but also for the cuts in top personal tax rates and the trend to introduce a flat rate on capital income. Instead of reducing social contrasts the tax system further widens the gap between rich and poor individuals.

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TAX COMPETITION AND CAPITAL MOBILITY BETWEEN OLD AND NEW EU MEMBERS STATES

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Abstract: Accession of new member states with lower corporate taxation has raised fears on tax competition within enlarged Europe. The fiscal systems can contribute to the intensification of capital mobility the development of financial markets, competition intensification, and the better allocation of resources having positive effects on the economy. The flow of capital worldwide, including Foreign Direct Investments (FDI), is subject to diferent conditions and determinants of the host countries. Beside the comparative or competitive advantages given by the economical environment, the labour costs, the financial market developments, etc. fiscal policy is ready to contribute to the attraction of foreign direct investments.

Keywords: tax competition, foreign direct investments (FDI), corporate taxation

1. Tax competition in the European Union: theory and empirical evidence

1.1. Theories of Tax Competition

The literature on the topic of tax competition could be distinguished into two main ways. The first one, beginning by Tiebout, assesses tax competition in positive way because it leads to more effective using of public funds and limits non- productive activities such as rent seeking. The second one, beginning by Oates, professes the tax competition as a harmful because the decline of tax revenues leads to the decrease of providing public services below optimal welfare level. Oates says that the result of tax competition could be a tendency to lower volume to and lower efficiency of public services providing. If governments decrease the taxes to attract mobile capital, public expenditures are below the level when the marginal benefits of these expenditures equal their marginal costs. The expenditures cuts concern especially on programmes which don't provide enough benefits to business environment. Oates's conclusion, that such a governments behaviour is not effective, is based on the presumption that no government gets competitive advantage in the struggle. The result is a welfare decline in all communities or countries. Sinn emphasises the characteristics of services provided by public sector and not efficiently provided by private sector. Competition amongst government leads to a decline of providing such services. Sim adds that tax competition doesn't have to lead to the under-dimension of public services but it has strong redistribution effects.

Following Oates's discussion of tax competition, it was not until the mid-1980s that economists began to build formal models based on his ideas. Zodrow and Mieszkowski and Wilson have derived in a formal way the dynamics and the consequences of tax competition in what are known today as the basic models of tax competition. In their models, tax competition for mobile tax bases will lead to a "race to the bottom" in tax rates and leave the competing jurisdictions with too little revenues to be able to provide public services at a socially-optimal level. This basic result has also led to the fundamental question whether capital taxation – and for what matters corporate taxation – can survive in the long-run. Wildasin notes that the tendency toward under-provision of public services attributable to tax competition can be offset with a subsidy to each of the local governments, provided by a higher level of government.

A rather different perspective is taken by the public choice literature. Brennan and Buchanan argue that tax competition improves welfare, because the size of government would be excessive in the absence of this competition. Edwards and Keen examine this view formally in various "Leviathan models," where governments are concerned in part with maximizing the size of the public sector.

New considerations arise when regions differ in size. Bucovetsky and Wilson analyze "asymmetric tax competition" between a "large" region and a "small" region, as distinguished by the number of residents, each possessing the same endowments of capital and labor. Assuming that they are large enough to affect the after-tax rate of return to capital in the union, the larger jurisdictions tend to have higher equilibrium tax rates than the smaller jurisdictions, since the former are less concerned about tax-induced capital outflows. The resulting tax differentials cause an inefficient reallocation of capital from larger to smaller jurisdictions and thus potentially strengthen the case for tax harmonization. However, such differentials can also create political opposition to tax coordination, as small jurisdictions may benefit from the capital inflows (and higher service levels) attributable to tax competition.

Over the last twenty years, economic research has attempted to remove the strict assumptions of the basic models of tax competition and has come with a more contrasted picture. The consequences of tax competition are indeed rather complex, do not necessarily lead to a "race to the bottom", need to take into account the public expenditure side of the problem, and depend on various characteristics.

The degree of (a)symmetry in the size of countries or the asymmetries in endowment of factors between jurisdictions will also influence the outcome of the tax competition. The geographical location and the concentration production, such as the existence of a core-periphery model may lead to different optimal levels of taxation between regions. In addition, the existence of trade between the members of a union or with the rest of the world may lead to specialization and hence different equilibrium levels of taxation. The availability of multiple tax instruments besides capital taxation, the existence of economies of scale in the provision of the public service international spillovers in public goods , the possibility for the public sector to provide public input goods that will reduce the private cost of production , or that will reduce income uncertainty via redistribution are also elements that will influence the effects of tax competition. The degree of mobility of the factor(s) of production, the complementarities between mobile and immobile factors a possible home bias in investment, the degree of citizens demand for social insurance , the presence of cross-border loss offset , and the possibility to export the tax burden on foreigners are further features that will determine the equilibrium effect of tax competition.

1.2. Tax competition in EU: Do European Members States compete over tax rates?

A important question is whether EU Members States compete over corporate tax at all. Over the last 25 years, Europe has experienced declining statutory tax rates both for mobile bases and less mobile ones. In the analysis of the evolution of statutory tax rates on corporate income in 1995-2007, at the level of the EU-15 countries, we notice a decrease for all the countries . For instance, the corporate tax rate decreased in Ireland from 40% to 12.5%, Portugal from 39.60% to 26.5%, Greece from 40% to 25%, Luxembourg from 40.9% to 29.6%, Italy from 52.2% to 37.3%, Germany from 56.8% to 38.7%. At the level of the countries NMS-12, we notice a more considerable reduction of statutory tax rates on corporate income in 1995-2007. For instance, the corporate tax rates decreased in Cyprus from 25% to 10%, Latvia from 25% to 15%, Lithuania from 29% to 18%, Poland from 40% to 19%, Slovakia from 40% to 19%, the Czech Republic from 41% to 24%, Slovenia from 25% to 23%, Bulgaria from 40% to 10%. On the other hand, Malta (35%) preserved their rates as such. And in Romania the statutory tax rate on corporate income tax decreased from 38% in 1995 to 25% in 2002, then to 16% in 2005.

Over the last decade both old and new member states decreased statutory corporate income tax rates and broadened the tax bases, but while this was associated with declining tax revenues in the NMS, they remained broadly stable as proportion of GDP in EU-15. For old member states effective tax rates fell for profitable projects but remained fairly stable for projects that just break even or make low profits. In 2007, average nominal tax rate in the NMS is by nine percentage points lower than in the old member states, with the difference growing over the last decade. During 1995-2007 the average statutory rate in old member states fell by 5.8 percentage points and in NMS by 13.9 percentage points. One of the reasons was the motivation of NMS to adjust their tax systems and cancel these tax incentives which were in conflict with the European Law. The NMS pattern of capital allowances and treatment of losses was converging to EU practices. There were some differences in valuation of inventories for tax purposes, although they have also decreased. NMS granted various tax incentives to foreign investors, but as far as most of them were in conflict with the European law, they had to be abandoned. With this remark in mind, the fall in statutory rates to some extension had to compensate for broadening of the tax base.

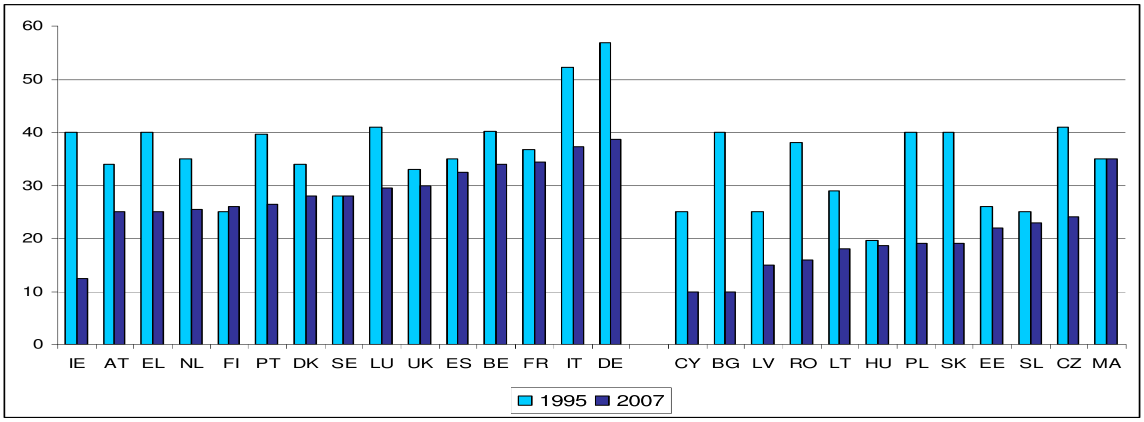

Figure 1 Statutory tax rates on corporate income 1995-2007 in EU (%)

Source: European Commission, 2007

The trend to decrease statutory rates continues. In 2007 some old MS lowered their corporate taxation level, specifically Greece, Spain, Netherlands and Portugal cut their rates. Moreover, Estonia reduces its rate by 1 pp annually to achieve 20% in 2009. Slovenia, which resisted the pressure for tax cuts for decade in 2007 decreased it by 2 pp. Judging by numbers one could note that we observe some kind of "race to the bottom" in corporate taxation. The dynamics of this process accelerates. Accession of Romania and Bulgaria in 2007 increases the competition for investments and jobs as the corporate taxation rates in these countries are below the EU level: in Bulgaria the government reduced the corporate tax rate from 15% in 2006 to 10% in 2007 and in Romania a flat rate of 16% for income and corporate taxes was introduced in 2005. Although the cuts in statutory corporate rates are significant it is not clear if result in higher capital inflow.

There is no clear link between statutory corporate income tax rates and revenues raised from corporate taxes, what indicates the role of effective taxation. The good example is Germany with high tax rates and limited revenues and on the opposite Ireland with low rates and relatively high revenue level. It indicates the potential role of effective taxation in generating budgetary revenues. However, the effective tax rates are not observed and therefore do not influence the common perception of the real tax burden.

Statutory rate is only one factor among all determining tax burden. Regulations concerning the tax base are even more important as they provide instruments to differentiate between types of activity and operations. To capture real effects of corporate taxation one should apply the nominal rates to real tax base. The purpose of computing taxable profits, income may be subject to adjustment for exemptions (income excluded from the tax base), allowances (amount deducted from the gross income to arrive at taxable income), rate relief (a reduced rate of tax applied to a class of taxpayers or activities), tax credits (amount deducted from tax liability), and tax deferral (a relief which taxes the form of a delay in paying taxes). It is common to apply all above mentioned measures. As a result the tax base is influenced by depreciation schemes, treatment of losses and valuation of inventories among others. Another factor determining real tax burden is efficiency of tax revenue office. Thus, effective corporate tax rates differ from announced statutory rates.

2. The impact on tax competition on foreign direct investments

Companies are affected differently by the taxation in each country. Thus, the small companies are more sensitive to the fiscal policy than the bigger ones because the levies are significant in their cost structure and they do not have the possibilities to envisage tax avoidance strategies. Big companies are able to negotiate fiscal treatments and the funds they pay to the budget. Under these circumstances, multinationals have several alternatives to structure and finance the investments, considering the host country's characteristics. A very important aspect concerning taxation is that multinationals are able to locate branches in countries with low taxation setting up strategies to avoid taxation. Companies are tempted to declare a higher profit in countries with low taxation or adjust the repatriation of dividends according to the tax legislation in the country of origin. Given these behaviour agreements concerning double taxation avoidance are very important for each country's tax regime.

The governments have several fiscal instruments at their disposals useful in influencing the actual tax rates and the local orientation of multinationals. Traditionally the literature sums up the following instruments useful in attracting the FDI: the reduction of corporate taxation to competitive level, deference of taxes or exempts from corporate taxation, exempts from duty or local taxation. These instruments are used on a large scale though their applicability was restricted by international conventions.

The FDI can be appreciated by using several indicators: net FDI inflows, and as ratio of the GDP. FDI have reached historical levels due to their effort to create a competitive framework designed to attract FDI. Though there are significant differences, all CEE countries have managed to implement sufficiently attractive measures for the foreign capital. The major determinants were: a stable economic environment, without major crisis or convulsions, the privatisation of state companies, a positive evolution of financial markets, bank intermediation, relatively good infrastructure and communication systems, modern payment systems.

2.1. FDI inflows into new member states

The issue of tax competition can be examined indirectly by looking for the responsiveness of foreign investment to corporate tax rates. The empirical literature on the effects of taxes on FDI focuses almost exclusively on the US and the EU-15 data. There are only a few studies on FDI determinants in the NMS. Carstensen and Toubal apply difference between statutory rates of two countries as variable determining FDI flows for the sample of 1993-1999 and CEECs and conclude that estimated parameter value is small and not significant at the 5% level. The potential explanation was that they did not take into account special tax regimes designed to attract FDI. application of effective tax rates would address these shortcomings. Tax rates were also examined as FDI determinant by Edmiston who apply two variables: number of special tax rates and the highest statutory profit tax rate. The results indicate that imposition of an additional special tax rate reduces FDI as a percent of GDP and higher tax rates lead to lower inflows of FDI in FSU and CEECs. Again, the variable applied is statutory rate Lahreche-Revil adds data on some of the current new members to their EU15 sample, and tries to separate the effects of corporate taxation in the new members for the sample 1990-2002. Tax measure determines the sample: statutory rate, implicit tax rates (Czech, Hungary and Poland) and EATR (Czech, Hungary, Poland and Slovakia). The only strong and general conclusion of the Lahreche-Revil paper is that taxation may drive relocation, but only within EU15. This factor is rather irrelevant when outflow of FDI from old to new members are considered. Anyway, the approach seems to be very useful in analyzing capital flows from old to new member states.

Along with progress in development, foreign investment flows into NMS boosted in 2005, in some countries reaching over EUR10 billion a year. UNCTAD reports that even in 2000-2002, when overall FDI flows were shrinking each year reflecting slowdown in world largest economies, inflows to NMS increased. Indeed, these inflows have been steadily increasing year after year. In the euro terms, the average annual dynamics during 1995-2004 was 9%.

EU-15 countries have been very active in acquiring assets in NMS until 2001, often winning large privatization tenders. New inflows have been declining from that year. However, it seems that the accession of the new members in 2004 boosted FDI from the EU-15. What more, it seems that the increased flows into NMS in 2004 were at the expense of other FDI outflows from "old Europe". FDI flows into the NMS increased even more dynamically in the following year. Nevertheless, the significance of direct investment flows to the NMS was negligible for all outward FDI of Western European economies. Even the high results of 1995-2001 and 2004-2005 were only about 3-5% of total outward FDI investment into equity capital and loans of the EU-15. In 2002-2003, EU-15 investment into equity capital and loans in NMS were only around 1% of total outward EU-15 FDI.

Germany is the largest EU investor in the group of old members states, with reported FDI outward stock in 2003 of nearly EUR37 billion in 2004, followed by the France (EUR25 in 2004), the Netherlands (EUR18 billion in 2005), Austria (EUR13 billion in 2003), United Kingdom (EUR8 billion) and Sweden (EUR7 billion). Inflows of direct investment from Western Europe constituted around 75% of total incoming FDI to EU in 2001-2002, and in the case of smaller countries have been significant part of overall investment outlays. FDI flows among new member countries are still small (3% of total FDI stock in the CEE region in 2005), yet increased in recent years.

2.2. The evolution FDI in Romania

In Romania, during the last 10 years since market liberalisation, several changes went on, the FDI encountering ups and downs. During 1996-2000 the FDI volume barely raised to 6 billion USD (2 billion USD from privatisation of state companies). Compared to the capital inflows into Poland (39 billion USD), Hungary (21,5 billion USD), Czech rep. (12,5 billion USD) the investments were incomparable low because of the political instability, unfavourable laws, small scale of privatisation and the reluctance to create the legislative framework favourable to foreign investments. Obviously, analysing the investments flow in the mentioned countries, the main determinants for FDI entry were: the host countries political willingness to attract FDI, a payment system adapted to modern needs and connected to the real time payment system already existing in developed countries, a flexible foreign exchange system, a friendly business environment, stable tax system, possibilities to withdraw profits, etc. The trend of FDI flows were reversed in 2000 when economic growth resumed, Romania being regarded as an attractive country for the foreign capital. The evolution of FDI indicators shown in the table below:

mill. Euros

Indicator	1996/2000	2001	2002	2003	2004	2005
Net FDI	5695	1312	1194	1910	4153	5213
Gross FDI	5857	1457	1448	2782	4561	5957
Net FDI/capita EUR	264	61	55	88	192	236
Net FDI/GDP (%)	3,3	3,3	3	5,5	7,0	8,34
Gross FDI/GDP (%)	3,4	3,3	3,0	5,5	7,7	9,53

Figure 2 Foreign direct investment indicators in Romania

Source: NBR

The FDI inflows during 2005 mounted to 5213 mill euros consisting of: foreign capital participation to equity formation (51,6%), reinvested profits (22,3%), net loans (26,1%). The FDI were directed towards manufacturing industries (37,3%), food industry (26,1%), transportation (5,1%), trade and commerce (15%), banking and insurance (14,5%), communication (10,9%). A rather low contribution was brought to the textile industry, despite its' great potential (2,6%), hotels and restaurants (0,2%). From the point of view of FDI types Greenfield investments represent 42,2% of the total FDI at the end of 2005, the difference being acquisitions (brownfield investments). The spread of investments the largest amount was directed toward the Bucharest region (60,6%), the South Eastern part of the country (8,4%), the central regions (7,4%), the western regions (6.8%). The most important part of FDI come from The Netherlands (19,5%), Austria (15,4%) Greece (8,5%), France (8,4%), Switzerland (7,1%), Italy (6,9%).

This brief study attempts to analyse the effect of fiscal rates on foreign direct investments. Considering the old, more developed members of the EU as well as the countries that have recently acceded to the EU. We find that the fiscal rates are important, but not the most important determinant in attracting FDI. In spite of the speed up of investments flow in the newly acceding countries the more developed, stable economies are the favoured destinations. Besides the economic growth characterising the new member states, the financial market development, the low inflation, loans availability and economic perspectives are among the most important determinants.

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EVALUATING DISCRETIONARISM OF ROMANIAN FISCAL POLICIES BASED ON STRUCTURAL BALANCE

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Abstract: Structural balance represents a useful fiscal indicator to evaluate the efficiency of fiscal policy from discretionarism point of view, also, giving some relevant insights on long run sustainability. According to estimated results for Romania's case, it could be noticed only 2 episodes of fiscal adjustment. Based on the size of structural balance from following years, it could be emphasized some inconsistency of Romanian fiscal policy. On long run, the main challenge is related to achieving fiscal sustainability.
Keywords: fiscal policy, discretionarism, structural balance, GDP gap, Hodrick – Prescott filter, fiscal sustainability

Introduction

Assessing sustainable fiscal policy requires active measures of increasing taxation or reducing budgetary expenditures, independent of business cycle. Those particular actions are part of *discretionary fiscal policies* implemented by governments in order to improve their fiscal stance. In order to investigate the dicresionarism of fiscal policy, it could be used some fiscal indicators out of which the most relevant is *cycle abjusted balance* (CAB) or *structural balance* (SB) (see in that sense, Muller and Price, 1984). Based on that fiscal indicator, it could be measured fiscal stance changes from one period to another, which, within the main literature stream, are known as *fiscal impulse* (Alesina and Perotti, 1995).

Structural balance represents an important fiscal indicator often used in order to evaluate the efficiency of fiscal policies on short, medium, and long run. It is mostly used by international organizations, such as Organisation for Economic Co-operation and Development (OECD), but, especially by governments within European Union (EU) area which are under the constraints of Growth and Stability Pact. Moreover, Giorno, Richardson, Roseveare and van den Noord (1995) consider that changes of structural balance give mportant insights on the incidence of fiscal policy on aggregate demand.

Many authors consider structural balance as an important indicator for identifying and measuring the discretionarism of fiscal policy. For instance, Chouraqui, Hagemann and Sartor (1990) consider the relevance of SB as an indicator for evaluating the discretionarism of fiscal policy, taking into account the following aspects[178]: (i) on one hand, based on SB, it could be made the distinction between cyclic component and non-cyclic component of budgetary balance, and, therefore, it could be used in order to estimate the incidence of fiscal policy promoted by governments; (ii) on the other hand, taking into consideration the consequences of public finance policies on long run, based on the changes of SB, it could be obtained some relevant insights on future orientation of fiscal policy. But, there were also some critics in that sense. For instance, Muller and Price (1984) consider that SB could give some insights on fiscal stance changes caused by public finance policies and not by business cycle.

The necessity of estimating *structural balance* consists in the fact that under a growing structural balance, public debt could become unsustainable and, therefore, active measures of fiscal policy are requested. Fiscal imbalance could be influenced by permanent factors, as well as by temporary factors (Blejer and Cheasty, 1991; Hagemann, 1999), and such an impact is reflected by the size of fiscal imbalance. It is considered as being *temporary factors* those effects on budgetary expenditures/revenues due to the deviation of GDP from its normal trend (e.g. rising social transfers, especially unemploylement transfers), while, *permanent factors* are represented by normal evolution of budgetary expenditures/revenues in the absence of some external shocks, when the economy operates on its full employment capacity[179]. Consequently, the relationship between fiscal balance and business cycle could be considered from two

[178] Chouraqui, J.C., Hagemann, R.P., Sartor, N. (1990), „Indicators of Fiscal Policy: A Re-examination", *OECD Department of Economics and Statistics Working Paper No.78, April 1990*, pp.5.
[179] It is considered when the unemployment rate lies between 5 – 6%, according to Dornbusch and Fisher (1990) and when inflation rate is stable.

perspectives: (i) based on *discretionary changes* of fiscal policy; and (ii) based on *induced changes* due to business cycle.

The aim of this paper is to investigate the discretionarism of Romanian fiscal policy based on changes on estimated structural balance. The structure of the paper is the following. In Section 2, it will be presented methodological aspects on estimating structural balance. Section 3 consists in applied methodology for estimating Romanian structural balance. Section 4 is devoted to the analysis of Romanian fiscal policy and their efficiency from sustainability point of view, and also consists in concluding remarks.

Methodological background on estimating structural balance

In the main stream of literature, there have been identified two main approaches of estimating structural balance (see for instance, Mendez-Camba şi Lamo, 2002):

First approach lies on two stages. On the first stage, it is estimated the gap between the effective output and the potential output based on Hodrick-Prescott filter, or based on a production function. On the second stage, there are estimated elasticities of budgetary expenditures/revenues on GDP. The mentioned method is commonly used by international organizations, such as International Monetary Fund (IMF), European Comission (EC) or OECD, but it has some drawbacks steamed from the estimation of GDP gap (Brandner, Diebalek and Schuberth, 1998). For instance, OECD uses a Cobb-Douglas production function, while IMF does not apply the same methodology for all the countries. There are cases where production is estimated based on a general equilibrium model within NAIRU, and other cases where production is estimated based on statistical methods. On the other hand, EC uses Hodrick-Prescott filter, which is mostly used because of its simplicity.

The second approach relies on SVAR model where budgetary deficit and GDP percentage change are the variables. Compared to the forst approach, the second one has some advantages because it does not imply estimation of potential production, nor elasticities, but it is difficult to be implemented in tha cases with short time series (e.g. Romania's case). Moreover, based on SVAR approach, Dalsgaard and de Serres (1999) estimate structural balance values which go to a conventional balance of 3% of GDP, according to Maastricht Treaty requirements. This method could be extended in order to analyse the reaction of fiscal policy to different shocks.

Generally, estimation of structural balance is based on conventional balance (D) determined as a difference between budgetary revenues (R) and budgetary expenditures (E):

$$D = R - E \qquad (1)$$

In order to identify and then eliminate the business cycle influences, it will be estimated *output gap*, as a difference between effective real GDP (Y), and potential output (Y^*), as percent of potential GDP:

$$GAP = \frac{Y - Y^*}{Y^*} \cdot 100 \qquad (2)$$

The next stage consists in estimation of budgetary revenues/expenditures elasticity related to GDP. The previous studies show that there are taken into consideration only those components of revenues/expenditures which could more probably be influenced by business cycle (taxes and social government spending).

In that sense, it is considered that taxes have a constant growth rate depending on GDP, and, therefore, the percent of potential fiscal revenues (R^*) in effective fiscal revenues (R) is given by the following relation:

$$\frac{R^*}{R} = \frac{k_0 (Y^*)^\alpha}{k_0 Y^\alpha} = (\frac{Y^*}{Y})^\alpha \qquad (3)$$

where:

α = fiscal revenues elasticity related to GDP, $\alpha>0$;

k_0 = constant.

The cyclic component of fiscal revenues as percent of potential output is given by the first approximation of a Taylor serie:

$$\frac{R-R^*}{Y^*}=\frac{R}{Y^*}-\frac{R^*}{Y^*}=r-r^*=\alpha\frac{R}{Y}GAP \qquad (4)$$

The cyclic component of budgetary expenditures is estimated the same as in the case of fiscal revenues, but taking into consideration only those social transfers related to unemplyment ($E_{unemployment}$):

$$\frac{E_{unemployment}-E_{unemployment}{}^*}{Y^*}=\frac{E_{unemployment}}{Y^*}-\frac{E_{unemployment}{}^*}{Y^*}=e-e^*=\beta\frac{E_{unemployment}}{Y}GAP$$

(5)

where:

β = social transfers expenditures elasticity related to GDP, β>0;

Based on the relations from (1) to (5), it could be estimated structural balance (d^*), which could have been obtained where effective output would be equal to potential output. Structural balance is conventional balance (d), adjusted with the cyclic effects of budgetary revenues/expenditures:

$$d^*=d-(\alpha\frac{R}{Y}-\beta\frac{E_{unemployment}}{Y})\cdot GAP \qquad (6)$$

where:

$$d^*=\frac{D^*}{Y^*};d=\frac{D}{Y^*}$$

Estimating structural balance on Romania's case

In Romania's case, National Bank of Romania (NBR) makes publicly available information related to the size of structural balance. But, according to its methodology, 'structural balance is estimated as a difference beteen conventional balance and privatization revenues, considered as being financing source and not an effective budgetary revenue'[180]. Within the main stream of literature (see in that sense, Blejer and Cheasty, 1991), it is emphasized that in tha case of transition countries, due to numerous distortions which could have some influence an macroeconomic aggregates, it could be estimated a *core deficit*, which eliminates such distortions. In that sense, privatization could be seen as a transitory process which could have some effects on some particular macroeconomic variables, but, estimating structural balance only by taking into consideration a simple difference, could be considered as being not relevant. Therefore, I propose within this paper a different approach of structural balance estimation, which it is more complex and could go to more relevant results.

Estimation of structural balance in Romania's case is based on the methodology presented within previous Section, but by taking into account some particular features of Romanian economy, further discussed:

1. estimation of *output gap* is based on relation (2) and by applying a Hodrick – Prescott filter[181] on GDP in 1990 constant prices.
2. in order to identify and isolate the transitory effects of business cycle, only fiscal revenues and unemployment social transfers are taken into account. But, there are, also, studies (see for instance, Lane, 2003) whichi investigate the impact of business cycle on different government expenditures/revenues components: current expenditures, government consumption, salary expenditures, capital spending. In Romania's case, business cycle could have much more influence on the total amount of budgetary expenditures/revenues than on their components. Moreover, in the case of transition countries, structural adjustment policies, could be considered as having transitory effects on budgetary revenues/expenditures because of their public financing, and, therefore could be asmimilated to the effects of business cycle[182].

[180] National Bank of Romania, Annual Report 1999, pp.43.

[181] It represents a decomposition technique, where timer series are decomposed into a trend component and a stationary component (Enders, 1995).

[182] Blejer, M. I; A, Cheasty (1991), „The Measurement of Fiscal Deficits: Analytical and Methodological Issues", *Journal of Economic Literature,* Vol.XXIX (December 1991), pp.1644-1678, pp.1654.

Consequently, it is considered as being more relevant to identify and isolate the cycle component within budgetary revenues/expenditures, rather than of their components.

3. according to the structural balance estimation methodology, fiscal revenues and social transfers are considered to grow on a constant rate, *α*, in the case of revenues, and, respectivly, *β,*in the case of expenditures. Elasticity estimation relies on two models, which consider budgetary revenues/expenditures growth related to output growth (see in that sense, Brandner, Diebalek and Schuberth, 1998; Braconier and Holden, 1999): (i) for fiscal revenues growth, it is considered the following relation: $R_f = k_0 Y^{\alpha}$, and (ii) for social transfers (unemployment), it is considered, on a first stage, their growth related to unemployment rate $E_{unemployen\,t} = k_1 U^{a}$, and, on a second stage, based on Okun model, it is established the relation between social transfers and output, according to: $E_{unemployme\,nt} = cY^{\beta}(Y^{*})^{\beta}$ (Braconier and Holden, 1999). In Romania's case, it was taken into account, on one hand, the relationship between budgetary revenues and GDP growth $R = k_0 Y^{\alpha}$, and, on the other hand, the relationship between budgetary expenditures and GDP growth: $E = k_1 Y^{\beta}$. Applying natural logarithm on both relationships, it will be obtained the following regressions: $\ln R = \ln k_0 + \alpha \ln Y = c_1 + \alpha \ln Y$ and, respectively, $\ln E = \ln k_1 + \beta \ln Y = c_2 + \beta \ln Y$. Using OLS, it will be estimated *α* and *β*. Taking into account the difficulty of estimating Cobb-Douglas production function, the methodology applied within this study is often used (see in that sense, Lane, 2003). The estimated elasticities are presented in the table below:

Explanatory variables	**Equation 1** **Dependent variable: budgetary revenues[*)]**	**Equation 2** **Dependent variable: budgetary expensiures[*)]**
Intercept	-0.44 [-0.33] (0.74)	-0.23 [-0.25] (0.80)
LN_GDP[*)]	0.83 [2.64] (0.02)	0.81 [3.88] (0.00)
AR (1)	0.75 [4.45] (0.00)	
MA (2)		0.89 [20.35] (0.00)
	R^2: 0.76 F-stat: 20.62 (0.00) Jarque-Bera: 3.09 (0.21) Inverted AR: 0.75	R^2: 0.58 F-stat: 9.87 (0.00) Jarque-Bera: 0.65 (0.72)

[*)] Budgetary revenues/expenditures and GDP are expressed as natural logarithm of their 1990 constan price values.

Source: IMF (budgetary revenues/expenditures) and National Bank of Romania (GDP and GDP deflator).

[ ]: t-statistic ( ): probability

AR(1) and MA(2) for errors correction.

Table 1. Government expenditures and revenues elasticity

The estimated elasticity for budgetary revenues, *α,* is about 0.83, and estimated elasticity for budgetary expenditures, *β*, is about 0.81. Based on the previous results, it will be estimated structural balance, according to relation (6) (see, Table 2):

Year	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**200**

Structural balance (% GDP)	-1.4	-5.2	-0.3	-0.3	-2.2	-3.3	-4.5	-5.1	-5.5	-3.7	-4.1	-3.2	-2.6	-2.1	-1.0	-1.5	-1.8

Table 2. Estimated structural balance

The analysis of Romanian fiscal policy discretionarism and concluding remarks

Taking into account the evolution of estimated structural balance, it could be noticed some inconsistency of Romanian fiscal policy within the considered period. For instance, for 1992, it could be observed the efforts of Romanian government to reduce the large deficit from previous year in order to prevent the consequences on inflation rate. Even so, in the next few years, inflation rate was on its highest, despite the reduced budgetary deficits. Moreover, in the next few years, structural balance rose again, and the next episode of fiscal adjustment could be observed in year 2001. This episode could be considered as being more efficient than the previous one, because structural balance reduced consequently in the following years. Obviously, this moment could be related to the efforts of Romanian government to assess the requirements of Maastricht Treaty referring the constraints imposed for budgetary deficit. Also, it is important to emphasize the growing trend in the last year (2006). Momentarly, Romanian budgetary deficit, still, lies between the accepted limit, and a continous growth could raise some distortions on fiscal sustainability. Much more, analyzing the evolution of estimated structural balance, it could reach to another significant conclusion, regarding the inertia of authomatic stabilizers, and the fact that fiscal adjustments focused only on reducing the large size of fiscal deficits, but had no effect on aggregate demand.

Structural balance represents a useful fiscal indicator to evaluate the efficiency of fiscal policy from discretionarism point of view, also, giving some relevant insights on long run sustainability. According to estimated results for Romania’s case, it could be noticed only 2 episodes of fiscal adjustment. Based on the size of structural balance from following years, it could be emphasized some inconsistency of Romanian fiscal policy. On long run, the main challenge is related to achieving fiscal sustainability.

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KEY ELEMENTS TO DEFINE A SUCCESFUL PENSION FUNDS MARKET. THE POLISH EXPERIENCE.

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Abstract: The mandatory private pension represents a step forward in order to improve the quality of future life. Due to the problems occurred in the public pension system and the continuous debate regarding the number of participants, the lottery organization and schedule, the legal framework for the minimum rate of return, the possibilities of transfer between funds, we focused on the most developed market in the region, the Polish one, hoping to find the classical pattern for success.

Keywords: Mandatory private pension, investment policy, Polish market.

1. The most important goals of the study

As we have previously emphasized, we look forward to define possible correlations between the Romanian and the Polish pension funds markets. Starting with the evolution of the funds number, the legal framework, we hope to rely on the polish second pillar success in order to outline a profitable experience for our market.

Depending on the different phases of evolution, we should carefully appreciate the changes occurred in the last ten years for the Polish markets.

Another issue is the flexibility of this market, because we have already faced problems regarding this phenomenon for the Polish first Pillar. For example, Marcin Kawiński & Dariusz Stańko (2007) found out that due to labour market flexibility and (macro) pension finance sustainability there is a proposition to change the pattern of the 1st pillar to guarantee a minimum and universally available anti-poverty pension (that would be probably means tested) rather than keeping up high standard retirement based on fixed condition (i.e. period of contribution)[183]. Even this isn't our aim for the present study, we can easily predict that a change in the architecture of the first pillar will determine different behaviors for the second and third pillars.

2. The input data and the methodology of the study

The analyzed period was April 2002 – November 2006, using monthly data made public by the Polish Committee of Insurance and Pension Fund Supervision (KNUIFE).

We tried explaining the evolution of the private pension funds with the help on an econometric model:

$$AU = \alpha + \beta TB + \lambda S + \varepsilon$$

Where: AU = accounting unit

TB = bonds and treasury bills weight in investments portfolio

S = shares listed on a stock exchange weight in investments portfolio

ε = residual

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[183] Marcin KAWIŃSKI & Dariusz STAŃKO, Labour flexibility and pension schemes in the European Union , 5th International Research Conference on Social Security, "Social security and the labour market: A mismatch?" , Warsaw, 5-7 March 2007

α = constant

β,γ = determinative variables coefficients

To simplify the model we considered the following hypothesis:

- we did not took in account the inflation level and the economical growth;
- the political decisions were not included;
- We left aside the fact that some of the second pillar funds managers are also managers of the third pillar funds (sometimes a manager asks the competent commission for a dual authorization). In this case it occur the problem of setting different investment policies, depending on the existence of multiple choices, one second pillar fund and one third pillar fund. Additionally, it should be underlined that the Polish Commission approved from the beginning the possibility for a manager to establish two mandatory private pension funds;
- the existence of a minimal rate of return;
- There are two kinds of lotteries, one similar with the Romanian existing one (everybody is provided a number of undecided in respect to the former market share), and another one, established since 2004 in Poland (the lottery participants are selected on financial criteria). So, at present, only the selected funds participate in the lottery – those which have generated rates of return higher than the weighted average rates during the two past accounting periods and whose assets have not exceeded 10% of the total value of all funds. All funds meeting these criteria participate in the lottery to the same extent. The lottery is carried out on the last working day of January and July every year by the ZUS. As a result, the largest funds (Commercial Union – known in Romania as AVIVA, Polsat, and ING N-N Polska) haven't had the access to new more members. A similar approach was tried in Romania by Aviva, the British insurer hopping to bring much more members by eliminated from the Lottery the two biggest pension funds: Allianz Tiriac and ING.

The election of the determinative variables (TB and S) was made considering that the weight of these two assets in investment portfolio is overcoming 90%. Even the Romanian pension funds didn't start the investments (there are not, for the moment, transfers from the public budget), the probability for those two types of assets is sure to be high.

3. Empirical results

To remove the influence of those pension funds that disappeared and the new ones that appeared during the analyzed period, we chose to take only those which were active the entire period, which are: AIG OFE, Allianz Polska OFE, Bankowy OFE, Commercial Union OFE BPH CU WBK, OFE „DOM", OFE Ergo Hestia, Generali OFE, ING Nationale-Nederlanden Polska OFE, Pekao OFE, OFE Pocztylion, OFE Polsat, OFE PZU „Złota Jesień", OFE Skarbiec-Emerytura.

The eliminated pension funds were small ones, such as Winthertur OFE, that had a market share of 3.50% in 2004.

Considering the accounting unit growth, which is the most eloquent vision of each pension found profitableness, this was around 198% - 171% for the five analyzed years and in the year 2006 the 15% average increase in the value of an accounting unit was the best annual result ever achieved by pension funds.

Ordering the pension funds by the average rate of return (Table no. 1) we can see that the best rate of return was obtained by ING Polska and the lowest rate of return by Allianz Polska, fact which can be explained through the investment portfolio structure.

In this analysis considering the bills and treasury bonds and shares listed on a stock exchange weight we noticed a slight difference between the weights of the two assets in the investment portfolio of ING Polska – where the shares weight is higher the shares weight in Allianz Polska investment portfolio. This could be an explanation for the obtained rate of return.

Pension Fund	**Annual rate**

	of return
Allianz Polska	12.9
Pekao	13.6
Skarbiec-Emerytura	14.1
Ergo Hestia	14.4
Pocztylion	14.4
Commercial Union	14.7
Bankowy	15.1
Polsat	15.3
PZU Złota Jesień	15.3
Generali	15.6
AIG	15.9
DOM	15.9
ING N-N Polska	16.1

Table no. 1[184]: The average rate of return for the pension funds

Before going to estimate the regression parameters the multiple regression hypothesis there were verified. The regression model $AU = \alpha + \beta TB_i + \lambda S_i + \varepsilon_i$ could be written with the matrixes help:

Y = aX + e, where $Y = \begin{pmatrix} AU_1 \\ \dots\dots \\ AU_n \end{pmatrix}$; $X = \begin{pmatrix} 1 & TB_1 & S_1 \\ \dots & \dots & \dots \\ 1 & TB_n & S_n \end{pmatrix}$; $a = \begin{pmatrix} \alpha \\ \beta \\ \lambda \end{pmatrix}$; $e = \begin{pmatrix} e_1 \\ \dots \\ e_n \end{pmatrix}$

The multiple regression hypotheses are[185]:

- Hypothesis no 1. E(e) □;
- Hypothesis no 2. $Var(e) = E(ee^T) = \sigma^2 I$;
- Hypothesis no 3. *X* is a not - random matrix
- Hypothesis no 4. *rank* (*X*) = *2*+1 < *n*
- Hypothesis no 5. e ->$N(0, \sigma^2 I)$

With the help of E-views statistic tests we verified the hypothesis.

Coming back tot the first model, from its confidence point of view, there were 6 pension funds: DOM, AIG, Commercial Union, Ergo Hestia, Skarbiec-Emerytura and Pekao, for which the obtained rate of return is in strong connection with the bills, treasury bonds and shares weight in investment portfolio.

The model confidence was appreciated examining the determination coefficient (Multiple R – which shows the percent in which the determining variables are influencing the determinate variable), the Fisher - Snedecor test (F test – shows the model global confidence; for values grater then 1 of F test confirm true the hypothesis H_1: $\beta, \gamma \neq 0$) and not least the values of *t* test and p – value for α, β and γ. All this results, statistical speaking, are showing the model credibility.

Pension Fund	Multiple R	*F* test	*Significance*

[184] Source: Polish Insurance and Pension Funds Supervisory Commission

[185] ANDREI, T., (2003). Statistica si econometrie, Editura Economica, Bucuresti, [AND 2003]

			F
DOM	0.692648	3.227685	0.101557000
AIG	0.659642	2.696096	0.135464228
Commercial Union	0.800375	6.238438	0.027830797
Ergo Hestia	0.683449	3.067868	0.110472112
Pekao	0.772090	5.166000	0.041867081
Skarbiec-Emerytura	0.621773	2.205918	0.180758574

Table no. 2[186]: The model confidence

The model showed it self as being partial accurate, meaning that the treasury bills and shares weight is explaining only a part of the accounting unit evolution (about 50%), for 5 others pension funds, which are Allianz Polska, Bankowy, Polsat, PZU Złota Jesień, ING N-N Polska.

Pension Fund	Multiple R	F test	*Significance F*
Allianz Polska	0.586263	1.832967	0.229006
Bankowy	0.498617	1.158092	0.367714
Polsat	0.520270	1.298994	0.331293
PZU Złota Jesień	0.486967	1.087978	0.387761
ING N-N Polska	0.563279	1.626580	0.262931

Table no. 3[187]: The model confidence

For the two others pension funds Generali and Pocztylion, the model did not work as expected, in other words, the weight of the considered assets does not represent the most important impact on the obtained rate of return. The Multiple R values (about 30%) show clearly that there are other important elements, which are explaining the accounting unit evolution that we did not take initially in account.

Pension Fund	Multiple R	F test	*Significance F*
Generali	0.382011	0.598035	0.575735838
Pocztylion	0.306191	0.362082	0.708537644

Table no. 4[188]: The model confidence

Conclusions

In conclusion, beside the two pension funds: Generali and Pocztylion, the model that we built-up showed itself as being confident. The rate of return obtained by the analyzed pension funds is in a strong relationship with the investment portfolio structure and as mentioned we can strongly say that the more risky funds (a bigger weight for shares in investment portfolio against other funds less risky) had accomplished a bigger rate of return.

Discussing the rate of return, we support the idea of a relative minimum guarantee, due to the Polish reality, market that is “facing” nowadays a rate of return between 12% and 17% for the past five years.

[186,4], [5] Surce: authors processings

Indeed, we shall have no provided data for the next two years, but this is similar to other markets and should not represent an issue to worry for.

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ACCUMULATION AND DECCUMULATION OF UNIVERSAL PENSION FUNDS. THE CASE OF ROMANIA

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Abstract_The pension system reform in Romania initiated in 2000 is based on three pillars: 1) the public redistributive mandatory pillar; 2) the private mandatory pillar; 3) the private optional pillar. The paper tries to answer a few questions concerning the juridical and technical problems raised by the implementation of the last two pillars. The method used is that 'of scenarios', and the simulations are made separately for men and women, given that the duration of contribution payment and also the life expectancy at retirement are, at least in the present, different for the two categories of beneficiaries.

Keywords: private pension, universal pension funds, accumulation, deccumulation.

1. The Organization and Functioning of Universal Pension Funds

Together with the mandatory component (Law 19/2000 concerning public pension system and other social security benefits), the reform started in 2000 included other components, namely:

a) mandatory private component;

b) optional private component;

These components will be functioning on other principles and regulations, as follows:

a) Mandatory private component:

- is based on mandatory contributions;
- the universal pensions funds will be established based on contributions, which are to be invested and capitalized accordingly to the special regulations adopted for this purpose;
- the contributions and the interest from investing them are kept in individual accounts;
- the pension funds of this component are administered by private institutions.

b) Optional private component pillar III:

- is based on optional pension plans (contributions are not mandatory);
- cumulated funds of this component are to be invested and capitalized;
- the contributions and the return on the investments made from the contributions are kept in individual accounts;
- the pension funds of this component are administered by private institutions.

The reason for introducing the universal pension funds are, besides the increase of the replacement income, by supplementing it with a pension received from the private system, the reduction of the importance of the public pension system, the insured's possibility to choose and assume responsibility for the fund they are insured at and for the age they plan to retire, and also, the development of financial markets.

Regarding the second pillar of the pensions system (the mandatory private component), in October 2004, Law 411 was adopted. This Act stipulates that the pension funds are to be managed privately by a non-commercial entity, the participants of the fund beginning the same time members and shareholders. The functioning model is that of mutual funds. Shareholders of the pension fund (the insured) are individuals aged less than 35 years who contribute presently to the public pension system. They must contribute to one of the pension schemes privately managed. There is another participant category, those aged between 35 and 45 years presently contributing to the public pension system. For them, participation to the private pension schemes regulated in the second pillar is their own option. For each of the members of the private pension funds, an individual pension account will be opened, monthly contributions to the private pension together with the profit from investing these amounts being accumulated in these accounts. In the first year of contribution to the scheme, this will be 2% of the gross income (the same calculation base used in the public pension system). In 8 years from the beginning of participation, the contribution share will increase with 0.5% each year, beginning with the 1st of January of each year, reaching 6% of the gross income at the end of the 8 years. The contributions to the private pension funds are lower than in other Eastern European countries. The explanation for this fact is the decrease of the social security budget's financial resources because of re-direction part of the contributions to the public system towards private funds, situation that might unbalance social security's budget a seriously affect public pension system's functioning. Pension funds can be invested in several financial instruments such as bank deposits, treasury bills, shares traded on the regulated capital markets of Romania or EU, mutual funds, etc, precise maximum proportions of each of them being stipulated in the fund's prospect. *The conclusion* that can be drawn from this is that the managers of private pension funds can invest the financial resources in financial instruments with minimum and medium risk, fact that offers a higher security for the investors.

Regarding the third pillar of the pension system (the private optional component), the participants are not obligated to participate to this pillar, contribution to such a pension fund being optional. Contribution payment for the private pension schemes can be shared between the employer and the employee, according to the stipulations in the collective working contract or, if this doesn't exist, according to a protocol between the employees' representatives. For the contribution to the private pension there is a fiscal exempt up to the equivalent of 200 euros per year, both for the employer and the employee.

Managers of the optional private pensions can be insurance companies and other companies allowed to manage pension funds but, all of them have to get a license in this respect. Their activity will be monitored by the Private Pensions Surveillance Committee (CSSPP).

According to the legislation, the right to receive an optional private pension will be given at the request of the participant, but with the compliance of the following cumulative conditions: the participant must be at least 60 years old; he had been paid at least 90 monthly contributions (about 8 ½ years); the optional private pension calculated is at least equal to the minimum optional private pension according to the CSSPP regulations, exempts from this rule being applied in case of death of the participant or in case of permanent invalidity. In case of both pillars (second and third), private pension funds can not be declared bankrupt.

2. Possible scenarios of accumulation and deccumulation of universal pension funds

The need to supplement the replacement income obtained from the public system was motivated above. Given the fact that during the accumulation phase the funds are collected in the individual accounts the problem that appears, though, is what level of replacement income can an insured expect and how long will be the deccumulation phase. The questions persist, mainly because the computations based on average values, concerning the accumulation values in the individual accounts and the level of the annual pension that could be obtained, are not relevant. Concerning these aspects, there is a major difference between men and women because, considering that the incomes used as basis for the contribution to the pension system over the entire accumulation period are equal for both gender, the standard accumulation phase and life expectancy at retirement, are different. Thus, according to the law, the standard accumulation phase is 30 years for women and 35 years for men, fact that, evidently, has an influence on the funds collected over the accumulation phase. Starting from the normal retirement age, i.e. 60 for women and 65 years for men, as far as life expectancy at retirement is concerned, the difference is even bigger, of 13 years for women (from 60 to 73) and of about 2 years for men (from 65 to 67). These figures will have a strong impact on the length of the deccumulation phase and, implicitly, on the level of pension that can be obtained. For these reasons, in the present paper, we proceeded to different computations for men and women.

a. Possible scenarios. Second pillar. The mandatory private component.

Working premises

In order to compute the insurance fund obtained in the accumulation phase (Fa) we used the compound interest formula:

$$S_n = S_0(1+i)^n \quad (1), \text{ where:}$$

- *So* is the annually invested sum in a pension fund. We used a monthly base of 300. For its calculation we began with a monthly base of 300 euros, the equivalent of the present average salary in the first year of privately administered funds. Starting with the second year, we considered an annual 5% increase of the salaries. To compute the contribution to the pension funds the lawful percentages were applied: 2% in the first year, and increasing the contribution for the following 8 years by 0,5 pp/year finally reaching 6%. Using this percentage the contribution for the entire period was computed. The resulted contribution is considered as a gross one being composed of a net contribution of 90% of the gross contribution invested for the contributor, and 10% is the added value meant to cover the administrator's costs.

-*Sn* is the annually invested sum at the pension fund together with the yearly fructification

i- is the level of compound interest during To simplify the computation we considered the i factor as unchanged (4%). This value is realistic given that the low and medium risk financial instruments the fund legally invests in. **-**n is the number of years for each contribution

The total sum obtained on the basis of annual contributions being fructified is given by the net yearly added contributions together with the fructification:

$$F_{a=}\sum S_{nt} \qquad (2)$$

The result of or simulation is summarized bellow: Tabel 1

Scenario for men	**The age the contributor accedes to a fund**	**Contribution period**	**Fructifying factor**	**Resulted fund**
SC1	22 years	43 years	4%	50.346 EURO
SC2	35 years	30 years	4%	19.106 EURO
SC3	40 years	25 years	4%	12.477 EURO
SC4	45 years	20 years	4%	8.351 EURO

Tabel 2

Scenario for women	**The age the contributor accedes to a fund**	**Contribution period**	**Fructifying factor**	**Resulted fund**
SC1	22 years	38 years	4%	35.297 EURO
SC2	35 years	25 years	4%	12.477 EURO
SC3	40 years	20 years	4%	8.351 EURO
SC4	45 years	15 years	4%	4.371 EURO

It can be observed that for women a smaller value is accumulated at the end of the contribution period, all the other variables being unchanged.

The next issue is the computation of the possible pension computation, according to the accumulated funds at the time of contribution to the system considering the life expectation at the time of retirement E(X) different for men and women, i.e. 2 years for men and 13 for women. Considering that the rent $Pa=X_{1}$, is paid on an annual basis at the end of the period.. To determine the annual pension rents obtained in the deccumulation phase we used the actual value of serial equal payments[189]:

[189] Şeulean Victoria, *Protecţie şi asigurări sociale*, pag 148-149, Ed. Mirton, Timişoara, 2003.

$$S_{VA} = X_1 \cdot \sum_{t=1}^{n} \frac{1}{(1+i)^t} \qquad (3), \text{ where:}$$

X_1- is the value of the obtainable pension considering life expectancy for men and women, resulting:

$$X_1 = \frac{S_{VA}}{\sum_{t=1}^{n} \frac{1}{(1+i)^t}} \qquad (4), \text{ where:}$$

t- is the deccumulation period, i.e. the period the pension is received computed as a difference between the life expectancy and the standard retirement age;

i- is the actual factor during deccumulation. We maintained a constant 4% level.

The scenarios for the deccumulation phase are:

Men

Tabel 3

Scenario	**Contribution period**	**Resulted insurance fund**	**Fructifying factor**	**Yearly payable pension**
SC1	43 years	50.346 EURO	4%	26.923 EURO
SC2	30 years	19.106 EURO	4%	10.217 EURO
SC3	25 years	12.477 EURO	4%	6.672 EURO
SC4	20 years	8.351 EURO	4%	4.465 EURO

Women

Tabel 4

Scenario	**Contribution period**	**Resulted insurance fund**	**Fructifying factor**	**Yearly payable pension**
SC1	38 years	35.297 EURO	4%	3.533 EURO
SC2	25 years	12.477 EURO	4%	1.248 EURO
SC3	20 years	8.351 EURO	4%	835 EURO
SC4	15 years	4.371 EURO	4%	437 EURO

Obviously, the results are based on presumed determinants there evolution being subject to changes, and therefore our extrapolation is slightly different from real life situations. The computations can be detailed increasing time factor by one year or monthly but the conclusions are not significantly different. The contributor can also choose a different rent system than the one considered in our scenarios. Although, considering that data used for computation is realistic and according to the legislation at the moment of the study, we can draw several conclusions**.**

The first conclusion is that the difference between pensions obtained by men and women in the private pension schemes is significant. The reasons, briefly, are connected with the accumulation phase, shorter for women than for men and the difference between life expectancy (73 years for women and 67 years for men), given the fact that the principles of accumulation and deccumulation are the same.

The second conclusion is that if in the public pension system, based on the redistribution of funds between the generations the positive discriminations for women because of the earlier retirement with 5 years will not affect the replacement income, in the case of private pensions, each participant, man or woman, can expect a pensions that depends only on the contribution to the pension scheme and on the contributing period. In case that, at retirement, the insured opts for a yearly rent, its amount will also depend on the life expectancy of the insured at the retirement.

The third conclusion, which is in fact a corollary of the previous two, is that, considering the actual data regarding the eligibility requirements of the retirees in the public pension system ant the life expectancy at retirement, higher for women than for men, we can expect that in the future there will be an equalization of conditions for the contribution stage and the normal retirement age for the two categories of beneficiaries. Such a decision would be the first premise towards equalization of the replacement incomes obtained in the private pension system. Considering this, it is not surprising the fact that many countries, developed or developing, proceeded to modification and equalization of the normal retirement ages and of the contribution stage for women and men.

b. The third pillar. The optional private component.

Starting with the functioning principles of this component that have been presented above, we chose the following scenario:

The annual contribution to the system : 300 euros, equal for women and men; accumulation stage : 10 years, 15 years, 20 years, 25 years, 30years and 35 years , both for women and men; the actualizing factor is 4% , constant all the stage; the deccumulation stage, respectively life expectancy at retirement is 7 years for men and, respectively 11 years for women, closer to that in the EU countries. For computation of the pension fund obtained in the accumulation stage (Fa) we used the formula of equal payments series in future values:

$$S_{vv} = (1+i)^n \cdot X_2 \cdot \sum_{t=1}^{n} \frac{1}{(1+i)^t} \quad (5), \text{ where:}$$

Svv – accumulated pension fund; X_2- the value of the contribution to the system in the accumulation stage, considered as one single payment made at the beginning of the period; *t*- the accumulation stage, in years; *i*- the actualizing factor in the accumulation stage.

For determining the value of the annual rents that will be obtained in the deccumulation phase we used the formula of actual values of equal payments series, explicitated above.

In these circumstances, the resulted scenario will have the following configuration:

Accumulated pension fund for men and women Table 5

Scenario	**Accumulation period**	**Actualization factor**	**Accumulated pension fund**
SC1	t= 10 years	4%	Fa_1= 3.603 EURO
SC2	t= 15 years	4%	Fa_2= 6.006 EURO
SC3	t= 20 years	4%	Fa_3= 8.934 EURO
SC4	t= 25 years	4%	Fa_4= 12.495 EURO
SC5	t= 30 years	4%	Fa_5= 16.824 EURO
SC6	t= 35 years	4%	Fa_7= 20.001 EURO

Annual pension –Pa- obtained in the deccumulation phase Tabel 6

Scenario	**Men**		**Women**	
	Pension payment period	**Annual pension - Pa**	**Pension payment period**	**Annual pension - Pa**
SC1	E(x)= 7 yrs	Pa_1= 577 EURO	E(X)= 11 yrs	Pa_1= 369 EURO
SC2	E(x)= 7 yrs	Pa_2= 962 EURO	E(X)= 11 yrs	Pa_2= 616 EURO
SC3	E(x)= 7	Pa_3= 1.431EURO	E(X)= 11	Pa_3= 916 EURO

	yrs		yrs	
SC4	E(x)= 7 yrs	Pa_4= 2.002 EURO	E(X)= 11 yrs	Pa_4= 1.281 EURO
SC5	E(x)= 7 yrs	Pa_5= 2.696 EURO	E(X)= 11 yrs	Pa_5= 1.725 EURO
SC6	E(x)= 7 yrs	Pa_6= 3.205 EURO	E(X)= 11 yrs	Pa_6= 2.051 EURO

We can observe that, considering equal eligibility conditions in the private pension schemes, for women and men, the difference in the replacement income decreases, the only factor responsible for the difference between the two categories of beneficiaries remaining the life expectancy at retirement of 11 years for women and 7 years for men.

The calculations performed in the study, regarding the value of the accumulated funds and, based on them, the value of the pension rents obtainable, start with a monthly income equivalent to the average income. Serious problems will occur in case of participants with the income equal to the minimum income or, in any case, lower than the average income. In case of lower contributions the accumulations and rents in the private pensions system will be lower. Also, their low income will not allow, most of them, to contribute to the third pillar of the pension system. For this category of participants the support from the government will be probably necessary in the future.

Based on the scenarios sketched in the paper, there have been solved, at least at a regulatory level, a series of problems concerning the functioning of the second and third pillar of the pension system, as viable alternatives to the public pension. Among them, we can mention: 1. express authorization of the universal funds managers, that should be able to provide solid financial situation indicators; 2. the surveillance of investments made by the universal pension funds and limitation of these investments to financial instruments with low and medium risk; 3. separate management of universal funds actives by those managers that also administer other funds.

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A COMPARATIVE ANALYSIS OF THE ROMANIAN AND POLISH P&L INSURANCE MARKETS

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The insurance market represents a significant part of the economic development. The Romanian market, even it is an emergent one, have tried, for the last 10 years, to improve the expectations regarding the main indicators of welfare: gross written premiums for both mandatory, but especially facultative insurance policies, total assets, equity, the number of insurance brokers and agents. The progress can be viewed with eyes wide opened, but we address the question whether this trend is sufficient the decrease the gap between the Romanian market and the most important insurance ones from European Union. To achieve this goal, we summarize some correlations between Romanian and Polish market, and the results are promising.

Key words: Insurance, Pearson correlation, gross written premiums, equity.

1. The most important goals of the study

This study consists in a comparison between the Romanian and Polish insurance markets, for the period 2003-2005. The main goal of this study is to define if there are signs of improvement in the Romanian P&L insurance market by a detailed comparative analysis of a developed insurance market, the Polish one.

Even this seems to be inappropriate (in fact, there are more advanced insurance markets) the first step should be an intermediate level. However, this Polish market is enough for the moment. For example, gross written premiums in 2004 were 13602665 polish zlots (4 billions euros) for Poland and 26,975,746,721 lei (745,000 millions euros) for Romania. This is the starting point for the analyses and should be kept in mind for the following ideas, conclusions that can be drawn up as a result of our comparison.

2. The input data and the methodology of the study

The input data were provided by the Insurance Supervision Commission (ISC) yearly reports and Insurance and Pension Funds Supervisory Commission (KNUIFE), which were improved from one period to another, with more and more information. The analysis was made for P&L insurance market[190].

This study is based both on indicators provided directly by ISC and KNUIFE and on determined values of various elements, obtained from these insurance authorities reports, such as: equity, gross written premiums, gross paid claims and number of authorized insurance classes.

For both computational databases we eliminated those insurance companies with irrelevant activities (not diminishing gross written premiums, but ceasing activities, withdrawing authorisation, etc) and lack of technical information for the entire three years analysed period. From this point of view, the next insurance companies were eliminated: IF TU S.A. (liquidation), TUwRiGŻ Agropolisa S.A. (the lack of activity in 2004), FIAT Ubezpieczenia Majątkowe S.A. (the lack of activity in 2004), and HDI Asekuracja TU S.A. (the lack of activity in 2003)[191].

In the mean time, we excluded the main branches operating on Polish insurance market (Elvia Travel Insurance Company, COFACE AG, and Cardif-Assurances Risques Divers S.A.); due to insufficient

[190] This polish market is known as: Zakłady pozostałych ubezpieczeń osobowych i ubezpieczeń majątkowych.
[191] We presumed the Romanian insurance market to be a well-known one.

information on our market or the fact they are concluding business by new established insurance companies.

The Pearson correlation coefficients matrix was used as the statistical support of the dynamic analysis.

3. Empirical results

The following two tables illustrate the results, more specific, the values of the correlation coefficients for the P&L insurance classes, for the period 2003-2005.

Table no.1

Correlation coefficients between the financial variables for Romanian P&L insurance classes

YEAR	2005	2004	2003
Number of classes / Gross written premiums	0.8295	0.5954	0.8046
Number of classes / Equity	0.5444	0.343	0.5529
Number of classes / Gross paid claims	0.5862	0.503	0.571
Equity/ Gross written premiums	0.544	0.475	0.659

Table no. 2

Correlation coefficients between the financial variables for Polish P&L insurance classes

ANUL	2005	2004	2003
Number of classes / Gross written premiums	0.2524	0.2533	0.2481
Number of classes / Equity	0.4459	0.4652	0.3950
Number of classes / Gross paid claims	0.2459	0.2435	0.2307
Equity / Gross written premiums	0.1645	0.1733	0.2048

A more general conclusion from the comparative analysis between the two insurance markets is that The Polish market seems to be more stable than the Romanian one. The Pearson coefficients for the Polish insurance market had no significant changes during this period of time, but for Romania, with an emergent economy and an insurance market insufficient developed, the variation from one year to another are much more significant.

The second important conclusion is that the values for the Pearson coefficients are grater for the Romanian market, compared with the Polish one. This means a higher degree of dependency between all these variables, as a final remark of our particular insurance market. Even the lack of strong competition can be seen for many insurance classes, the higher the number of classes for an insurer, the bigger the turnover. After this short dissemination, it is the moment of a more detailed analysis.

Furthermore, it was performed a more specific analysis for this financial variables, for both countries.

The financial analysis for the period 2003-2005 revealed the following conclusions:

A. Correlation between the number of classes and the gross written premiums

For the Romanian insurance market, a strong correlation could be observed between these two variables, maybe too strong for an emergent market, as the Romanian one. Another argument for the emergent quality of the Romanian insurance market is the statistics revealing that only 4% of the whole number of buildings is insured. So, we could presume that this is acceptable for one insurance class, it will have some important clients and the effects in earned premium will pay off. The correlation could be much stronger if the Romanian insurance market had harsh competition[192]. A total different conclusion could be stated for the Polish insurance market. The values for the correlation coefficients are modest, around 24%, which emphasised a weak but positive relationship between these two financial variables. A grater number of classes, in Poland, do not have, as a direct consequence, a grater and significant level for revenues, such as gross written premiums. This is an expression for a more stable insurance market, with an intensive competition between underwriting companies.

It can be also stated that even the increasing competition won't be able to "squeeze" the coefficient. In fact, many foreign insurers have concluded mergers and acquisitions with or of Romanian insurance companies, but the market share for the P&L insurance market still remains the same. Indeed, some of them are hard to dethrone and their position is quite outstanding, but the hope is the last to die. If we want a certainty, we should demand the date when the strongest Romanian insurance companies shall collapse. The answer is difficult to predict, but we believe the answer to be "never". One way or another, the Romanian coefficient is at a high level, mainly due to the relative insufficient strength of the most important companies.

They aren't able to absorb the demand for insurance products, so they leave an important piece of the "cake" for the smaller ones. We intend to believe this reality to be a positive one, the concentration of a market being a point of start for a future duopoly or monopoly for a specified class of insurance.

Additionally, it can be easily concluded that this kind of markets tend to increase the insurance price due to the limited possibilities of an insured person. We have had, a few years ago, this kind of problem with the Romanian market, when many insurance companies developed a concerted practice regarding the price of green card[193], a type of insurance that is, nowadays, comprised in third party motor liability insurance.

From another point of view, this is considered to be the sign of a competition market, but what can we expect to happen the moment these less important insurance companies face the truth of bankruptcy? How this liaison can be possible? It's very simple. These companies are interesting from the insured point of view, because they often charge less than a powerful company. Yes, but what will happen with the claims, if the company has insufficient funds to pay the damages. Indeed, this is going to be a delicate phase of a company business cycle.

Despite this fact, everybody is considering lucky to have a "piece" of the Romanian market, to be recognised by the clients, till the moment they deal with his claim management problems, which they always pretend to be temporary.

B. Correlation between the number of classes and equity

The result was not very surprising because it is the result of the continuing efforts for the Romanian Insurance Supervision to increase the level of equity. This trend was much obvious in the year 2004, when the number of classes decreased from 8 to 5 and the medium level for equity raised from 22.43 million to 33 million Ron. However, it is not a reflex response to increase the equity when the number of insurance classes increased. Some Romanian insurance companies (e.g. Nationala), had 4 classes with an issued capital of 25 billions ROL, and, on the other hand, other companies (e.g. Petroas) had 15 billions ROL equity for 7 classes.

A weaker, but also positive correlation could be observed for the Polish case, due to different regulations and, again the same conclusion, a more stable insurance market: from 32 companies, analysed in the period 2003-2005, only one of them changed the number of insurance classes. Comparing to the previous correlation coefficients, it seems that the two countries are more similar.

C. Correlation between the number of classes and gross paid claims

For Romanian insurance market, the correlation coefficient revealed a strong link, as the result is, somehow, reasonable since the level of gross paid claims increased every time when ISC approved new insurance classes. The analysis must be performed for a minimum of 10 years together with the correlation between the number of classes and the financial result, since both theory and practice proved that the risk will be diminished and the portfolio will be diversified through the number of insurance classes.

[192] Dragota, Mihaela, Serbanescu, Cosmin, Pele, Dan, Traian, *Portfolio Diversification and Market Share Analysis for Romanian Insurance Companies*, publicata in volumul intitulat Risk Management and Value. Valuation and Asset Pricing, publicata in volumul 3 al Revistei *World Scientific Studies in International Economics*, 2008.

[193] The third party motor liability insurance for the foreign territory.

For the Polish insurance market, the correlation is positive, but weaker than for the Romanian P&L insurance one, which revealed that the grater level of claims is not significantly determined by the number of underwriting classes. The database showed a variation for the number of classes between 1 and 18, with an approximately average value of 14 classes and a median value of 17 and a standard deviation around 5. By the contrary, for the gross paid claims, the gap between minimum value and the maximum one are much more greater, from 1532 zlots to 4297311 zlots (for the year 2005), with an average value of 259966 zlots and a median value of 36151 zlots. The level for standard deviation was, for the same year 2005, around 775.600 zlots.

These values bring to light an insignificant change in the number of classes from the year 2003 to the year 2005, concomitant with major variation in gross paid claims. These data explained the unimportant role of number of classes on the changes in gross paid claims.

For the first two years of our analyses it can be concluded that the Romanian markets finds itself still at the beginning, because those values (0.503 and 0.571) explain a stronger correlation between gross paid claims and number of classes. Or, this is the proof for an emergent market, still searching for its ideal path. Otherwise, it is difficult, even impossible, to describe the pattern or this stronger correlation. In fact it shows that the greater the number of classes, the higher the amount of claims to be paid. The first cause is explained by the expansion of business and the increment of gross written premiums and consequently of indemnities. But, there is a second thought that this result was brought, has appeared due to bad management policies. Since there is no evidence of management distress for the chosen companies, we may conclude the first item to be the explanation for the mathematical conclusion.

As a comparison, the Polish market seems to be less inflexible, the coefficients ranging around 0.24. As an example, it can be found that PZU S.A., the biggest insurance company, with a share in non-life branch premiums of 60.55% has reached the highest level of claims paid: 4,443,207 polish zlots (approximately 1,315,000 euro), TUiR WARTA S.A. (market share – 13.32%) reported 900,000 polish zlots (approximately 266,000 euro) and STU Ergo Hestia S.A., the third polish insurer of the P&L insurance market (market share – 6.61%) an amount of 615,000 polish zlots (approximately 182,000 euro). Meanwhile, AIG Polska TU S.A., with a market share of only 0.24%, had chosen to practice all 18 classes and the result for the gross paid claims was 18,301 polish zlots (approximately 5,400 euro). The goal of this example cannot be fulfilled without an insurer with few classes, but relevant claim ratio: TU PZM S.A. 72.02%.

D. Correlation between equity and gross written premiums

The correlation is positive, but weaker, from the year 2003 to the year 2005 for the Polish insurance market.

The result is normal because the level of equity, it is not a guarantee for an appropriate level of the gross written premiums. If the specific regulation established by the Insurance Supervision Commission (ISC) is taken into consideration to increase the level of equity, the result could be easily understood. This indicator provided a greater stability, the image of a stable company, but some significant events could generate, even for these important insurers, a non-suitable level of gross written premiums.

The results for the Polish market revealed a weak correlation, mainly because of heterogeneity of these two variables. In practice it can be demonstrate a pattern for the equity level, depending on gross written premiums, the results for the Romanian market expressing rather the need to capitalize the insurance companies in order to achieve the legal framework, then the willingness to over capitalize the company.

4. Conclusions

The Romanian insurance market has more steps to achieve, in order to compete with the solid western markets, the existing gap between the countries analysed above being a living proof.

Even the foreign insurers have “invaded” our market, the poverty of many social categories represents a hand brake for the expected development, but for sure it will be easier with well capitalised insurers, much more classes and growing premiums.

The competition should not be hold guilty for the progress of the Romanian market. The Polish market proved to be highly developed, compared to the indigene one, even if the first three insurance companies had a market share of more than 80%. Mean while it can be stressed out that the Polish market has only 32 P&L insurance companies. As a final conclusion, the Romanian insurance market is able to improve its performances by a qualitative management, the number of foreign insurers penetrating our market being of real help, due to their experience on developed markets.

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THE COMPUTATION OF SOME PRIVATE PENSIONS

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Abstract: The aim of this study is the development of few models for the private pensions such as retirement pension, disability pension and the widow pension. We also provide a numerical application of the elaborated models.

Key words: Single net premium, computational functions, private pension, lifetime rent, disability pension, widow pension.

There are multiple problems regarding the pension systems. Due to the difficulties existing on the social pensions system, new products have erected products that assure incomes equal to insured wages for disability occurrence (approximately 90%) and an income correlated to the contributions and performances reached by the private pension fund administrator, for full time retirement.

A few months ago, the mandatory private pension system (the so-called second pillar) was implemented. For the excepted persons of the second pillar and for those who desire another pension, the third pillar (the facultative one) is also an alternative. Contributors to a facultative pension system should realize incomes and pay contributions to the social public system. Of course, depending on the envisaged pension, there are some requirements to fulfill, such as the age of 52 years and 6 months (at the maximum) and the payment of 90 monthly contributions, if the goal is a lifetime pension, starting the age of 60, which represents the legal retirement one.

As for the facultative private pensions, the contributions are also added to the participant's personal account. If he dies before he reached the legal retirement age, the cumulated amount shall be transferred to his legal heirs' account. The contribution flexibility is also an advantage for the facultative private pensions, the insured person having the opportunity to raise the contribution (up to 15% of the taxable income) or to cease the payment of contributions the moment he does not realize incomes, but with the possibility to restart the contribution, once he will obtain them again. There is also an advantage the fact that the legal framework for private pensions is stable and the field of activity under continuous supervision.

The pension prediction still remains a complicate issue. Obviously, it can be an answer such as "the pension depends on contributions". But this is totally vague and the hard work is switched to later computation (the moment all the data are known). There are a lot of variables to evaluate: commissions, taxes, penalties, investments and accompanying risks, transfer possibilities, payments of pensions. However, it can be obtained a perspective on cumulated amount from contributions by comparison to life insurances with accumulation paid as lifetime rents. We should also mention that the private pension represent a way of saving money for old age, meanwhile a life insurance with capital accumulation is mainly o protection product (mixed insurance) and secondly a saving opportunity. As a consequence, a pension plan means contracting annuities or postponed lifetime fractionalises or certain benefits according to the contributions on the active life.

The most simple mathematic method for full time pension is the one that enables the insured person, x years old, to pay for the following r years, m times a year, a net premium P, in order to obtain from the insurer, over n years $(r \le n)$, a k times a year a pension S till t years. We note $a_x^{(b,c)}(\alpha:\beta)$ the actual medium value of a series of fractionalises (which represent an annually monetary unit) made for the period $[\alpha,\beta]$, where b indicates the anticipated or posticipated payment (A, P) and c the annual fraction.

As a result we obtain the equation: $m \cdot P \cdot a_x^{(b,m)}(:r) = k \cdot S \cdot a_x^{(d,k)}(n:t)$, where $b,d \in \{A,P\}$.

For the disability insurance, we shall consider three possible states: the „a" state means active (apt or valid) for a named job, the „i" means disable for every job and the „d" state (deceased). We presume the decease as the only way to eliminate the "i" state. We note with : l_x^i the number of living individuals in "i" state, at age x; l_x^a the number of living individuals in "a" state; l_x^{ai} the number of living individuals changing the „*a*" state in „*i*" state at age $y \in (a, x)$ and remaining in this state until the age of x; $p^{ii}(y, x)$ the probability that the individual in state "i", at age y will be in the same state at the age x; $p^{ai}(y, x)$ the probability that the individual in state "d" at age y will pass and remain in state "i" until age x. We note with l_x^i the surviving function for disabled persons and with q_x^i the decease annual rate. We will use the commutation functions (numbers):

$$D_x^i = l_x^i \cdot v^x,\ N_x^i = \sum_{y=x}^{\omega} D_y^i,\ C_x^i = \left(l_x^i - l_{x+1}^i\right) \cdot v^{x+\frac{1}{2}},\ M_x^i = \sum_{y=x}^{\omega} C_y^i .$$

For an "n" years survival insurance for a disabled person *x* years old, the single net premium for an insured amount of one u.m. is: $E_{x,n}^i = p^{ii}\left(x, x+n\right) \cdot v^n = \frac{l_{x+n}^i}{l_x^i} \cdot v^n = \frac{D_{x+n}^i}{D_x^i}$.

For one u.m. rent, postponed *r* years and limited to *n* years, paid annually and anticipated to a disabled person of *x* years old for the time he is alive, the single net premium is: $a_x^{i,(A)}\left(r:n\right) = \frac{N_{x+r}^i - N_{x+n}^i}{D_x^i}$. For the anticipated life annuity, arithmetical progression of rate 1 *u.m.* and first term 1 u.m., postponed *r* years and limited to *n* years, the single net premium is:

$$Ia_x^{i,(A)}\left(r:n\right) = \frac{S_{x+r}^i - S_{x+n}^i - \left(n-r\right) \cdot N_{x+n}^i}{D_x^i}$$

We shall determine now the single net premium paid by an active individual, *x* years old, for an insurance that offers him as soon he is getting disable, an annually anticipated life rent, with the annuities of 1 u.m., immediately and unlimited, but only in case the event occur between *x* + *r* and *x* + *n* years. We shall note this premium to $a_x^{ai,(A)}\left(r:n\right)$. Later, we shall obtain the single net premium paid by the *x* years old active person, in order to receive, immediately and unlimited, an annually anticipated life rent, but only in case the disability occur between *x* + *k* and *x* + *k* + 1 years. We shall note this premium $E_{x,k}^{ai}$. Presuming the disability cases uniform distributed through the year, we may conclude the moment an active person become disable to be the middle of the year. In this case, the value for the disability pension at that moment is $a_{x+k+\frac{1}{2}}^{i,(A)}$. We have: $E_{x,k}^{ai} = \frac{l^{ai}\left(x+k, x+k+1\right)}{l_x^{aa}} \cdot \frac{v^{x+k+\frac{1}{2}}}{v^x} \cdot a_{x+k+\frac{1}{2}}^{i,(A)}$.

Introducing the commutation functions: $D_x^{aa} = l_x^{aa} \cdot v^x$, $N_x^{aa} = \sum_{y=x}^{\omega} D_y^{aa}$, $S_x^{aa} = \sum_{y=x}^{\omega} N_y^{aa}$, $D_x^{ai} = l^{ai}\left(x, x+1\right) \cdot a_{x+\frac{1}{2}}^{i,(A)} \cdot v^{x+\frac{1}{2}}$, $N_x^{ai} = \sum_{y=x}^{\omega} D_y^{ai}$ and $S_x^{ai} = \sum_{y=x}^{\omega} N_y^{ai}$ we obtain: $E_{x,k}^{ai} = \frac{D_{x+k}^{ai}}{D_x^{aa}}$ and $a_x^{ai,(A)}\left(r:n\right) = \frac{N_{x+r}^{ai} - N_{x+n}^{ai}}{D_x^{aa}}$.

Let's consider the insurance by which a valid person, x years old, is going to receive between *x* + *r* and *x* + *n* years, as long as he is an active person, a life time anticipated annuity of 1 u.m. Noting with $a_x^{aa,(A)}\left(r:n\right)$ the single net premium for this insurance, we have:

$$a_x^{aa,(A)}\left(r:n\right) = \sum_{k=r}^{n-1} \frac{l_{x+k}^{aa}}{l_x^{aa}} \cdot v^k = \sum_{k=r}^{n-1} \frac{D_{x+k}^{aa}}{D_x^{aa}} = \frac{N_{x+r}^{aa} - N_{x+n}^{aa}}{D_x^{aa}}$$

Generally speaking, for the disability insurance we introduce a lack term and the progressive variation of the life time rent in consideration with the number of contributing years. We shall forward consider the case when the rent increases unlimited, in an arithmetical progression. This means that for a lack term of k years, the active insured person, x years old, recently contractor of this insurance, in case of disability between $x + k + 1, x + k + 2, \ldots$ shall receive a disability pension in arithmetical progression of step β and first termα.

We presume that the insured contracted the insurance *t* years ago. We note the medium actual value for this insurance with $AIN_{x,k,t}$, for *t* = 0, this being similar to the single net premium for the insurance.

1. In case $0 \le t \le k$, we have:

$$AIN_{x,k,t} = \sum_{j=0}^{\omega-x-k+t-1} (\alpha + j \cdot \beta) \cdot E_{x,k-t+j}^{ai} = \frac{\alpha \cdot N_{x+k-t}^{ai} + \beta \cdot S_{x+k-t+1}^{ai}}{D_x^{aa}}$$

The net single premium for the insurance is: $AIN_{x,k} = \dfrac{\alpha \cdot N_{x+k}^{ai} + \beta \cdot S_{x+k+1}^{ai}}{D_x^{aa}}$.

2. In case $t > k$, we have:

$$AIN_{x,k,t} = \sum_{j=0}^{\omega-x-1} \left[\alpha + (t-k)\cdot\beta + j\cdot\beta\right] \cdot E_{x,j}^{ai} = \left[\alpha + (t-k)\cdot\beta\right] \cdot \frac{N_x^{ai}}{D_x^{aa}} + \beta \cdot \frac{S_{x+1}^{ai}}{D_x^{aa}}$$

We consider now that the growth of the rent is limited to a specified number of years, and then this is set constant to the attained level. In this case, the new insured person shall receive after the lack period of k years in case of disability, a pension with the following anticipated annual values: α, $\alpha + \beta$, $\alpha + 2 \cdot \beta$, ..., $\alpha + n \cdot \beta$, ...

We use the medium actual value with $AIL_{x,k,n,t}$.

1. In case $0 \le t \le k$, we have:

$$AIL_{x,k,n,t} = \alpha \cdot \frac{N_{x+k-t}^{ai}}{D_x^{aa}} + \beta \cdot \frac{S_{x+k-t+1}^{ai} - S_{x+k-t+n+1}^{ai}}{D_x^{aa}}.$$

The single net premium is: $AIL_{x,k,n} = \dfrac{\alpha \cdot N_{x+k}^{ai} + \beta \cdot \left(S_{x+k+1}^{ai} - S_{x+k+n+1}^{ai}\right)}{D_x^{aa}}$.

The moment the insurance and the lack term are the same, $t = k$, we have: $AIL_{x,k,n} = \dfrac{\alpha \cdot N_x^{ai} + \beta \cdot \left(S_{x+1}^{ai} - S_{x+n+1}^{ai}\right)}{D_x^{aa}}$.

2. In case $k < t \le k + n$, we have:

$$AIL_{x,k,n,t} = \frac{\alpha \cdot N_x^{ai} + \beta \cdot \left[S_{x+1}^{ai} - S_{x+k+n-t+1}^{ai} + (t-k) \cdot N_x^{ai}\right]}{D_x^{aa}}.$$

3. In case $t > k + n$, we have:

$$AIL_{x,k,n,t} = \sum_{j=0}^{\omega-x-1} (\alpha + n \cdot \beta) \cdot E_{x,j}^{ai} = (\alpha + n \cdot \beta) \cdot \frac{N_x^{ai}}{D_x^{aa}}.$$

For the widow pension, we note a_y^w the medium actual value of an annuity paid to a widow, y years old and $L_{\frac{x}{y}}$ the number of married men, x years old married to wives, y years old and L_x the number of individuals, x years old. Consequently, it results that the medium actual obligation of an insurer, due to the active person's decease, x years old, is: $W_x = \dfrac{\sum_y L_{\frac{x}{y}} \cdot a_y^w}{L_x}$.

If I_x is the number of active person, becoming disabled between x and $x + 1$ years old, then we shall note a_x^{iw} to be the medium actual obligation of an insurer to provide a pension for the disable's widow (the deceased was x years old). Considering the deceases to be uniformly distributed during the year, we shall obtain: $a_x^{iw} = \sum_{k=0}^{\omega-x} \dfrac{d_{x+k}^i}{l_x^i} \cdot v^{k+\frac{1}{2}} \cdot W_{x+k+\frac{1}{2}}$.

Making use of the commutation functions: $D_x^{iw} = d_x^i \cdot v^{x+\frac{1}{2}} \cdot W_{x+\frac{1}{2}}$ and $N_x^{iw} = \sum_{k=0}^{\omega-x} D_{x+k}^{iw}$, we have: $a_x^{iw} = \dfrac{N_x^{iw}}{D_x^i}$. Noting a_x^{aw} as actual medium value for the widow's insurance for an active person, x years old, we have:

$$a_x^{aw} = \sum_{k=0}^{\omega-x} \left(\frac{d_{x+k}^{aa}}{l_x^{aa}} \cdot v^{k+\frac{1}{2}} \cdot W_{x+k+\frac{1}{2}} + \frac{I_{x+k}}{l_x^{aa}} \cdot v^{k+\frac{1}{2}} \cdot a^{iw}_{x+k+\frac{1}{2}} \right).$$

Introducing the commutation numbers: $D_x^{aw} = v^{x+\frac{1}{2}} \cdot \left(d_x^{aa} \cdot W_{x+\frac{1}{2}} + I_{x+k} \cdot a^{iw}_{x+\frac{1}{2}} \right)$ and $N_x^{aw} = \sum_{k=0}^{\omega-x} D_{x+k}^{aw}$, we obtain: $a_x^{aw} = \dfrac{N_x^{aw}}{D_x^{aa}}$.

In order to illustrate the previous elaborated models, we shall present an example. We shall consider an active husband, 32 years old, concluding an insurance contract, as it follows:

a) if he becomes disable in 10 years, he will receive a disability pension equal to 40% of his wage, pension that will increase for every work year by 3% of the wage (in 30 years is equal to the wage);
b) Beginning 62 years old, he will receive a full time pension, equal to the wage;
c) If his wife dies, he will receive a pension equal to 50% of his wage, unless his working period was less than 10 years. For these rights he is paying an annually contribution, equal to a percent p of his wage, as long he is healthy till the age of 62. We shall determine the p percent of the insured's contributions considering his wage to be constant for the rest of his working life. We shall note with S the insured's wage and with x (x = 32 years) his age. The insurer's actual obligation is compound of:

– The actual value for the disability pension:

$$V_1 = \frac{0,4 \cdot S \cdot N_{42}^{ai} + 0,03 \cdot S \cdot \left(S_{43}^{ai} - S_{63}^{ai} \right)}{D_{32}^{aa}} = 0,74905 \cdot S.$$

If we cease the disability pension, once he will obtain the full time pension, then:

$$V_1 = \alpha \cdot \frac{N^{ai}_{x+k} - N^{ai}_{x+k+n}}{D^{aa}_x} + \beta \cdot \frac{S^{ai}_{x+k+1} - S^{ai}_{x+k+n} - (n-1) \cdot N^{ai}_{x+k+n}}{D^{aa}_x},$$

Where $\alpha = 0.4 \cdot S$, $\beta = 0.03 \cdot S$, $k = 10$ years the lack term and $n = 20$

We obtain:

$$V_1 = \frac{0,4 \cdot \left(N^{ai}_{42} - N^{ai}_{62}\right) + 0,03 \cdot \left(S^{ai}_{43} - S^{ai}_{62} - 19 \cdot N^{ai}_{62}\right)}{D^{aa}_{32}} \cdot S = 0.40746 \cdot S.$$

- The actual value for the full time pension: $V_2 = S \cdot \frac{N^{aa}_{62}}{D^{aa}_{32}} = 0{,}591715 \cdot S$ u.m.
- The actual value for the widow pension: $V_3 = 0,5 \cdot S \cdot \frac{N^{aw}_{42}}{D^{aa}_{32}} = 0{,}23013 \cdot S$.

The actual value for the insured's contribution is:

$$V = p \cdot S \cdot \frac{N^{aa}_{32} - N^{aa}_{62}}{D^{aa}_{32}} = 13{,}789864 \cdot p \cdot S \quad \text{u.m.}$$

So, in case of addition of full time pension and disability pension, we have:

$$p = \frac{V_1 + V_2 + V_3}{13,789864 \cdot S} = \frac{0,74905 + 0,591715 + 0,23013}{13,789864} = 0,114 = 11,4\%.$$

If the payment of disability pension is ceased, the moment the person receives full time pension, we shall have:

$$p = \frac{V_1 + V_2 + V_3}{13,789864 \cdot S} = \frac{0,40746 + 0,591715 + 0,23013}{13,789864} = 0,089 = 8,9\%$$

Obviously, the high percent of contribution is determined by the level of important requested benefits. In case of separate treatment of the two previous pensions, the contributions decrease at least two percent.

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THE COMMON CONSOLIDATED CORPORATE TAX BASE – A NEW APPROACH IN THE CORPORATE TAX FIELD

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Abstract: The Common Consolidated Corporate Tax Base, abridged „CCCTB", represents a new concept in the fiscal theory, which in the future will become a reality of fiscal practice in each EU's member states. The year 2007 represented a significant step in shaping the principles which will gouvern the CCCTB, as a result of the great meetings at the level of European Commission on the matter. We intend analyze the impact of the legislative initiative and also to describe, it's containt.

Key words: Common consolidated corporate tax base, fiscal competition, fiscal policy

1. Introduction

The problem of harmonising the Common Consolidated Corporate Tax Base, abridged „CCCTB", has been discussed within the framework of the European Commission, even since 2004. Though a better approach of this problem, when the stakes which concern the primar aspects to be harmonised in this area, occured in september 2007. Harmonising the common consolidated tax base remains a priority on the list of the Europeen Commission. Its foundation consists of the following motivations, at least.

2. Why the Common Consolidated Corporate Tax Base?

First of all, achieving a common consolidated corporate tax base represents a reaction of adapting the common legislation to the evolution of the globalization process. Extended in all the areas of the economic life, this process has no physical boundaries to stand in the way of the world wide expansion and development of the grand companies, and has marked the economy in the whole wide world.

As a second answer to the „Why the common consolidated corporate tax base?" question we find the basic idea of the European Union's construction through which they wished to find a unique economic frame, including common fiscal legislation. They also wish to create an attractive european economic space in order to place the foreign investments (where a harmonised legislation may constitute an advantage of localization).

In the third place a common consolidated corporate tax base would remove the world wide's groups trouble: the cost for managing the tax will remarkably diminish if we take into consideration the fact that now, a multinational group, which activates in all the member states, needs to work with 27 different systems of the corporate tax.

By comparison, in this case, the steps started early, even since 1977, when through the 77/388/CEE Directive, which concerns harmonising the indirect taxes such as VAT and of the excises duties at the European Union level, they proceeded to harmonise the VAT's tax base available for all the member states. The process of harmonising the VAT started to improve since 1 January 1993 along with the new created Unique Market.

The stated process has as foundation the fact that this tax represents, in the first place, the most important fiscal sourse as weight in GDP, in which the commom budget is being also formed. This process has also aimed to one of the four fundamental liberties such as the free circulation of merchendise and services, knowing that the VAT represents a fundamental element of this prices.

The things stand differently regarding the profit taxes of the economic agents which, now, stand on quite mobile and different principles. Until now, the fiscal politics in the domain have been orientated and limited to defining the general aspects in corporate tax' s domain and in adding rules regarding avoiding the double constraint. In conclusion we talk about 27 different techniques of the profit's constraint: each member state having its own system of taxing the economic agent's profit.

From the money politic's point of view, the member states sort of lost their sovereignty because they mostly took over this privilege from the European Central Bank. Concerning the fiscal political side, we can say that each Govern can establish its own objectives and fiscal strategies; this way, the fiscal politicy and especially the one in the direct taxes domain, became an operating device in creating teritorial attractivities for the potential investors, starting with 2004.

Througout the 10 new commers in 2004, the tendency manifests also in Romania's and Bulgary's case. Their governs juggled with the level of the part tax or with some fiscal facilities which aim the investments or the reinvestments of the profit, concerning the profit tax. The other member states were forced themselves to reduce the level of the corporate tax in order to keep the important investors already localised on their own teritory or the potential new investors. In this way, they reached a sort of fiscal competition between the states with unwanted effects (the example of the Nokia Company being the most relevant in this case).

We can conclude by analizing all this, that the European Commission's legislative proposition of harmonising the common consolidated corporate tax base has as motivation this phenomenon of „fiscal competition" along with the other three motifs mentioned before. There is no doubt that this legislative measure was considered important imediatly after the member states have diminished their corporate tax rates, in 2005 and 2006.

2.1. The analysis of the Corporate Tax Rates, beging whit 2005's

This fiscal competition, sometimes camouflaged, in the sense of lowering the tax rates, is not to blame because the new commers must fit into the catching-up process of the member states with high performance at the level of macroeconomic meter, such as: rythm of economic development, unemployment rate, general price meter, etc (this process was initially used by the new commers and after that by the other member states). This phenomenon of diminishing the interstates ecarte, reporting on the level of economic development, comes as a purpose itself for the creation of the European Union. This new created space aims to be an international economic power in competition with the other economic forces of the world.

Starting with 2005, we witness a general process of reducing the corporate tax rate.We can notice in the following table that a number of 17 countries have reduced their tax rates as it follows:

Table no. 1 : Corporate Tax Rates in Europeen Union 27

Country	2004(%)	2005(%)
Austria	*34*	*25*
Belgium	34	34
Danmark	*30*	*28*
Finland	*29*	*26*
France	*34.33*	*33.83*
Germany	*27.9*	*25*
Greece	*35*	*32*
Ireland	12.5	12.5
Italy	*34*	*33*
Luxembourg	30.38	30
Netherlans	*34.5*	*31.5*
Portugal	*30*	*27.5*
Spain	35	35
Sweden	28	28
United Kingdom	30	30
Ciprus	15	15

Czech Republic	*28*	*26*
Malta	35	35
Estonia	*24 for profit distributed* *0 for profit reinvestment*	*23 for profit distributed;* *0 for profit reinvestment*
Hungary	*18*	*16*
Latvia	*19*	*15*
Lithuania	*19*	*15*
Poland	*27*	*19*
Slovenia	25	25
Bulgaria	*15*	*12.5*
Romania	*25*	*16*

Source: modified by „ KPMG's Corporate and Indirect Tax Rate Survey 2007", p. 5 -11, http://www.kpmg.com/Services/Tax/Business/IntCorp/CTr

In 2007, the average of the corporate rate taxes, which concerns the European Union, was 24.2 %, lower with 3,6 % than the registered average at OECD, with 3.8 % than the registered average at Latin America and with 5, 9 % lower than Asia-Pacific, according to a study of KPMG.

From chart number 1 we can observe a descendent trend regarding of the average corporate tax rates, but in 2005 we can notice a more sudden drop then in the other years, as a result of legislative measures taken by the 17 member states of the Union to reduce the corporate tax rate. The descendent trent has maintained in 2006 and 2007 as a consequence of the lowering of the corporate tax rates in the following states: Portugal has modified, starting with 2007, to 25 % the corporate tax rate, Spain has lowered to 32.5%, Czech Republic to 24%, Cyprus to 10%, Bulgaria to 10%, and Slovenia to 23%.

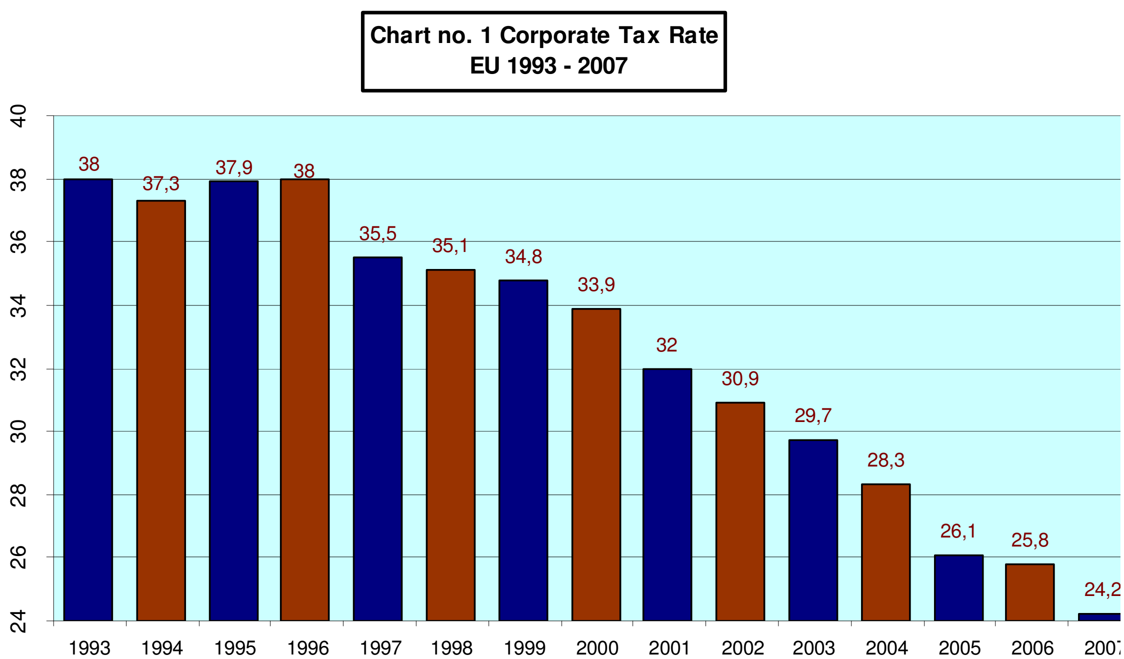

Chart no. 1 Corporate Tax Rate EU 1993 - 2007

Source : http://www.kpmg.com/Services/Tax/Business/IntCorp/CTR

3. A short discussion about technical elements of the „CCCTB”

It was enforced a new way of thinking the profit constraint system because of all these many reasons, in elaborating a Common Consolidated Corporate Tax Base “CCCTB”, materialized in a working document which is to be found on the priority list of the European Commission, in the moment of speaking.

The history of this legislative first step begins in july 2004, when the European Commission elaborated the draft-document on the edge of this problem. This document was analyzed later on, within the framework of ECOFIN, in september 2004. Elaborating a common fiscal tax base, in taxing the profit of the companies, joined a common timetable of development in the area of the competition between the enterprises of the European Union. The efforts of the European Union in what concerns the common consolidated corporate tax base shaped in a new document named „The common consolidated corporate tax base: the draft of the technique background".

Throughout this document they accomplished to trace the corporate tax base as a sequel to the arguments of the European Commission’s experts with the collegiate and business environment.

Between the formative elements of the fiscal tax base of the corporate tax, the taxpayer draws our attention. Moreover, the companies which carry on their activities on the Union’s teritory will have the possibility to choose the common consolidated corporate tax system, wether if they are resident in a member state or if they have a permanent etablishment. Only the fiscal consolidated companies have the compulsoriness to use this new system, starting up 2010.[194] Talking about the fiscal consolidated companies, we have to underline the fact that the document defines them as a group in which over 75% of the suffrage are owned by the parend company. In the other cases in which the group is not being fiscaly consolidated, the option for common consolidated corporate tax base is being used by all the companies which are members of the group or by neither of them.

The option remains valid for at least five year. It also quietly renews itself for another three years if the tax payer hasn’t manifested his denial in writing. In order to make possible a continuity in applying the system corporate tax in case that the tax payer who already uses the stipulations of the tax base is being taken over by a company which hasn’t chosen this system, will continue to calculate the owed tax until the end of the 5 or 3 years period, respecting the stipulations of the common consolidated corporate tax base.

The document elaborated by the Commission stipulates the general rule of calculating the taxable profit and also gives a list of the main taxable or exempt income, deductible and non-deductible expenses. In detail, the taxable income represent all the acquired income of the society from all the sources: monetary or non-monetary, of exploitation, financial or exceptional. That leaves us with the exempt income and the investment income which diminishes the acquisition or the production price of the assets like dividends. The deductible expenses represent all the expenses made by the society in order to accomplish the activity object. On the list of non-deductible expenses we fiind the following: corporate tax expenses, penalties, expenses for the shareholders or/and the personnel, liquidating the fixed assets from the luxury goods category, entertainment and representation costs (only 50% of them being recognized).

Concerning the fiscal depreciation, are being considered fixed assets those which have a usage period bigger than a year and have an entrance value bigger than 1000 EUR. What looks different than the usual fiscal practice is the Commission’s wish to calculate the fiscal depreciation variously in categories of fixed assets (named pools) in case that all these are utilized on medium or short term, or individual fixed assets if they are utilized on long term. In case of the long term fixed assets we need to bookkeep them separatly in order to combine all the following rules: entrance value of minimum 5.000.000 EUR and usage period of minimum 25 years. The buildings will be depreciated with a rate of 2.5% per year, while the other long term fixed assets will be depreciated with a rate of 4%. We consider this change a favourable one, especially when it comes to the price of managing the corporate tax which will be reduced allong with the physical time affected by the depreciation’s calculation.

The income and the expenses’ will be registered after the bookkeeping of engagement principle and the bad debts provisions are totally educible by respecting some certain conditions. On the other hand, the fiscal losses will be recovered from the upcomming profits, in an unlimited time period, while the former profit recuperation is forbidden. The common consolidated corporate tax base would result from the sum of

[194] www.ec.europa.eu.int, in “Groupe de travail sur l` assiete commune consolidee pour l` impot sur les societes” (GT ACCIS), p.28

the individual profits obtained by each group's daughter-company with no concern for the member state which gave it (mentioning that it will be allot and taxed with the legal rate from that state).

It's also important to mention that the European Commission's legislative proposal aims to create a new fiscal tax base but not a unique rate tax; it also has been harmonised the base of VAT's of application without a unique rate, but qith a minimum threshold.

At the september 2007 debates they drew the most important rules of profit's apportionment. Moreover, the apportionment will took place by taking into consideration the next five key-elements: salaries, fixed capital values, sales level, incorporation criterion and the possible sector formula. It also came to an intermediate form of the profit's apportionment. This profit makes possible the three following key-elements: work factor (with two elements: salaries and number of employes), asset factor and sales factor.

The tax base of each taxable entity will be calculated with the following formula[195]:

$$CCCTB_A = \left(\frac{1}{3} \left(\frac{1}{2} \frac{PayRoll_A}{PayRoll_{Group}} + \frac{1}{2} \frac{NoEMP_A}{NoEMP_{Group}} \right) + \frac{1}{3} \frac{Assets_A}{Assets_{Group}} + \frac{1}{3} \frac{SalesT_A}{SalesT_{Group}} \right) \times C$$

Where: NoEMP = number of employees;

The impact of introducing the system will be major, especially when it comes to reducing the red tape (this one being an obstacle in the way of placing the foreign investments, though it creates an attarctive european economic space for the potential investors from out of Europe) which works with one specific law and remarkably reduces the administration tax price.

The idea of a unique common consolidated corporate tax base has the support of 78% of Union's experts (according to a 2006 boring made by the European Commission); the most fanatic advocates were the ones from Cehia, Denmark and Spain with a maximum percent of 100; in Italy the proposition was sustained by 96% of the questioned ones, while in Greece, Louxemburg, Polland, Slovenia and Sweden only 90% agreed. The least bit enthusiastic were those from Great Britain with only 62% in favour of changing the system, while in Ireland and Slovakia 50% opposed to the initiative of the European Commission.

In Romania the project was sustained by 90% of those questioned; the people noticed the positive impact over the red tape's reduction, a steel present disaster of the administrative romanian system[196].

4. The „ CCCTB" – Impediments and possible solutions

An obstacle in the way of functionality of the common consolidated corporate tax base consists of the inconsistently bookkeeper's system at the level of the member states, pointed out by the European Commission. At the moment, there are 27 accounting systems either of anglo-saxonic origins or french continental origins. The differences between the accounting systems of the member countries are related to the degree of independency between bookkeeping and fiscality. If in Great Britain the fiscal legislation does not „contaminate" the accountancy (which offers the investor a real information on the patrimony), in the other member states, the fiscality leaves it's mark on the accountancy, in different proportiones, it's purpose being to supply the information for the fiscal devices. Another alternative would be eliminating from the accountancy area the way of calculating the owed corporate tax . A possible solution is adoption of the International Financial Reporting Standards (IFRS) by the EU's member state. Anyhow, the European Commission has left the problem opened to discution, so that the member states can make propositions on the matter.

We add to this the eventual government's reticence to introduce in the national fiscal legislations the common foresight by subjective or objective motifs.

The making of an unique framework of corporate tax does not represent the solution in order to attract foreign investments, but only one of the factors which can contribute to the creation of the location advantages, along with the other factors such as: the existence of a well done infrastructure, fiscal and

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[195] www.ec.europa.eu.int, in „Annexe au document CCCTB/WP/060, Synthèse des règles de répartition éventuelles", p. 1

[196] "Tibuna Economica" Review, no. 42/2007, p. 60

monetary stability, the lack of red tape. All these factors contribute to transform the state into an attractive teritory for the investors.

In Romania, such a legislativ project would be usefull taking into consideration the ascending rythm of developing the foreign investments, but it will incounter obstacles in the stated process, like in most of the states.

On the course of harmonising the fiscal legislation with the common legislation in the area, Romania has already made progress, now being in full process of introducing the IFRS. This way, the Fiscal Code has been elaborated taking into account the preadhasion's conditions which are to be found in „Assessment", chapter 10, also partially adopting a series of international standards. Partial encounters of the International Accounting Standards were included into the Order No. 94/2001 and No. 306/2001 of the Minister for Finance. These regulations belong to the romanian accountancy system and are mantained nowadays in the new Order No.1752/2005 Minister for Finance which canceled the regulations mentioned before.

The new order No. 1752/2005 has been written according to the european directives; all the judicial persons who develop their activity in Romania are obliged to submit this regulation. Moreover, starting with 2006, through the Order No. 907/2005 of the Minister for Finance, the credit institutions are obliged to make „a distinctive set of financial situations coresponding to the IFRS for their own necessities of informing the users, other than the state institution", meanwhile the public interest entities can chose the preparation of financial situations according to IFRS.

Starting with 2007 the companies listed are also obliged to draw up financial situations according to the IFRS. It's imposed to mention that through International Standards of Financial Reference we understand „International Standards of Financial Reference" (IFRS), International Accounting Standards (IAS) and afferent Interpretations (Interpretations SIC-IFRIC), the amendments that follow those standards and the relevant interpretations, the standards and the future afferent interpretations, just as they are approved by the European Union, translated and published in romanian."[197]

5. Conclusions

In conclusion the legislative initiative of the European Commission , once adopted and added to the national level represents another step closer in the direction of unrolling the unifying process which aims also the fiscal legislation area.

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ENLARGEMENT OF THE EUROZONE – CHALLENGES AND PERSPECTIVES

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Abstract: EU enlargement is not complete without the new member countries joining the eurozone. This paper makes an economic analysis of some theoretical and empirical aspects on which the success of the European Monetary Union enlargement will depend. Because the new EU member states are characterized by asymmetric shocks and low flexibility on the labor market, the new eurozone cannot be classified as an optimum currency area. Our study underlines the challenges of eurozone enlargement, considering that the monetary union can be undermine if the Eurosystem continues to apply the slow and incomplete reforms that are needed to revigorate the euro area economies.

Key words: eurozone, enlargement, challenges

The classical theory of **optimum currency areas** developed by Mundell (Mundell, R., 1961), McKinnon (McKinnon, R., 1963) and Kenen (Kenen, P., 1969) defines the optimum currency area as being a geographical region within which member states must use fixed rates of exchange on a single currency. Robert Mundell has identified a set of requirements that a country must meet in order to become part of an optimum currency area: symmetry of external shocks, mobility of the labor force, openness of the economy, the level of economic diversity. These criteria are still in use; for example, if a certain country is relatively open in terms of trade to another one or to a regional block, but its labor force mobility is insignificant, its economy is not very diversified and it has to face asymmetric shocks, a flexible rate of exchange is a good choice.

The explanation of the criteria of optimum currency area is that, generally, in an economy that has to face external shocks, real adjustment takes place if nominal rigidities are available. Thus, the only asymmetric shock would be the flexible rate of exchange. The shortage of capital mobility requires another method of adjustment. Even though Mundell has failed to unveil another benefit of the fixed exchange rate (lower transaction costs), he supposed that if adjustment costs are not very high (if the requirements of optimal currency area are met) the best choice is a fixed rate of exchange, which would stabilize the currency.

The criteria for optimum currency area are extremely important especially when a country is determined to peg its own currency to another one, defined as an anchor. In order to fight hyperinflation and constrain economic policy, the Argentine has chosen the currency board arrangement on the US dollar. Thus, the US dollar became a monetary anchor but, given the lack of a well-built fiscal policy and efficient institutions, this decision proved catastrophic. The result was deterioration of trade, increase in foreign debt, decrease in investments and slowdown in economic growth.

Recent specialized literature defines the concept of **impossible trinity** (the "Triangle of Impossibility"), namely the impossibility of having in the same time a fixed exchange rate, a free capital movement and an independent monetary policy (Frankel, J. A., 1999). Therefore, a flexible exchange rate, under greater free international capital mobility, enables the monetary authority to introduce an independent monetary policy. Nevertheless, if the monetary authority is not able to use the independence of the monetary policy appropriately the right choice is to give it up in order to import stability from other countries.

Most specialists have rightly concluded that European Union ***is not an optimum currency area***, because business cycles are not well synchronized, wage and price flexibility is low and fiscal transfers and labour migration is not welcome.

The enlargement of the European Monetary Union brings forth the costs and benefits it involves. We should find out the degree to which **"the new euro area"** will be an optimum monetary area. The traditional theory on the monetary area developed by Mundell (Mundell I) brings on a little skepticism. Because heterogeneity will increase in an enlarged euro area, the probability that asymmetric shocks should occur will increase as well. This is the reason why such enlargement is not recommended (De Grauwe, P., Schnabl. G., 2004).

There are still voices that recommend the adoption of the single currency after more than two years from the EU accession (De Grauwe, P., Lavrac, V., 1998). Their arguments are based on the fact that a country recently entered in the EU must cope with the competition existing on the single market and the challenges of the global capital markets. On the other hand, these countries are characterized by different levels of development, lower than those in the Union, and they have to obtain nominal and real convergence.

Nevertheless, three countries joined the euro area: Slovenia on January 1, 2007; Cyprus and Malta on January 1, 2008. It is no accident that the smaller countries are the first to join. For them the common currency is good protection against fickle financial markets. Their exposure to external trends is so much greater because of the relatively small size of the domestic economy.

The explanation should be found somewhere else the traditional framework of the optimum monetary area. As Mundell states in his work, in a world in which expectations are always changing, the fluctuations of the exchange rate do not work as stabilization tools used when facing asymmetric shocks. In this convention, called Mundell II, immediate entrance into the euro area could be the optimal solution.

The decision on the accession to the euro area depends on the assessment and perception of benefits and costs. The traditional theory of Mundell and McKinnon reveals three criteria that quantify the costs and benefits of participating in monetary union: asymmetry, flexibility, and openness (integration). Mundell does not recommend integration into a monetary union when a country faces strong asymmetric shocks and a lack of flexibility on the labor market. McKinnon introduces the openness degree, because eliminating the variability of the exchange rate reduces transaction costs and the volatility of internal prices.

While Denmark and Great Britain could negotiate in order to remain outside the eurozone, the new member countries have to accept the conditions stipulated in the Maastricht Treaty that is to prepare for the currency union and to adopt the single currency when they consider they are ready. On the other hand they meet the criteria of an optimum currency area to a lesser degree than the old EU members did. These countries are of small dimensions, have more or less developed trade relations with the EU and they expect benefits from the introduction of the euro.

De Grauwe and Melitz (2005) point out the fact that although the process of monetary integration in Europe has been regarded with skepticism, today's success of the euro brings new valences for a possible constitution of some monetary unions in other regions, too. Focusing on the enlargement of the eurozone, they draw attention to its effects on the labor market reforms, on the empirical validation of the hypotheses regarding the endogenous character of the criteria for the optimum currency area and the process of monetary integration of Central and Eastern European countries.

Dabrowski and Rostowski (2006) consider and argue that the EU enlargement is not complete without the new member countries joining the eurozone, the failure of the monetary integration of these countries creating a two gear Europe and determining a fundamental change in the EU political and economic architecture, sharpening the already existing differences between the center and the periphery.

Smidkova (2004) explains the Czech Republic government's cautious position regarding adoption of the euro. The expectation of a quite late euro adoption date is predominantly due to persistent large fiscal disequilibria and the priority assigned to strengthening real convergence before adopting the euro. Csajbók and Csermely (2002) analyses the economic benefits and costs of introducing the euro in Hungary considering that have a permanent impact on Hungarian economic growth through numerous channels. Of the five Maastricht criteria, those relating to inflation and the budget deficit will require the greatest efforts in terms of economic policy. Meeting these two criteria automatically entails convergence of long-term interest rates. Polanski (2004) analyzes different scenarios for euro adoption in Poland. He notes that while Poland has already made significant progress in some convergence criteria (inflation and interest rates), it is seriously lagging behind meeting the budget deficit criterion. The author also links nominal convergence with real convergence and concludes that further nominal convergence is increasingly subject to real convergence. In the Polish case, he sees no contradiction between the two.

The convergence criteria imposed on prospective members for joining the monetary union have to do with what have been called "nominal convergence". Low inflation and sustainable budgetary policies are desirable whether or not countries want to join a monetary union. The decisions of the ECB will systematically be felt by many member countries to be the wrong ones at the wrong time, leading to conflicts and tensions in the union.

Some euro-candidate countries will have higher inflation in the union because of the Balassa Samuelson effect. But there is nothing to be worried about. These countries will continue to have structurally higher inflation in the monetary union, without this creating problem of losses of competitiveness. Others may have lower inflation in the future, and yet be hit by an asymmetric development and a lack of flexibility that makes their membership very costly.

Countries that pass the budgetary convergence requirement have no guarantee at all that they will be successful members of the monetary union. But even if the budgetary numbers are a truthful they are irrelevant to predict if countries will experience more benefits than costs from their membership in the monetary union.

The eurozone enlargement will have extensive practical implications for the functioning of the eurozone. Asymmetric shocks will increase significantly: some countries may experience a boom and inflationary pressures while others experience deflationary forces. In this context, the ECB will not know whether to increase or to reduce the interest rates. As a result, member countries will often feel frustrated with the ECB policies that do not take into account the different economic conditions of the individual member countries. To minimize the potential risk of a future disintegration of the enlarged eurozone, an important measure that have to be taken should focus on making labour markets more flexible.

The strategy of the European Central Bank could represent a model, but this solution is not guaranteed because it was adopted considering the features of the euro area. The optimal monetary and exchange rate strategy for the transition period before joining the euro area should be selected according to the features of the country that aims at such an objective.

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WHAT ARE THE CHARACTERISTICS OF THE CORPORATE FINANCE PROCESS MAKING DECISION WITHIN EAST EUROPEAN EMERGING COUNTRIES?

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Abstract: The European East Emerging countries represent an interest research topic both in terms of macroeconomic environment and corporate finance decision. Their evolution within the process of nominal and real convergence process requires a challenging analysis of the way the main macroeconomic environment affects corporate segment. This analysis will focus in a first stage on the macroeconomic environment, highlighting out the way it evolved during the transition process from the centralized and planed economy to the market oriented one. Secondly, the focus will be oriented on the corporations based in these countries. Their finance decision will be analyzed in comparison with the corporations located into the emerging countries and moreover a deep interest will be granted to their leverage, especially from the point of view of the way finance mechanisms can be valorized based on their balance sheet data.

Key-words: rating, sovereign risk, idiosyncratic risk

JEL Classification Numbers: G21, G30, G33

Introduction

There are 50 emerging markets at the worldwide level. In order to get a deeper insight of the importance of these countries in the global economical architecture, a few statistics must be highlighted out: 1/5 of the global out put is produced by them, 4/5 of the total population lives in these countries and 8,5% of the stock market capitalization at the global level belongs to these countries. The BRIC countries (Brazil, Russia, India and China) will be the largest economies by 2050 and in 2007 their cumulated GDP represents 48% of the global GDP.

The strongest points that are always pointed out as for the emerging countries imply strong currency, budget surpluses and a high rate of local consumption. The lack of correlation between their financial systems and the largest capital markets enabled specialists to conceive them as an important element in case of financial crises since investors have the opportunity to direct the capital inflows towards them in order to get a higher protection. The negative aspects imply higher volatility, lack of transparency and liquidity. At the global level, there is a keen interest directed towards emerging countries because of the potential growth perspectives offered to the multinational companies and to the low labor cost. Outsourcing became one of the most important strategies developed by all world-wide level corporations.

East European emerging countries imply a different research effort in terms of macroeconomic analysis because of the specific features determined by the transition process to the market-oriented economy. Their strategic geographic position and their growth perspectives have been pointed out as two of the main advantages offered to the other developed European countries. Overall, their global market can be valued at more than 50 billion EUR which represents a huge opportunity for the companies of the developed countries in terms of products valorization.

Corporate segment is the most important growth resource for the East European emerging countries. It is appreciated as being the most important welfare mobile owing to the fact that it contributes in a fundamental way to keep up a decent living standard level. Thus it is important for the enterprises to have all the finance mechanisms opportunities in order to expand. But macroeconomic environment is a key factor in their case since it has been acknowledged that as for the emerging countries, the correlation between country and corporate rating is more substantial than in the case of the developed countries. The stability of the macroeconomic environment as well as the degree of economical growth, the inflation rate or the level of the capital market liquidity and transparency affect corporate segment. This paper is related to the work of Xianghong and Zhao who studied the impact of the macroeconomic environment on the corporate default, but also to the work of Revoltella, Haiss and Fink and of Berglof and Pajuste who highlighted out the particularities of the corporate governance systems within Central and Eastern Europe. Similar research efforts on this topic have been made by Cavallo and Valenzuella and also by Huang and Kong, Peter and Grandes, Borensztein who studied the relationship between corporate and sovereign spreads having as point of reference the corporate default premia limited to the case of publicly traded firms. This study is more closed to the work of Borensztein who underlined the specific aspects of the corporate finance within emerging markets, but we propose to be mode analytic in our research; we will concentrate on the micro-level approach, taking as point of reference the financial data corresponding to the enterprises located both into developed and East-European emerging countries.

The paper is structured as follows: section 2 is dedicated to the case-study which contains a deep analysis both in terms of descriptive statistics of the financial structure specific to companies located into East European emerging countries and also in terms of capital structure determinants. Last section is dedicated to the conclusions.

Section 2

This section focuses on the corporate finance decision within East emerging countries.

There will be tested 3 relationships between capital structure and various financial indicators reflecting liquidity, profitability and activity of the enterprise in order to highlight out potential specific features of the finance mechanisms characteristic to companies located into East European emerging countries.

2.1 Database and methodology description

The sources the information was obtained from were the following:

- Hewlett-Packard Credit Division containing information relative to the Financial Statements of various companies located both in emerging East European countries (Poland, Slovenia, Slovakia, Bulgary, Czech, Romania);
- Economic Intelligence Unit site regarding the macroeconomic environment of the emerging East European countries.

The assembley of financial indicators that will be analyzed is the following: Current Liquidity ratio (I_1), Quick Liquidity ratio (I_2), Short Term Debt Cash-Flow Coverage (I_3), Return on Tangible Net Worth (I_4), Earnings before Taxes/Total Assets (I_5), Operating Expenses/Net sales (I_6), Debt/Tangible Net Worth (I_7), Interest Coverage (I_8), Short Term Debt/Total Debt (I_9), Leverage multiplier (I_{10}), AR turnover (I_{11}), AP turnover (I_{12}), Working Capital Turnover (I_{13}), Total Assets Turnover (I_{14}), Altman Z-score (I_{15}).

The methodology that will be followed up is based on the analysis of the output regression built up by the OLS procedure.

The dependent variable will be represented by 2 financial indicators reflecting the capital structure of the company: leverage multiplier and the weight of the short term debt into the total debt. Leverage multiplier represented by the report between total assets and equity has been selected in order to get an insight into the self-financing policy of the enterprise. This variable is significant for the East European emerging countries because it reflects the internal finance resources. Indeed, in the context of capital market and banking system underdevelopment degree, internal finance resources are valorized to a high extent; moreover, since companies located into these countries are perceived as riskier, their internal finance resources are very important in order to get additional external resources.

The level of assets usually perceived as an indicator reflecting the size and the activity dynamic has been perceived lately by the finance resources providers as a covenant for the company and its importance becomes much higher in the case of the companies located into East European countries.

The independent variables which are considered to exert an influence on the capital structure and on the finance decision are Earnings before Taxes/Total Assets (I_5), Operating Expenses/Net sales (I_6), Debt/Tangible Net Worth (I_7), Working Capital Turnover (I_{13}), Total Assets Turnover (I_{14}), Return on Tangible Net Worth (I_4).

The output statistic will be analyzed in order to highlight out the impact of every indicator on the capital structure.

2.2 Descriptive statistics analysis of the financial indicators

It is obvious that most of the companies located into emerging countries had adopted financing structures based on long term debt since a higher weight of the short term debt into the total debt will make them being perceived as riskier. The financial effort implied by the long term debt is considered to be softer than the one implied by the short term debt.

The standard deviations corresponding to the financial indicators of the companies located in emerging countries are high.

Table no.1– Descriptive statistics of the corporate rating for companies located in emerging countries

Descriptive Statistics (emerging.sta)

	Mean	Confid. -95.000%	Confid. 95.000	Sum	Minimum	Maximum
VAR1	1.232353	1.150821	1.313884916	62.85	0.71	2.25
VAR2	0.832353	0.749112	0.915593998	42.45	0.11	1.95
VAR3	1.914706	-2.01051	5.839917453	97.65	-1.01	99.62
VAR4	35.2919	26.8066	43.77720084	1799.887	-13.22	131.92
VAR5	40.17451	-2.22191	82.57093339	2048.9	-4.65	822
VAR6	8.782941	5.643163	11.92271901	447.93	-1.05	49.6
VAR7	4.820922	2.455366	7.186477441	245.867	-7.24	45.58
VAR8	3.35098	1.450728	5.251233033	170.9	-5.44	41.61
VAR9	94.15098	91.11233	97.18963215	4801.7	49.2	100
VAR10	5.586039	3.458177	7.713901303	284.888	-6.24	43.21
NEWVAR11	25.52392	-9.66817	60.71601801	1301.72	2.02	900.66
NEWVAR12	14.4851	2.833387	26.1368088	738.74	1.43	293.3
NEWVAR13	25.70922	-5.84364	57.26206901	1311.17	-634.8	361.5
NEWVAR14	12.64373	-5.84446	31.13191102	644.83	1.2	472.82
NEWVAR15	13.96863	-5.43839	33.37564754	712.4	1.94	497

Variance	Std.Dev.	Standard Error	Skewness	Std.Err. Skewness	Kurtosis	Std.Err. Kurtosis
0.084034353	0.289887	0.040592	1.163369	0.333464	2.408033	0.65592
0.087594353	0.295963	0.041443	1.248806	0.333464	4.31809	0.65592
194.7722494	13.95608	1.954242	7.139862	0.333464	50.98487	0.65592
910.1966381	30.16947	4.22457	0.890227	0.333464	0.882396	0.65592
22722.67121	150.7404	21.10788	4.89671	0.333464	23.07088	0.65592
124.6231652	11.16347	1.563199	2.438823	0.333464	5.648299	0.65592
70.74037531	8.41073	1.177738	4.099043	0.333464	18.18413	0.65592
45.64819702	6.756345	0.946078	4.1371	0.333464	21.07631	0.65592
116.724709	10.80392	1.512852	-2.68184	0.333464	7.316524	0.65592
57.23845368	7.56561	1.059397	3.962093	0.333464	17.68527	0.65592
15656.37509	125.1254	17.52107	7.118525	0.333464	50.77356	0.65592
1716.249129	41.42764	5.80103	6.385535	0.333464	43.14059	0.65592
12585.72437	112.1861	15.7092	-3.56969	0.333464	25.86702	0.65592
4321.052276	65.73471	9.204701	7.13858	0.333464	50.97237	0.65592

4761.224396	69.00163	9.66216	7.137892	0.333464	50.96566	0.65592

Source: own processing

The instability conferred by the macroeconomic environment is dominant in the case of the emerging countries.

The variance corresponding to the leverage multiplier is 57.23; the Altman Z-score has also a high variance -3.341,502.

From this perspective, we can assume that macroeconomic environment had a strong impact on the corporate rating. The macroeconomic volatility implied by the emerging countries environment affects the evolution of the financial variables.

2.3 Statistical perspective on the corporate finance decision within East emerging countries

In order to get a deeper insight regarding the particularities implied by the finance decision within East emerging countries, there have been performed three regression test. The regressions conceived the corporate rating as dependent variable and all the other variables as independent ones, including the country rating.

The first statistical test focuses on the relation between the leverage multiplier and indicators reflecting the profitability (I_5) and the size (I_6 and I_7) of the enterprise.

This relation can be modeled as:

L = -0,03726*P + 0,585511*NS – 0,10551*T

Where

L = leverage multiplier

P= EBT/TA

NS= Operating expenses/Net Sales

T= Debt/Tangible Net Worth.

Analyzing the output of the first regression, it is obvious that there is not a deep correlation between the leverage multiplier as an indicator of the capital structure and the liquidity and dynamic activity indicators for the companies based in the emerging countries.

Nevertheless, the Earnings Before Taxes reported to total Assets and the Total Debt reported to Tangible Net Worth are correlated negatively with the leverage multiplier. The second negative correlation is in line with the assumption that as for companies located into East European countries, their finance decision is based mainly on internal financing and they are reluctant to indebtedness. As far as they focus on self financing, equity level is high.

Table no. 2 – Output of the capital structure regression

Regression Summary for Dependent Variable: VAR10 (new.sta)

R= ,52996761 R^2= ,28086567 Adjusted R^2= ,01119030

F(3,8)=1,0415 p<,42516 Std.Error of estimate: 1,3260

	BETA	St. Err. of BETA	B	St. Err. of B	t(8)	p-level
Intercpt			-6,56923	6,23822	-1,05306	0,323077
VAR5	-0,03726	0,313018	-0,21126	1,774713	-0,11904	0,908179
VAR6	0,585511	0,366229	1,299479	0,812807	1,598756	0,148542
VAR7	-0,10551	0,356449	-0,06206	0,209657	-0,29599	0,774773

Source: own processing

The second correlation strengthens the idea that finance decision of the companies located into East European countries does not imply automatically the reinvestment of the profit although internal resources is dominant as finance mechanism.

This assumption reflects the fact that self financing implies mainly contributions brought by stockholders while the profit is distributed as dividends and not reinvested.

The positive correlation is established between the dimension of the company and the level of equity. As far as the company manages to have a high level of sales, its equity will increase.

The second regression conceives the weight of the short term debt into total debt as dependent variable (I_9) and as independent variables there have been used the same as in the case of the first regression.

The correlations are the same as in the case of the first regression. The weight of the short

Table no. 3 – Output of the capital structure regression

Regression Summary for Dependent Variable: VAR9 (new.sta)

R= ,29933243 R^2= ,08959990 Adjusted R^2= -----

F(3,8)=,26245 p<,85060 Std.Error of estimate: 1,8980

	BETA	St. Err. of BETA	B	St. Err. of B	t(8)	p-level
Intercpt			93,91898	8,929264	10,51811	5,81E-06
VAR5	-0,25637	0,352192	-1,84917	2,54029	-0,72794	0,487409
VAR6	0,248579	0,412064	0,701848	1,163435	0,603254	0,563048
VAR7	-0,03599	0,401059	-0,02693	0,300099	-0,08974	0,930703

Source: own processing

term debt into the total debt is correlated negatively with profitability and the weight of the fixed assets and positively with the size of the company.

The relation can be modeled as follows:

$$S = -0{,}25637\,P + 0{,}248579 \cdot NS - 0{,}03599 \cdot T$$

Where:

S = short term debt reported to total debt

P= EBT/TA

NS= Operating expenses/Net Sales

T= Debt/Tangible Net Worth

The output statistic reflects the fact that their financing policy does not imply a differentiation between the short term and the long term approach. The financial indicators are correlated in the same way both with equity level and short term debt.

For the period to come, it is obvious that this differentiation will be implemented under the context of stock exchange development.

The third regression conceives the short term debt reported to total debt as dependent variable and as independent variables working capital (I_{13}), accounts receivables turnover (I_{11}), current liquidity ratio (I_1) and return on tangible net worth (I_4).

The relation can be modeled as follows:

$$S = -0{,}06308\,Lq + 0{,}000467 \cdot RT + 0{,}086124 \cdot AR + 0{,}309613\,WC$$

Where

S = short term debt reported to total debt

Lq = current liquidity ratio

RT = return on tangible net worth

AR = accounts receivable turnover

WC = working capital turnover

Table no. 4 – Output of the capital structure regression

Regression Summary for Dependent Variable: VAR9 (new.sta)

R= ,31905440 R^2= ,10179571 Adjusted R^2= -----

F(4,7)=,19833 p<,93146 Std.Error of estimate: 2,0154

	BETA	St. Err. of BETA	B	St. Err. of B	t(7)	p-level
Intercpt			97,34638305	2,620085	37,1539	2,66E-09
VAR1	-0,06308	0,373947	-0,598695	3,548986	-0,16869	0,870808
VAR4	0,000467	0,380508	0,000350906	0,28597	0,001227	0,999055
NEWVAR11	0,086124	0,385685	0,038984824	0,174583	0,223302	0,829677
NEWVAR13	0,309613	0,363823	0,074424036	0,087455	0,851001	0,422921

Source: own processing

Output statistic highlights out a negative correlation between liquidity ratio and the weight of short term debt into total debt which is in line with the assumption that a high level of indebtedness determines outflows of liquidities.

The positive correlations are established between the accounts receivable turnover, working capital turnover, the return on tangible net worth and the indebtedness indicator which reflects the fact that an increase of the activity of the company will be supported by a more aggressive financing policy based on external resources.

Conclusions

The article concentrates on the particularities of the finance corporate decision within East emerging countries.

The statistic output highlights out the short term approach of the financing policy. There has been no differentiation between the correlations established at the level of various financial indicators and the short term debt/long term debt.

For the years to come, in the context of the capital market development, there will be a switch from the short term approach of the financing decision to the long term one.

The intensity of the negative correlation between liquidity indicator and indebtedness degree will decrease since the financing policy will be conceived having as reference the long term approach which will reflect higher projection degree.

Their financing policy focuses mainly on internal resources valorized by the practical contributions brought by shareholders within the company while profit is mainly distributed as dividends and not reinvested.

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THE INTERNAL AUDIT AS A COMPONENT OF THE PUBLIC ENTITIES' INTERNAL CONTROL SYSTEM

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Abstract: The internal control system is usually considered a lever into the hand of the management system to achieve their aims. Without having a good system of control it is not possible to overlook the economic and financial processes especially when they might not function well. The internal financial audit is thought to look into internal control aiming at disclosing its weaknesses. But is it possible as long as the internal audit is a part of internal control? The International Standards of Audit say that it has to be independently organized so as to be able to bring additional value to management process. Some methods to improve the internal public audit independence might be: a reduction of the state interference regarding public audit organization and its exercise as much as possible, methods to reduce the dependence of the internal public audit on the internal management system and methods to increase the responsibility of managers towards the entire internal control system.

Keywords: internal control system, internal public audit, financial audit, management system, international standards of audit

Theoretical aspects

The International Standards of Audit basically represent examples of a good practice in financial audit throughout the world so as to be unitarily practiced, both as organization and exercising. They refer to the principals of the organization of the entire financial system and also to the rules of practicing so that all the auditors are able to professionally understand with each other.

According to The International Standards in the domain, financial audit represents a verification and certification independently carried out by a responsible professional as far as the annual accounts and financial statements of any company are concerned aiming at expressing their opinion connected to the accuracy of information issued by these companies' synthetic documents.

- Following this definition, the main characteristics of financial audit are:
- the independence as far as both its organization end exercise are concerned
- it refers to the information coming from financial statements
- it is practiced by the highest competitive professionals in the field
- it aims at expressing an opinion regarding the accuracy of the information issued from financial statements

All these requirements being met, the financial audit may increase the credibility of the information. This is, actually, the extremely important purpose of the financial audit or, in other words, its vital function.

As it is known, the basis in financial audit is well established by the followings:

- International STANDARDS of financial audit
- International STANDARDS of accounting.

They have mainly been issued by two of the most representative international organizations in financial, accounting and audit field such as: INTOSAI-International Organization of Supreme Audit Institutions and IFAC-International Federation of Accountants.

There are more possibilities for the financial audit to be regarded by using more criteria in order to classify its multiple forms. Thus, such points might be:

- the object of audit
- the organizational structure involved in its exercise
- the position towards the audited company
- the area of its activity

Regarding **its object the** financial audit can be **public**- that concerns of how public funds are made up and used. As a general rule, it is organized by the state only, both beside the Parliament, as an external audit, and inside of the public entities that is usually called “internal public audit”. There are also financial **auditors privately organized** as both physical and legal persons.

Taking in account **the organizational structure involved** in its exercise we can revealed more institutions which are in charge with such an activity as the following:

- internal audit offices that exercise audit especially for both the state’s agencies and private companies where they are organized. They serve these entities’ purpose.
- inspections of audit are organized inside of Finance Ministry in order to verify the legality of spending public funds.
- Financial Auditors Chamber which gathers all the independent auditors either physical or legal persons. They practice the financial audit activity independently for all entities.
- Court of Accounts is considered the supreme institution of financial audit being in charge with the formation and utilization of public resources. It is organized as an “of Parliament” organism. Therefore its independence is possible to be much more than of those structures belonging to Government.

According to the **place of its setting-up** it appears as an activity at the companies’ level, within their managerial systems and , on the other hand, like a system working for companies from outside. Thus, it is called either internal or external audit.

The most important point of view consists in seeing financial audit as the followings: an audit of systems (when its area of activity refers to either one or all of the companies’ systems), as an audit of the performance (when are taken in account the economicness, efficiency and effectiveness of economic and financial transactions) and finally, as an audit of regularity (when it is exercised upon the way of respecting the laws and all the other rules).

Regardless of what kind of financial audit an auditor exercises it is extremely important his mission’s results to be credible. For that, the chief thing is supposed to be **the independence**. Even though other requirements, such as: objectivity, integrity and professionalism would be met, the lacks of the independence will lead to those conclusions and, as a result, recommendations which are always suspected to be unfair and, therefore, useless.

The internal public audit is, as The International Standards of Audit recommend, a component part of what is called the internal control system and it is set up to be subordinated to the manager of public entity. Due to this position, its independence seems to be affected. Sometimes the managers are tempted to interfere in the financial auditor activity from the position of being entitled to do that. For instance, they wish to decide upon the objectives which have to be or not allowed to be planned for control. Other times, the organization connections with other types of control inside a public entity lead to an objective temptation of involving financial auditors in different other activities than financial audit. Therefore, one may say that the internal public audit has a relative independence.

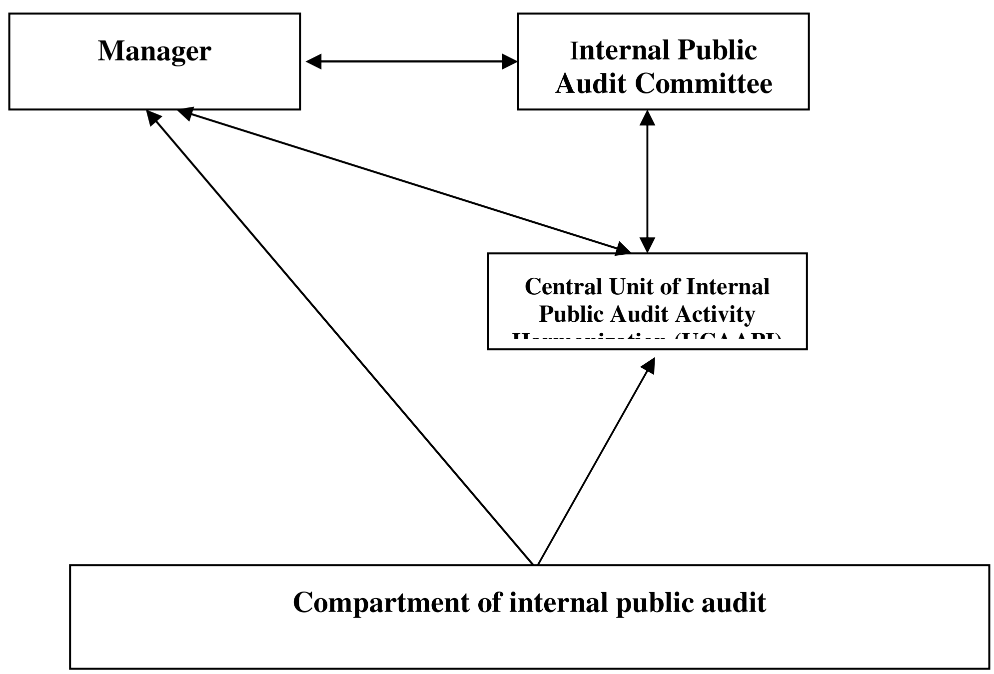
In order to increase the independence of the internal public audit, the state took a decision to subordinate it doubly, both to the public managers and to a state specially- created organism. In this way the state thought of increasing the organizational independence of internal public audit and of controlling the activity of the internal auditors as well. But how wide is, actually, its independence? We will take a notice of some aspects of internal public audit organization. The International Standards of Audit recognize a certain relativity of the independence of internal audit. When it comes to the methods to increase its independence the standards recommend any methods but nobody ever may interfere in its exercising process. Although it seems to be normal for the state to take care of its fortune organizing an effective control on all aspects, it is also strongly necessary to take in account that an effective audit can only be obtained by setting it up as independent as, at least theoretically, it can be. The more independent the internal public is, the more effective it is and fewer wrong decisions would be taken regarding the handling of public money.

The organization of the internal public audit

According to the law and targeting to the wider independence of the internal public audit, it has been organized in the following way:

- it is the responsibility of all the managers in the public sectors to organize the activity of the internal public audit. The managers are in charge of ensuring the organizational and functional conditions inside any public entity.
- As it can be seen below, (fig.nr.1) the basis in the organization scheme of internal public audit are the compartments which are set up at the level of every public entity. They are doubly subordinated as it follows: the manager of the public entity, who directly subordinates the activity of internal auditors and, at the same time, is in charge with making sure that their activity performs properly. On the other hand there is a specially created structure which works inside of Finance Ministry being a state's representative within public audit system that is called Central Unit of Internal Public Audit Activity Harmonization which is operatively led by The Internal Public Audit Committee.

Fig.nr.1



Taking in account what the law says these organisms, from outside of the public entities, are in charge whit both administrative problems and methodological guidance of the internal public audit. Basically, the state representatives are careful and purposely watch over whether the law is respected both by the auditors and public entities.

- There is the possibility for the small public entities, which do not have enough money, to renounce of organizing internal audit and their financial statements are audited either by the compartments belonging to the hierarchical superior entity or by the external auditors coming from Finance Ministry, namely, from the state, as well.
- The area of internal public audit refers mainly to all economical and financial activities and also to the systems of the entire entity. The financial statements are considered the basis of the internal public auditors' activity.

- The activity of the internal public auditors is annually planned and always approved by the general manager. The objectives of audit are partially decided by the auditor himself but there are also demands from the entire system of management.
- The internal public auditor reports his findings, conclusions and recommendations not only to the general manager but to all the component parts of the management system (people or functional structures)

The feed-backs of the internal public organization

All the aspects above prove, in my opinion, that the requirements of the international standards are generally respected. But this assertion is very real when we talk about the statements of the law only. Although the law says, quite perfect, how to apply its statements, the reality proves to be different so far.

Thus, the interference of the state by its representatives might be considered correct, at least, in a certain way, as long as it refers to the way of respecting the law by those two parts: auditors and entities. But, as the standards say, the auditor must be free to be able to express his opinion without any confinement. Or, being controlled by the state it is supposed he can not always say why an entity or an activity goes wrong when it comes to the flaws of the law.

There are also difficulties for some managers to properly understand the importance of the independence of auditors when it comes to issuing the annual plan or to putting it in practice. Many of them consider they are right to change their employees' plan of audit, to ask for other missions or to decide on forbidding certain previously planned actions.

In order to express an opinion upon the accuracy of the information issuing from financial statements, the internal public auditors need to be able to apply all their competences during the year. At the end of the year the financial statements have to be professionally certified before being sent to the Finance Ministry and becoming public. Never should Finance Ministry get the annual financial statements without being certified by the auditors. But it has not always happened so and therefore some wrongly drown-up balances are mistakably centralized. Eventually, the general execution account of the national public budget is not real. Then, ought Finance Ministry to demand for a professional certification of annual balances? The answer is obviously "Yes".

The connection between internal financial audit and internal control system

According to the international standards and also by the Romanian law the internal control system represents the ensemble of the control forms within a public entity including the internal audit as well, which are set up by the management to serve their purpose in order to make sure the public resources are efficiently, economically and effectively spent. It also includes all the functional structures of the entity, as well as, the methods and procedures of its exercising. As we can notice the internal audit is considered a component part of the internal control system.

Taking in account the same standards, the internal public audit represents an independent and objective activity which gives assurances and advice to the management in order to get a good administration of public funds. It helps the public entity to accomplish its objectives by a systematic and methodical approach which assesses and improves the efficiency and the effectiveness of the management system taking in account the risks and the internal control handling. It is obvious that the most important mission of the internal public audit consists in watching over the internal control system so that it would be able to provide for the management system assurances and advice in order to reach their purpose.

Due to the internal audit position, both as a component part of the entire internal control system and as an independent activity aiming at providing the management system with advice and assurances that internal control works properly, there seem to be some difficulties in putting in practice all its functions. It depends on the managers; on how much they are interested in having an effective audit and whether they are really conscientious about the importance of the internal control towards helping them to handle public money with the biggest performance.

The practical activity proves that:

- there are situations when the public managers do not simply organized internal audit considering that it is useless

- others think of it as if it were something compulsory to be done and therefore they do something to simply organize it but no more than that
- some managers confound the internal audit attributions with those of the other types of internal control and so they cannot obtain from the internal audit the most important thing: support in making sure that all economical and financial processes work as they were previously planned
- there are managers who are aware of the importance of their mission regarding the public money and therefore they organize the internal audit according to the international standards as a component of the internal control system and, at the same time demand to it to watch over the entire system of internal control and over all the other systems inside the entity. They are also aware of the fact that it is not at all allowed to interfere in the planned activity of auditors and look forward to hearing their activity results: conclusions and recommendations.

Taking in account what The International Standards of Audit (I S A- number 400) says, the internal control is an object of the financial audit, both internal and external. From this perspective internal control can be useful for the activity of financial audit as well. Thus, when financial auditors check the internal control and find out that it is well organized and works properly, they can decide to rely on the internal control and, as a result, their samples are smaller in size and fewer in number. By contrary, when the internal control needs to be improved both internal and external audit make such recommendations to the management system after checking it and widening the samples.

In my opinion, it does not matter that the internal audit is considered, by the international standards, a part of the internal control system as long as its independence is not affected. But its independence might be really affected by the will of the legislators by not issuing the law in accordance with the best international practice and also by the behavior of the managers.

Conclusions

The international standards of audit consider the internal audit as a part of the internal control. As a consequence, the internal public audit is a component of the internal control's public system. The Romanian law states the same. Due to its organizational position, being directly subordinated to general manager and, at the same time, as a part of internal control system, the internal public audit is recognized as having a relative independence. But the independence of the financial audit must tend to maximum. Although the internal public audit is considered relatively independent, on behalf of the management system it should be improved. Some ways to do it might well be the followings:

- o doubly subordinate it but not both parts to be the representative of the state especially of the executive power. As it is now, both managers and specially organized structure to deal with internal public audit (UCAAPI) are state representatives. Consequently, they are supposed to take care of the state interests only and the ones of the financial audit in itself is easy possible to be ignored. Therefore, our suggestion would be to find the second part to subordinate to the financial internal audit from another direction than the state such as: The Chamber of Financial Auditors as an independent, professional and privately organized structure or The Court of Accounts as an independent and professional organism of audit not belonging to the executive power. Either of them would be able to look after the independence of the internal public audit more objectively.
- The managers from public system should be aware of the importance of their activity in the public money field. This might be done by improving the managerial law system so that they compulsorily take care of the internal audit organization and exercising.
- The Finance Ministry should get the annual balances from the public institutions certified only. In this way the responsibility of the managers towards the internal public auditors' activity would increase.
- The selection of the internal public auditors might well be done more professionally in order to be hired merely the ones who prove enough professional experience concerning the finance, accounting and financial audit. At the same time, a permanent process of professional training both for managers and for internal auditors would be useful.

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GOING PUBLIC IN ROMANIA: A REVIEW OF IPO ACTIVITY, COSTS AND PRICING

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Abstract: This paper analyses the process of going public in Romania via initial public offerings of shares to investors. Various features of the domestic IPOs that took place over the period from 2002 to 2007 are discussed, with an emphasis on the volume of new listings and its explanatory factors, the costs of going public and the initial returns of the IPOs.

Keywords: Initial Public Offerings, IPO Underpricing, Bucharest Stock Exchange

Introduction

Going public is an important step in the life of a company, because it provides access to a large amount of equity for an indefinite period of time and helps the company to raise finance for its expansion. Moreover, it brings indirect benefits such as increased trustworthiness and reputation for the company, higher value for employees that enables their involvement and their willingness to participate in the future development of the company, and the ability to obtain more and cheaper finance through new securities issues or even bank loans, given the higher transparency of the company which regularly provides information on which it is evaluated.

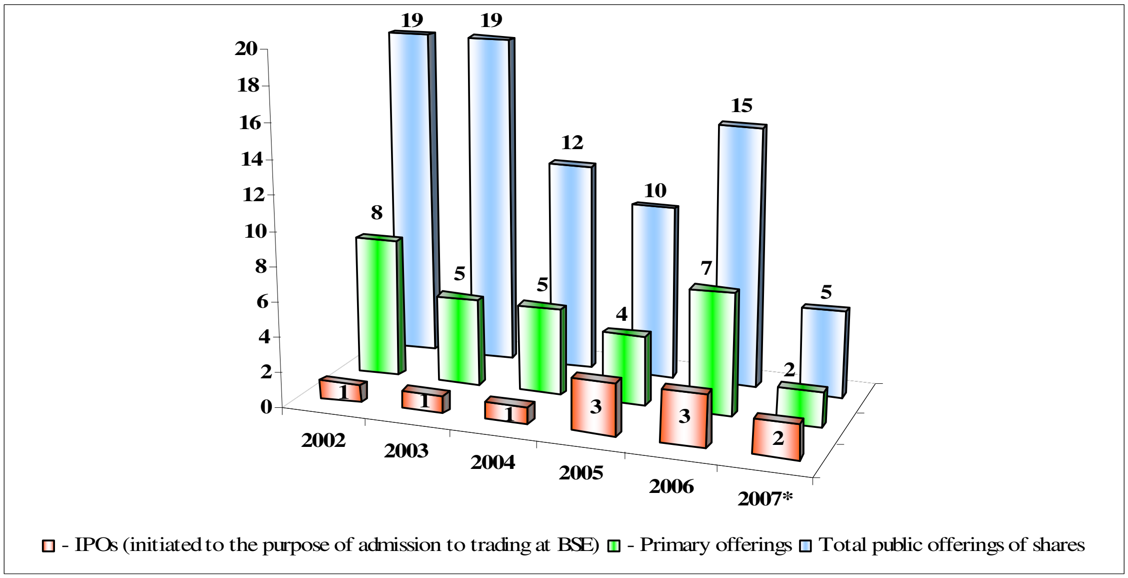
Most companies that go public do so via an initial public offering (IPO), which is a commonly used term for the primary public offering of shares by a company related to its entry to the stock market and the listing of its shares on the stock exchange.

Given the benefits of being public, an increasing number of companies around the world consider the IPOs as an important way to raise financing for new investments. Over the past five years, the IPO markets have witnessed an unprecedented level, with a record of $246 billion in 2006 in the amount of capital raised worldwide by companies going public (Ernst & Young, 2007: 5). The growth of IPO markets is a global trend reflected by all the main regions in the world – Europe, America and Asia. However, a further analysis at country level shows large discrepancies. For example, the IPO activity in Europe is mainly driven by deals in the most prominent European exchanges, with London Stock Exchange, NYSE Euronext, BME and Deutsche Borse as leaders by the number and offering value of the new listings, while, on the other side, Central and Eastern European primary markets, with the exception of Poland, are lagging far behind those from the most developed European countries.

Overview of the IPO Activity in Romania

The Romanian IPO market, as most of the EU NMS markets, is underdeveloped. According to the statistics provided by the Romanian National Securities Commission (NSC), over the period 2002 - 2007, only 80 prospectuses for public offerings of shares were approved by NSC, most of them secondary (62%), which gives support to the idea that going public is not a real option for the Romanian companies in need of financing.

Figure 1 shows the total number of domestic public offerings of shares over the past six years (2002-2007) by pointing out the number of primary offerings and, among these, the number of the initial public offerings initiated with the goal of listing the company on Bucharest Stock Exchange (BSE).



General source: Romanian National Securities Commission Annual Report 2006

Source (2007): List of the prospectuses for shares sale offerings approved by NSC in 2007 (NSC website)

Figure 1. Number of public offerings of shares in Romania (2002-2007)

As data from figure 1 clearly shows, only 11 of the primary and secondary offerings approved by NSC since 2002 were initiated to the purpose of admission to trading at the stock exchange, which supports the previous statement about the insignificance of the domestic IPO market. Moreover, when considering only the companies that were actually listed on BSE, following their IPO, the previous number contracts significantly by 33%, since two IPOs closed unsuccessfully and other two postponed this further step.

Table 1 reports the companies that listed on Bucharest Stock Exchange between 2002 and 2007, following an IPO, and the main characteristics of their offers.

Table 1. Initial Public Offerings* in Romania (2002-2007)

Company (trading symbol)	Year of subscription	Total value of offering (RON)	Intermediation		Subscription level
			Method	Costs	
S.N.T.G.N. Transgaz (TGN)	2007	225,963,537.28	Best efforts	2.09%	2,791.88%
Alumil ROM Industry (ALU)	2006	28,750,000	Best efforts	1.65%	1,647.45%
C.N.T.E.E. Transelectrica (TEL)	2006	123,140,421.60	Best efforts	2.25%	646.31%
Flamingo International (FLA)	2005	35,190,000 - 46,920,000	Best efforts	n/a	322.59%
Vrancart Adjud (VNC)	2005	17,475,000	Best efforts	1.31%**	128.96%
SSIF Broker Cluj (BRK)	2004	8,956,902.85	Best efforts	0.6%***	287.24%
Grupul Editorilor si Difuzorilor de Presa (GDP)	2003	1,401,099	Best efforts	2.95%	76.16%

Source: IPO Prospectuses (www.kmarket.ro)

* Only the IPOs that closed successfully and were followed by the company listing on Bucharest Stock Exchange

** Total costs including the NSC and BSE fees

*** Includes only the NSC and BSE fees, since the underwriter was the company itself

The scarcity of IPOs in Romania can be explained by several factors, such as the "historical inheritance" of the privatization process, the competition from other stock exchanges and institutional investors, and the "perpetual" lack of knowledge about financing through primary capital markets.

The mass (or "voucher") privatization program (MPP), carried out in 1995-1996, was one of the major methods used in Romania in order to increase the speed of privatization. In order to create liquidity for the newly issued vouchers, the MPP was followed by a massive listing on the Bucharest Stock Exchange of most of the privatized companies (6000), which determined an "overcrowd" effect that deterred more companies to access the capital market. This approach was very different from Poland's privatization program that focused mostly on IPOs and helped to create an IPO culture.

The competition from other equity providers is another factor that can be used to explain the rarity of domestic IPOs. Over the past years, many firms from Central and Eastern Europe, including Russia, were raising funds on other European exchanges, among which London Stock Exchange was the main destination. Nevertheless, with only one local company, A&D Pharma, listing on the Alternative Investment Market (AIM) of LSE, the stock exchange competition doesn't quite help to understand the current situation in the Romanian IPO market, although it can be considered as a real factor in the near future, since many domestic firms expressed their interest for foreign capital markets. The competition is not limited only to stock exchanges, but to other equity providers as well. The small number of domestic IPOs can be attributable to institutional investors, such as venture capital and private equity funds that developed a strong presence in the financing of firms from emerging countries.

On the cost side, the average IPO intermediation fee is less than 2%, well bellow the "seven percent solution" first documented by Chen and Ritter in 2000, and is mainly a reflector of the low level of involvement of investment firms, given the prevalence of the fixed-price mechanism and the best efforts method. Even when considering the indirect costs - the NSC fee following the approval of the prospectus (0,1% of the offering value), BSE fee for trading the shares on POF Market section (0,09% of the value of the sales), and BSE fee for the admission and promoting to trading (RON 1200, excluding VAT), the IPO cost is beyond any doubt an incentive for domestic companies to go public.

IPO Pricing in Romania

The topic of pricing is one of the most studied areas in the IPO literature. A well-accepted result is that, on average, the IPOs are underpriced, which means that the first closing price or the closing price observed a few days after the initial trading is much higher than the IPO price.

The first documentation of the underpricing can be traced back in '70s in the studies of Stoll and Curley (1970), Reilly (1973), Logue (1973) and Ibbotson (1975), that found a systematic increase from the offer price to the first day closing price (Welch and Ritter, 2002: 10). Since then, this 'underpricing discount' has averaged around 19% in the United States, although it fluctuated significantly, averaging 21% in the 1960s, 12% in the 1970s, 16% in the 1980s, 21% in the 1990s, and 40% since 2000 (Ljungqvist, 2004: 1).

The underpricing in not specific only to the US IPOs, but to all countries with primary capital markets, with no exceptions (Welch and Ritter, 2002: 10). A recent survey of European IPO markets shows that the average initial underpricing amounts to 22% over a pan-European sample of 2000 companies between 1995 and 2004 (Gajewski and Gresse: 2006: 2), which is close to the level found for US markets. However, when observed in each of the 15 countries in the sample, the level of underpricing varies notably from one domestic market to another, with the lowest average initial return of 5.36% in France and the highest of 46.68% in Greece (Gajewski and Gresse: 2006: 32).

In Romania, given the small number of IPOs that actually reached the goal of listing on Bucharest Stock Exchange, the data sample is limited to only seven companies which makes very difficult the process of drawing significant information about the pricing of local IPOs. Therefore, no conclusive studies focused on the underpricing of local initial public offerings. However, some descriptive empirical results can be computed and this can be considered as a first step for a further more insightful analysis.

In order to determine the level of underpricing, two measures widely employed in the IPO literature will be used (Gajewski and Gresse: 2006: 27):

- **the raw initial return**, determined as the difference between the post-IPO equilibrium price (EP) and the final offering price (OP), divided by the offering price:

$$U = \frac{EP - OP}{OP} = \frac{EP}{OP} - 1$$

– **the initial return adjusted for a market index return**, determined as the difference between the raw initial return and the market index return:

$$U_m = \frac{EP - OP}{OP} - \frac{I_1 - I_0}{I_0} = \frac{EP}{OP} - \frac{I_1}{I_0},$$

where I_1 is the market index closing price on the first trading day and I_0 is the index closing value the day before.

To address the problem of first day of trading market illiquidity that affects the process of obtaining the equilibrium, I will use as the equilibrium price (EP), the closing price observed in the first day, but also over a five, ten days and one month horizon.

Moreover, Bucharest Stock Exchange Composite Index (BET-C) will be used as the market index proxy.

Table 1. Initial returns of IPOs in Romania (2002-2007)

Company symbol	Raw initial returns (%)				Adjusted initial returns (%)			
	1st day	5 days	10 days	1 month	1st day	5 days	10 days	1 month
ALU	95,65	80,43	76,09	73,91	93,93	79,07	72,92	73,21
BRK	158,71	164,52	172,90	205,16	159,05	169,28	171,18	200,72
FLA	5,22	4,35	3,04	7,39	5,72	0,08	-0,93	-0,85
GDP	42,86	233,33	161,90	68,57	41,24	233,63	157,67	58,80
TEL	35,71	58,93	66,67	69,05	35,95	56,66	64,01	64,46
TGN	43,03	42,77	34,59	25,57	40,87	38,38	36,47	26,00
VNC	10,00	3,33	-1,33	-10,67	9,89	-0,62	-4,59	-17,75
Mean	55,88	83,95	73,41	62,71	55,24	82,35	70,96	57,80
Standard deviation	54,11	85,61	70,51	71,08	54,10	88,22	70,33	71,73

The table reports a substantial underpricing of Romanian IPOs, irrespective of the used measure - raw or adjusted initial return. The mean return on the first day of trading for the companies composing the sample is about 54%, which is a very large value when considering other empirical evidence about IPO initial performance in Europe. Only few studies documented similar values, such as Goergen et al. (2003) that found a 1st day initial return of 86.07% for Dutch companies that went public between 1996 and 2000 (also using a small sample of only 11 companies), Levis (2004) – 60,1% for 240 UK IPOs or Gajewski and Gresse (2006) – 46,68% for 183 Greek firms that listed following an IPO between 1995 and 2004.

These abnormal raw and adjusted returns do not disappear in the short run. In fact, they grow significantly in the first trading week and stay at high levels until the end of the first month of listing in more than half of the cases. At the same time, standard deviations are almost equal to the mean values, proving the heterogeneity of the IPO initial returns.

The most important negative effect of the IPO underpricing consists of “money left on the table by issuers”, defined as the number of shares offered multiplied by the raw initial return (Ritter: 2006: 1).

On the positive side, the huge initial returns of the domestic IPOs, together with the oversubscription level (842,94% in average and increasing over the years) are an indicator of the financing potential of the Romanian capital market. Nevertheless, this is not an argument that going public is a sure thing in Romania. It depends also a lot on company financial data and perspectives, as suggested by the IPOs that closed unsuccessfully over the analyzed period.

Conclusion

Based on data from companies that listed on Bucharest Stock Exchange following an initial public offering, the paper analyses briefly various features of the Romanian IPO Market.

First, with only seven companies that issued new shares between 2002 and 2007, IPOs play an insignificant role in the financing of domestic companies.

Second, the costs of going public are very low, mainly because of the use of fixed-price mechanism and best efforts method by the underwriters (SSIFs), and also because of the efforts of financial markets institutions to reduce the indirect costs.

Third, the Romanian IPOs are highly underpriced and oversubscribed, which strongly suggest the increasing interest of the investors and the potential of the local primary capital market of financing the domestic companies.

As Romania's economy will continue to grow and the activity of the Bucharest Stock Exchange will increase, there is a positive expectation that more and more companies will see the advantages of raising additional financing through an IPO and will access the primary markets.

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BUCHAREST AND SOFIA ON THE EUROPEAN STOCK MARKET LANDSCAPE

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Abstract: *The paper points out the main issues on the integration of the Romanian and the Bulgarian capital market in the European financial services market and the position that these two emergent markets can reach near future.*

Keywords: capital market, Romania, Bulgaria, market capitalization, European integration.

4The Romanian Stock Exchange has a long institutional history. The first, French inspired, law regarding the Romanian capital market appeared in 1881, and was modified in 1929, when the so-called "Madgearu Law" was enacted. The years between 1934 and 1945 saw some intense activity, with 56 listed companies, some of which were also traded on other, renowned, European exchanges (Paris, Anvers, Frankfurt, Amsterdam, Basel and Zurich).

Unfortunately, the communist regime caused the exchange's shut down. It did not resume activity until 1995, operating under Law 52/1994. In April 1995, 24 brokerage firms decided to reopen the Bucharest Stock Exchange, which was to supply efficient and transparent trading mechanisms for shares issued by local and international companies, investment funds, the government and local authorities.

What has driven the Romanian stock market's development? Firstly, there was the Romanian government's mass privatization program, in the early 1990s, which created thousands of private companies and shareholders. Unfortunately, just a few (8 or 9) companies were listed in '95-'96, due in my opinion to their managers' lack of interest in the stock exchange mechanisms, and weak corporate governance. Later, though the listed companies number increased, with a high mark of 130 in '98-'99, market transparency was still an issue. Consequently, the Bucharest Stock Exchange decided in 2000 to raise transparency and corporate governance standards among listed companies, with the aim of achieving a qualitative transformation of the stock market, and gaining a competitive advantage over the open-market exchange, the RASDAQ.

Another interesting feature is the rapid increase in the number of brokers, from 28 in 1995 to 173 in 1998. Their ranks were gradually diminished, though, due mainly to decreasing traded securities, as the Asian and Russian crises of 1998 made many investors wary of the emergent markets.

A quick review of the Romanian stock market's past shows a sinuous evolution, with significant variations both in the number of listed companies, and in the volume and value of traded shares. Yet, in spite of the difficult last 12 years, the Romanian stock market has grown step by step. An important milestone was the introduction in 1998 of the BET index, covering the 10 most liquid shares. Also of importance was the enactment in August 2001 of the Corporate Governance Code, drafted in accordance with the principles of OECD, which has had an effective contribution to a more transparent stock market in Romania. Another contribution to the market's development was the issuing, at the end of 2001, of the first municipal bonds (for Mangalia and Predeal), and the launch in the same year of the electronic platform for fixed income shares.

The year of 2003 was a turning point for the Romanian stock market, as the brokers' community adopted a new strategy for market development. Thus the framework was in place for achieving a climate improvement for investments.

The main objectives of this strategy were:

- National stock market growth through attracting new issuers to the market;
- Strengthened integrity and liquidity of the BSE;
- The introduction of new financial instruments;
- The adoption of the Corporate Governance Code by more issuers;

– The BSE's alignment to European stock market trends, etc.

The BSE's legal status underwent an important change in January 2005, as it went from a public institution to a profit-oriented public company, with 67 former exchange members as shareholders.

Concerning market capitalization, I find the following chart very relevant, as it shows its growth from a near-insignificant level in 1996, to almost 25 billion Euros in 2007.

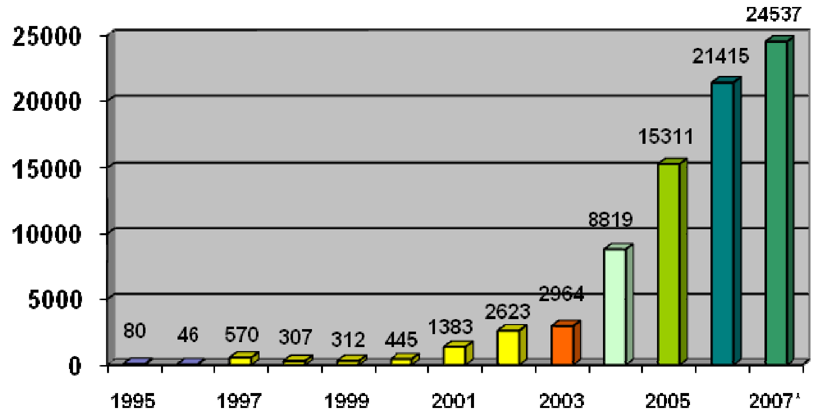

Figure nr.1 The evolution of the market capitalization in billion euros

The daily traded value average also increased significantly, to almost 10 million Euros, while we observed the exchange management's desire to maintain the image of a secure, transparent and efficient market, and increase investor trust in the stock exchange mechanisms.

Romania's intent to join the EU has also influenced its stock market. Given the serious commitment to the membership race, especially since after 2004 this was a realistic target for 2007, adopting the European stock market regulations became a necessity. Thus, a new Exchange Code was introduced in 2006, bringing clarifications to many issues essential for an efficient stock market. Among these new measures were:

– Clear delisting mechanisms on the regulated market;
– Shorter suspensions for issuers following an event in the company;
– Regulations for margin trading and short selling;
– More flexible price limits (+-15%) per trading session

Another important step was the development of the BSE's electronic trading platforms, and the introduction of the Arena trading system. This allowed for faster operational trading, and a significant improvement of the back-up system.

The Bucharest Stock Exchange was actively involved in the implementation of regulations for the Central Depository. Thus, the clearing activities were outsourced to the Central Depository, connected in real time. This is expected to increase the stock market's transparency, as required for alignment with the European regulations.

The BSE's future depends on how the Romanian stock market will be able to integrate with the European stock market. Investor perception of the BSE is as one of the region's major markets. This is confirmed by the listing in 2006 and 2007 of the first bonds issued by international financial institutions, the World Bank and the European Investment Bank. These bond issues contributed to the stock market's strength, and its image as a mature market, a requirement for international recognition.

2006 was a relatively good year for investment on the Romanian stock market. The BET index, which follows the average movement of the listed shares' prices, went up 22% in 2006. This represents a solid performance compared with the interest on bank deposits, which is almost three times smaller.

The value of shares traded on the BSE increased with 27% in 2006, from 223% in 2005, and 140% in 2004.

The index's evolution (and in fact the Romanian stock market's) was correlated in a large measure with that of indexes of other important markets in the region (Px –Czech Republic, WIG – Poland, BUX – Hungary). This correlation will obviously grow stronger, as the Romanian stock market matures.

2006 also brought other important events for the stock market. The merger between the BSE and RASDAQ was finalized. According to the new stock market legislation, and a new exchange code issued by the NSC, today the BSE operates a regulated market with three categories for shares and three for bonds (the practical equivalent of the old BSE) and will operate shortly an alternative trading system currently undergoing authorization by the NSC (RASDAQ's 'heir'). This involves definitively shutting down the electronic trading system used by RASDAQ, and migrating all issuers to the BSE's Arena system. The two markets' merger was one of the most important events on the Romanian stock market, and this consolidation improved its visibility regionally and internationally.

Unfortunately, this consolidation trend did not continue. The merger of the BSE and the SMFCE, under consideration for a long time, was rejected in 2006 by the BSE shareholders. In consequence, the BSE announced the launch of its own derivatives trading platform in the near future, which will use the SNCDD as a clearing house. On the other hand, the SMFCE announced also announced a trading platform. While this market fragmentation is not necessarily considered positive by experts, the two institutions will definitely present new platforms and financial instruments.

In the field of operations and new instruments, it was now possible for brokerage firms to offer margin trading to their clients. This became operational in the fourth trimester of 2006, but this kind of transactions is still under development. Under legal requirements, the guarantee deposited by the client, in form of cash or securities, must be at least 50% of the market value of the securities to be bought through margin trading.

By the end of 2006, 58 companied were listed on the BSE, with 2.8 bill. Euros in traded shares.

Corporate bonds had a good year in 2006. In September, the World Bank launched in Romania a 525 mil. RON public bond issue, the first issue of an international financial institution in our country, and the biggest one to that date. The issue was successful, with 635,948 shares subscribed, from 525.000 issued and allotted.

The EU membership is certainly an important step for the BSE. We expect a stronger and improved institutional framework, due to intensified cooperation among key institutions on the stock market, increased contact with the business community, and the support for institutions with a potentially positive effect on the quality of stock exchange activities: the Institute for Corporate Governance and the Brokers' Association. We can also assume an increase in market capitalization, probably to 40 billion Euros.

In the first two years from accession, market capitalization in the Czech Republic, Hungary and Poland grew with a 48% average rate per year, and the traded value with 77%. While these effects will not be immediate, they will certainly, given the increased visibility and trust, also manifest in Romania.

With the BSE's future relatively bright, and Bucharest increasingly a point of interest on the European stock market landscape, an analysis of the stock exchange in Bulgaria, neighbor country and simultaneous new EU member, is not without interest.

A first look at the Sofia Stock Exchange reveals a stock market split into official and unofficial operations. Shares from the A and B segment are traded on both market sectors, but some differences exist in the types of bonds traded. While government, corporate and municipal bonds are traded on the official market, the unofficial one deals in privatization cheques and other bond types. In April 2007 17 companies were traded on the official market, with a 2.8 bill. Euros market capitalization, compared with 339 companies and 7 bil. Euros on the unofficial market. The 9.8 bill. total capitalization is significantly smaller than the BSE's (approx. 25 bil. Euros). In 2006, there were 29 newly listed companies, 2 IPOs, 19 mutual funds and 28 bond issues. The beginning of 2007 brought 7 new IPOs, 10 bond issues and 6 new companies.

The Sofia Stock Exchange top 20 listed companies, aggregated by type of activity, contains:

- 43% financial brokers;
- 30% transportation, warehousing and communication companies;
- 20% production companies;
- 4% retailers and whole sellers;
- 3% tourism and food companies.

Active since 2000, the Sofia Stock Exchange enjoyed constant growth, evident both from the doubled daily average in the last few years and the SOFIX index' evolution (up 1300% from 2000 to 2007), and from the low capitalization level in 2007 (37% of the GDP, from 5% in 2000).

Trends and expectations for the Bulgarian stock market's near future include the concern for alignment with European requirements, by introducing legislation and the unique European passport. Also, the Sofia Exchange, like the BSE, is considering alliances with other European stock markets (7 of which have expressed interest), and multiple listing using a single issue prospectus.

What about investment opportunities on the Bulgarian stock market?

The Sofia Stock Exchange intends to encourage companies to be active on the stock market, and to increase the role of stock exchange mechanisms in attracting new financing. More precisely, this concerns raising capital through share issues.

Simultaneously, securitization is encouraged in key economic sectors: energy, electricity, central heating, banking, etc. Real estate is to be an important domain for the stock market. Also, small and medium companies are expected to be more actively involved in the stock market to fund new projects, occasionally even riskier ones.

Like Romania, Bulgaria is concerned with better corporate governance standards (aligned with the same OECD principles), and is drafting a special code, which I find very similar with the one in place in Romania.

The Bulgarian stock market shares the introduction of IT solutions as a priority, and technological innovations will be deployed rapidly, mainly in the existent systems – COBOS (Client-Order-Book-Online-System) and EX3 (automated single-point information disclosure system developed by the BSE, FSC and CSD).

Of course, as with the BSE, the Sofia Stock Exchange's management is aware of the limitations: a market still small, reduced liquidity, few IPOs, limited range of financial instruments, but there are great expectations. Introducing new legislation and finding important partners are the next period's main goals. Much is expected of the collaborations with the Deutsche Burse, OMX, Wiener Bourse, Hellenic Exchange, the Italian Exchange, the Warsaw Stock Exchange.

EU membership will for both Romania and Bulgaria, along with increased foreign funds' investments, more investment from domestic institutional investors.

Pension funds and insurance companies are stock market segments with great potential, and expected to become much more active in the future.

Thus, positive effects will surely manifest on both Romanian and Bulgarian stock markets, especially quantitatively, potentially making 2008 a more interesting year than 2007. At least in Romania, the listings of important companies like "Fondul Proprietatea" or Romtelecom will have an essential impact on both market size and attracting interest from potential investors.

The introduction of regulations following EU accession will mark a difference between 2007 and 2008, for both the BSE and the Sofia Stock Exchange. Of interest will be the increased competition as international operators enter the market, and the results (undoubtedly benefic) of this added competition for investors.

The financial instruments will certainly become more diverse. The BSE is developing a new derivatives platform, the introduction of which will be a major market event. The platform will start by supporting futures contracts in the first stage, so share options could be introduced in 2008. Margin trading could also significantly bolster traded values.

Bonds will continue to be an important market segment for Bucharest and Sofia. As many banks express interest for the stock market, corporate bonds will be a growing segment, and municipal bonds will also continue to consolidate. Investment firms in both countries are candidates for continued good performance, and we can confidently expect that IPOs will play an essential role.

Bulgaria must be seen as a serious, fast-approaching competitor, which cannot be treated with indifference. Consequently, finding strategic partnerships is most important in the future, as is the consolidation of the domestic market, and increased prestige on the international market. Speed is of extreme importance while introducing reforms and leading the competition in the region.

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THE DETERMINATION OF FINANCIAL COSTS STRUCTURE FOR COMPANIES IN ROMANIAN ECONOMY

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Regardless their nature, all the capitals have a cost. The cost is the highest risk element, which accompanies the capital, because, is in inverse proportion to the profit: a higher cost leads to a lower profit. For attracting the sources of capital, a firm must spend certain sums, which are proportional to their price. The content of this thesis tries an efficiency of financial structure for companies based on the minimizing of finance costs. In this case, it has proceeded to a deep analysis of financial source on long term. In the purpose of efficiency of financial structure has followed the costs for variant of financial structure through point out models of analyses and assemble the costs recommended by international and national specialty literature.

Keywords: financial structure, financial sources, capital cost, efficiency

The capital represents the ensemble of material values resulted from the human activity and all out financial values owned by a company, used with the purpose of obtaining a profit.“ (Encyclopedic Dictionary, 1993 edition.

The capital is defined to be „that production factor who in his ensemble of yields and used to obtain other goods and services, destined for sale, with an economic advantage, profit“.

The company’s capital, participating at these economic processes, upholding them, and turn into products and services, the management quality of their using, the company’s efficiency, liquidity, solvency, earnings, it’s chances of success in competition, it’s existence, it’s development and it’s one selfness.

The capital account represents the difference between the economic capital and the company’s debt, and the loan capital is, how the name seas, the capital drown from different financial sources, which the company has to pay and repay.

The form of propriety for the capital, they are frequently situation in which the capital account are much more expensive then the loan ones, situation that has generated the sentence “*is more profitable to work with someone else’s money then with yours”*.

This state of things arises from the financial risk and, from the so-called efficiency by the usherette to assume the risk. The placement in a company is more risky then that on a bank or any other zone, with fix payment, for at least two reasons:

- The payment of invested capital in company it is done by dividend from profits and the level of profit is the result of a sum of factors hard to administrate and multiply, a lot of them being unpredictable, derived from a state of specific uncertainty .
- The collection of advanced capital it’s conditioned by the economic-financial performance of company that keeps, at least the same state of things, restored at the first theme.

As follows, the capital holders place their funds in companies only if the offered dividend is much bigger then the interest offered by the bank or the payment offered by other financial forms, this difference carries to a much bigger capital cost.

Regardless their nature, all the capitals have a cost. The cost is the highest risk element, which accompanies the capital, because, is in inverse proportion to the profit: a higher cost leads to a lower profit.

The capital is a product with a price and a cost supported by the user. In the capital price and cost comes in a series of specific factors like: confidenciality, the utilization rate, the importance, the risk, the wangles, the guarantees and the loan categories.

For attracting the sources of capital, a firm must spend certain sums, which are proportional to their price. The respective expenses represent the average of the marketing cost of the sources of capital, i.e. of the loans and the authorised share capital and equity.

The cost of the equity is interesting for evaluating any investment project, both in financing from equity, as well as mix financing (equity and loan capital).

The cost of the loan capital varies with the capital demand and offer, the length of the loan, the importance of the credit for the one who needs it, etc. The sums, which are paid for loans, vary a lot, sometimes reaching very high rates.

The global cost of the capital (equity and loan), regarded as a hope for paying the capital investors (shareholders and creditors), actually expresses the market value of the firm.

We can conclude that the expenses or the cost of the loan capital are measured mainly by interest and the cost of the equity by dividends. Thus, the sum of the interest represents the cost of the loan capital, and that of the dividends is the cost of the equity, both forming the total cost of the capital.

A problem of great importance in the analyzing and evaluation of financial sources constitute the financial lever effect of capital about the financial costs of company. *"Can the company affect their costs, in a favorable or unfavorable way, by the diversity of the financial sources used?[198]"*

The financial cost keeps a direct bundle between the elaborating of capital structure and his financial structure. Has economic sense that the company tries to minimize the financial cost. The capital costs and the other costs, share a common characteristic in that of they can reduce the dividend size paid to stockholders.

Having in view that the value of an asset depends on the financial results of investments. Now to keep constant all the factors that can affect the asset price is necessary of capital costs. If these costs would be minimized, the stockholder's dividend would be maximized. This thing will go to the maximizing of company's asset price.

If this financial costs can be affected by his capital structure, then the structure management capital is clear an important element of company's financial management. This thing is shown in the next figure[199].

[198] Burton A. Kolb, Richard F. DeMong, Principles of Financial Management, Irwin, 2005
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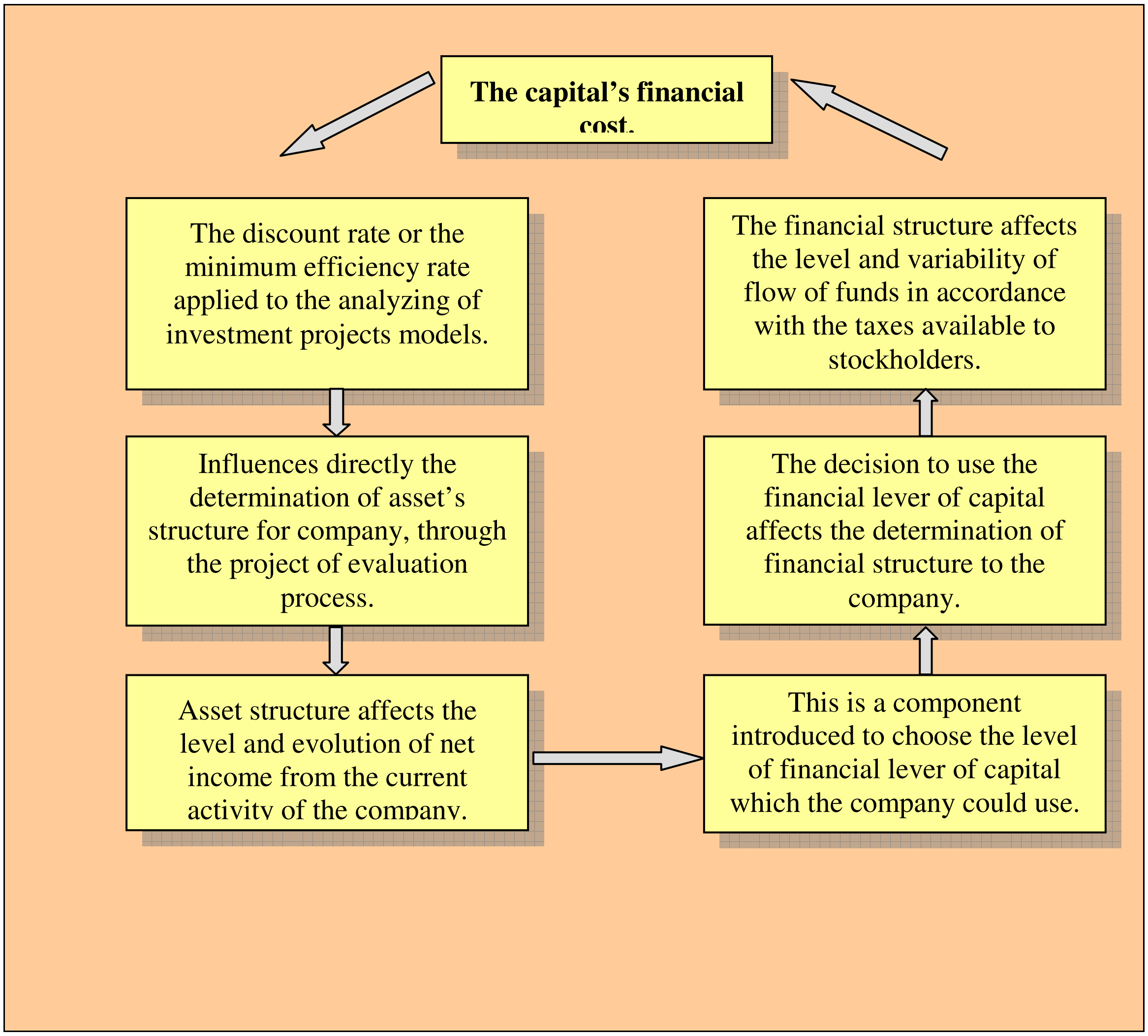

The capital's financial cost

The manner of introduction for the analyzing investments of project models from the investments expenses point of view is represented by the financial costs of capital. Next it shall be examined the instruments used in determination of financial structure accordingly to the company. By studying the technical analyze of investments projects, from the investments expenses point of view, it has been reported a "risk" as being a variable associated with the expected income.

The cost of capital account concerns in evaluation of any investment project as much as integral financial from capital account, and mix financial.

The global cost of capital, looked as a capital investors payment hope express the market value of the company. Net cash flow cleared by the company serves for the payment of capital "suppliers". The creditors have priority to be paid with the interest agreed. The stockholders will be paid, in accordance with "rest role", with the positive difference left between net cash flow and paid interest, respective net profit. If the net cash flow is smaller or equal with the interest that needs to be paid, then, the value of capital account is naught.

In conclusion, the expenses or *the loan capital is measured through interests, and the capital account costs through the dividend*. Thus, the sum of interest represents the capital account costs, and the interest is the capital account cost, both form the sum of capital cost.

The indexes used to analyze the capital cost (as an efficiency rate claimed by the investors point of view) they are taken from the most known models from financial theory. Thus, for *the capital account costs* it is used the efficiency after the CAPM model, for the actualization rate (**k**) it is used the Gordon Shapiro model and the financial efficiency ($\mathbf{R_{fin}}$).

Thus, the analyze purpose is to offer points of view to ensure the manager's financial decision, and on the base of the investment, representing one of the fundamental index that guides the company's financial activity. In theory they are a lot of analyses under restriction assumptions, from, the analyses in oblige company, the analyses of investment project financed integral from capital account, the analyses of investment project on company's structure.

GORDON & SHAPIRO

$\mathbf{V_a}=\int_0^{\infty} \mathbf{D_t \times e^{-k\times t} \times D_t}$, available in continuous time

$\mathbf{V_0 = \sum_{t=1}^{n} \frac{D_t}{(1+k)^t}}$, available in discreet time.

$\mathbf{P_t = P_{t-1} + r \times b \times P_{t-1}}$, the profit formula.

When $\mathbf{n \to \infty}$, $\mathbf{k = \frac{D_t}{Cb} + \frac{P_{net} - D_t}{VN}}$, the value of capital cost in condition of available of the model (the profit growth rate).

Va – the value of the asset at the moment of foreseeing. The value will be the stock market rate of exchange, not taken count of the incorrect evaluation possibilities by the market. The deductive cost will be compared from the model with the ones obtained through other methods. It is observed that adequate to the calculation methods, the stock market exchange rate it is a future price, the market estimating the expectation of investors in the future flows manner offered by the company. In opposition the accounting value it is a reflection of past events from the company's activity. An eloquent comparison between these two values can be obtained through the comparison between capital cost with the formula from upstairs (k, when $n \to \infty$) and the financial efficiency decayed in accordance with the formula:

$$\mathbf{R_{fin} = \frac{P_{net}}{Cb} = \frac{D_t}{Cb} + \frac{P_{net} - D_t}{Cb}}$$

Dt – the dividend in t period. After the Gordon&Shapiro model the future dividend represents a progression based on D0- the dividend on past period.

g - increase rate of dividend. In fact, g is the only one from the model of which estimation raises problems. In the model, g represents the product of two terms:

b – the profit distribution rate;

r – the efficiency of reinvested profit rate, the same with the company's efficiency rate.

Taken in consideration, that it doesn't exist a constant in the same rate, it has been chosen g to be the medium increase recorded in a period of time by an action. Taken in consideration that the inflation influences the company's course just through the appearance of differences from reevaluation and the net profit it shall be ignored. Another solution would be the calculation of an index equivalent, taken in consideration the upstairs mentioned influences. The used formula for g will be:

$\mathbf{g = \sqrt{\prod_{t=1}^{n}(1+g_t)} - 1}$, where $\mathbf{g_t = \sqrt[t]{\frac{C_t}{C_0}} - 1}$.

The base parameter of Gordon&Shapiro model, the increase rate g it is very difficult to be obtained on the historic data base. A study on the most transaction companies at BVB example, it takes as to conclusion that they are very uncommon cases of companies with constant increases. The negative values of the increases met in the majority of cases it stumble us to put in practice the described methodology, in which is calculated the increase as a geometric average of a previous values.

Thus it has been chosen a simpler variant, but with more restrictedly and less credible assumptions, calculated as a product between the efficiency rate of reinvested profit and the distribution rate of these, having dough about the truthfulness of the conclusions because of big differences registered from one year to another. The data from the columns with financial efficiency and the capital cost of k can be used more in comparison between the market's rate of exchange and the accounting values of assets.

Another mechanism can be underlined on the data base from this table is the attribution method of dividend. In a country with capital market developed, the dividend is one of the principle demands of stockholders, and the companies pay sometimes the dividend from the reserves so that they wouldn't challenge variations of courses. The strict "mathematic" loses the value in Romania's case. Most investors on the Romanian capital market follow the rapid increase of course or they don't follow under any form a direct profit being strategic investors. Thus, in over 50% of cases, the dividends of the most important companies are 0. Sometimes the profit is missing, some other times because is insignificantly size that don't justifies the expenses shown on the occasion of their agreement.

All this difficulties can be suppressed through capital market development from Romania and the fundamental reorganization of these. The main premise necessary to be carried out is the increase of the investor's interest, an impossible thing to achieve without a base of viable companies, with an investment policy and transparent development. Thus, will be solved an important problem: market liquidity who through it's consequently affects the stock market. It has been believed that all of this will happen along with the economic development which will offer the fundamental of competitive capital market.

CAPITAL ASSETS PRICING MODEL (CAPM)

$$\mathbf{R_i = Rd + (R_{PB} - Rd) \times \frac{\sigma_i}{\sigma_{PB}} \times \rho_{iPB}} \quad \text{or} \quad \mathbf{R_i = Rd + (R_{PB} - Rd) \times \beta_i}.$$ [200]

Rd – interest rate at the bonds issued for three months. For the data compatibility it shall be transformed the data equivalent rates in annual percents. Another problem is the existence on the same period of two types of bonds: interest bearer and the discount issued ones. The problem is that an efficiency calculation for each of these bonds goes to different results. An explication would be the restrictive access of a type of bonds. If would exist issues of both types for each analyzed period it shall be chosen the average to be a possibility of an alternative investment. When the rates are different it shall be chosen an average rate.

RPB – the efficiency of stock market. As a principal index it shall be used the BET index value for the analyzed period. The efficiency it shall be calculated after the formula: $\mathbf{R_{PB} = \frac{I_t - I_0}{I_0}}$

Where: I represents the index value at different moments (0, t). This calculation sits at the compatibility base of this rate with the rest of indexes, all of the rates being expressed in annual percent.

$\mathbf{\sigma_i \times \sigma_m \times \rho_{im} sau \sigma_{im}}$ - Co variation between the market efficiency's evolution and that of the analyzed title. It will be calculated on the base of two series of data, one of the market efficiency rallied in weeks average, and one of efficiency calculated on the base of stock exchange rates after the market's efficiency model. The period taken in calculation is of 18 months, equal to almost 75 weeks indexes.

$\mathbf{\sigma_{PB}^{\ 2}}$ - The variation of market efficiency in the analyzed period.

β is obtained reporting the co variation of market title at the market variation. In the previous estimations is considered to be constant.

Ri – asked efficiency. This obtained efficiency from the CAPM model can be used at the establishing of a balance course which through it's comparable with the market ones can lead to results that can offer a serious base of analyzing the market parameters. In the normal way the fair value represents a reper for the market's future evolution and for manager's decisions.

For the application of CAPM model is necessary to take over the data about an efficiency analyze of bonds with a three months term, which can be adapted after a period of 40 weeks. A problem to be solved was a comparison calculation of the two efficiencies that intervene in CAPM and the chosen of a period when the

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[200] Sharpe, Williams „*Capital assets pricing: a theory of market equilibrium under conditions of risk*", The Journal of Finance, vol. XIX, no.3, September, 1964;

market efficiency outruns the bonds. This choice restricts the application of correct payment assumptions of the risk by the market; it has been considered next the assumption that all the investors are sensible at risk and ask a payment accordingly to this one. The analyzed period can be chosen on the upper method (efficiency without risk is smaller then the market one) and after the actualization data, being chosen the last month that carried out all conditions.

It has to underline the situation of companies depending on the way of period chosen, a period much longer that could eliminate from the graph some companies, and another period could change completely the sample's configuration. Intuition, the companies from BET calculation would "resist" at any change, the others not appearing constant in the samples about the most transactionated companies.

The situation of the rate of exchange – accounting value report makes difficult the analyses of calculated costs after the Gordon&Shapiro method, but after CAPM too. At the calculation of these indexes the purpose was to find the capital casts that could be drowned from the market. As long as is out of discussion a financial source, because of the small price offered by the market for a new asset, the calculation doesn't find a practical utility, the calculated costs loses it's significance. More, the lose of market liquidity, materialized in the price difference of offer-demand, don't take in consideration the significance of the sum which the stockholders are willing to pay per asset. From most of ways, the rate of exchange formation mechanism is based on a level where the interest disappears for the asset's sale; in general the buyers follow the profit from the missing of liquidity's demand offering always smaller prices. Like an example, it is offered a rate of exchange differences registered at the public offers of buying, that overtakes at a price that outruns few times the market price. This differences increase the supremacy of diversity of interests about the investment one.

The CAPM study shows the influence of market evolution on the principal assets on the market. Important in this study is beta obtained for each asset. It's previous use of beta in calculation of efficiency asked explicit by investors doesn't offer any useful results for conclusions. The efficiency list obtained doesn't resist to any significantly testing. Comparing the normate efficiency CAPM with the ones obtained by investors it sees the weak connection materialized through the big dispersion of results.

The calculation of beta was established taken in consideration the two measurement indexes of market efficiency: the BET index and the BET-C index. The justified choice of the parallel measurement of market efficiency forms is given by the inconvenience met at the two market indexes: BET is a restrictive representation (only ten companies) and the BET-C has in his calculation a series of companies of which the liquidity is minimum, some not being transactioneted for markets. As expected, the results where completely different, each one reflecting a different face of reality.

In the calculation of beta's case on the co variation of assets base: with BET rate of exchange, all companies that comes in the index calculation have registered positive values and at near majority 1 (Dacia's- 0,890674, Terapia-0, 67948). At some assets the market increase period has dovetails with a faster growth of exchange rate, the beta value being more up then the normal level (ALRO Slatina-2, 48015, Arctic Găeşti- 4, 28626). In the other companies case the beta index has known a large scale of values, the conclusion being that not the evolution of BET index establishes significant variation in the assets rate of exchange.

When the market efficiency is considered to be the BET-C it is observed a bigger spreading of values, more than half mark evolution of exchanging rate in reverse way the market evolution. In an ensemble observation, the majority of companies negative correlated with BET-C are positive correlated with BET. A study of these two indexes specific feature on the analyzed period takes at the conclusion of a superior variation of the calculated efficiency on the base of BET index (0,040233) given by BET-C (0,009502), co variation between the two indexes being positive (0,01709). This aspect can be interpreted as a variation in the same way of indexes. The BET-C index being calculated on a bigger base of assets, lots of them having immobile rate of exchange, is less mobile then BET, has in essence only transactioneted assets.

In Romania, the transparency and the completitude of financial information are in continuous development, but they found in the incipient phase. Thus, to have a necessary detailed information for the elaboration of a global study must be taken real information of financial indexes that should dovedail in the fundamental way with the one asked by theory. The main problem that it has to meet and offered as an example is the publishing of data about the debt and expenses with the rates. Thus the debts are not detailed after their nature in financial and exploitation, the majority of information referring generic to the sum of debt. In the expenses case, from the total of expenses are distinguished only the exploitation expenses, but for a fundamental analyses of loan capital costs is necessary a detail at the credit contracts level with the banks, about what the data are practically non existing.

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VALUE OF TAX SHIELDS FROM DEBT FINANCING OF INVESTMENT PROJECTS

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Debt financing of investment projects, used to complete internal sources, has benefits that increase company value (tax shields from interest payments deduction), but also implies costs of financial distress (bankruptcy costs and agency costs) that decrease market value of debt and company value. In this paper, we discuss how taxes affect financial structure choice and we estimate tax shields from debt financing for an investment in real assets, using four different models developed in financial literature.

Key words: real assets investments, debt financing, tax shields, marginal tax rate

Role of corporate and individual income taxes in choosing financial structure

Although all companies operating in a national territory face the same statutory corporate tax rate, *marginal tax rate* depends on tax shields that a certain company could obtain. We can define *effective tax rate* as the statutory rate multiplied with probability of having positive taxable income that allows tax benefits.

Mackie–Mason [1990] establishes a substantial effect of taxation on financial structure choise, which becomes more important as company approaches the point where tax benefits source exhausts. This means that deduction of every unit of interest must be appraised using a marginal tax rate as decreasing function of interest expenses.

Graham [1996] achieves important results in this research field. He builds a complex simulation methodology to estimate marginal effective tax rate (set as weighted average using probabilities of not paying income taxes), used later in his study in year 2000. The average net value from deduction of interest expenses is about 4.3% of market value of companies in the sample. They estimate net advantage from deduction of the last unit of interest payment to 13–25% for extremely profitable companies and 8–15% for profitable companies. Present value of tax shields from debt financing is about 9.7% of firm market value. Kemsley and Nissim [2002] reach to a similar result (10%). In this particular sample, tax shields represent about 40% of market value of debt. Graham [2001] returns to this item simulating marginal tax rates for thousands of US companies and supplies empirical evidence that tax benefits from debt financing are between 5 and 10% of market value for a company, reconfirming his previous results.

Empirical studies demonstrate that debt financing becomes more attractive to investors as effective marginal tax rate enhances. As tax shields from other sources than debt (for instance, depreciation) increase, marginal tax rate decreases and debt financing is discouraged. The two different sources of tax shields (operational and financial) are interchangeable.

Assessment models for tax shields from debt financing

Many authors propose alternative models to estimate the present value of tax shields from debt financing. Most frequently used formulas are presented in Table 1 (VA[a,b] is the present value of cash flow “a” discounted with rate “b”). We notice that discount rate for cash flows obtained because of interest expenses deduction is not the same for all models and it depends on kinds of risk attached to these cash flows.

Modigliani–Miller [1963] (from now on MM) consider that tax shields are not risky, so we can use risk free rate (r_f) as discount rate and the present value for these cash flows is $D \times \tau$. However, the taxation level of the income for individuals also influences tax advantage. That is why Benninga and Sarig [1998, pp. 259] consider corporate and individual taxation (Miller [1977]):

$$\text{PV (tax shields)} = \sum_{i=1}^{\infty} \frac{[(1-\tau_d) - (1-\tau_e) \times (1-\tau)] \times Dob_i}{[1 + (1-\tau_d) \times r_d]^i}$$

Myers [1974] notes that tax shields have the same risk with debt, so the discount rate is the interest rate r_d. In fact, only tax benefit for the first year is certain and we may discount it with rate of interest. For subsequent years, the debt value depends on the project market value V^L and the level of fixed leverage L ($L \times V_L$). Because of uncertainty of realizing tax shields from debt financing, its risk changes over time and the discount rate is cost of equity capital for unlevered company (r^U), which includes only the operational risk[201]. The amount of all these tax shields obtained in perpetuity is:

$$\text{PV (tax shields)} = \frac{D_0 \times r_d \times \tau}{r^U} \times \frac{(1 + r^U)}{(1 + r_d)}$$

Other cited authors are using cost of capital for unlevered company (r^U).

Authors	**Assessment models**
MM [1963]	PV [$D\tau r_f$; r_f]
Myers [1974]	PV [$D\tau r_d$; r_d]
Miles and Ezzell [1980]	PV [$D\tau r_d$; r^U]$\times(1+r^U)/(1+ r_d)$
Harris and Pringle [1985], Ruback [2002]	PV [$D\tau r_d$; r^U]
Damodaran [1994]	PV [$D\tau r^U - D\times(r_d - r_f) \times(1-\tau)$; r^U]
Fernandez [2004]	PV [$D\tau r^U$; r^U]

Table 1. Assessment models for tax shields from debt financing

There are isolated opinions that consider that the supplementary value coming from tax shields is not equal with the present value of tax shields. For instance, Fernandez [1994] emphasizes that estimating discount rate for these cash flows is a challenging task because the value of tax shields from debt financing (VTS) is given by taxes paid by unlevered company (G_U) minus taxes paid by levered company (G_L), while each of them has a different level of risk: VTS = $G_U - G_L$.

Cooper and Nyborg [2006] contradict this point of view. They demonstrate that the value of tax shields is equal with the present value of tax shields. The surprising result of Fernandez [1994] is due to wrong usage of an argument, valid only for MM [1963] model.

Case study

In this section, we focus on appraisal of tax shields from debt financing for a project in construction materials field. A rigorous and detailed analysis of the project, assessment of free cash flows and discount rate was performed before and it is not the purpose of this study. That is why we concisely present some elements, to create the basis for further analysis. We estimated free cash flows in USD because some cost elements are also specified in USD.

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[201] PV (tax shields, year 1) = $\frac{D_0 \times r_d \times \tau}{(1+r_d)}$, PV (tax shields, year 2) = $\frac{D_0 \times r_d \times \tau}{(1+r^U)^2} \times \frac{(1+r^U)}{(1+r_d)}$,

PV (tax shields, year 3) = $\frac{D_0 \times r_d \times \tau}{(1+r^U)^3} \times \frac{(1+r^U)}{(1+r_d)}$ and so on.

Operating period for analyzed investment is ten years (2008–2017). The cost required to implement the project is 6,670 thousands USD, consisting of land (280 thousands USD), buildings (270 thousands USD) and technology (6,120 thousands USD). Working capital investment of 244.6 thousands USD for year 2008 depends on estimated turnover. Finally, nominal free cash flows are discounted with nominal cost of equity capital of 18.3%, resulting NPV of 2,733 thousands USD for analyzed project.

Internal financing source is 2,018.6 thousands USD (net income from previous years) and it is used to entirely finance land, buildings, working capital and 20% of technology value, while 80% of equipment purchase value (4,896 thousands USD) comes from debt financing. Valuation of the tax shields is similar, no matter what kind of debt we use. That is why we analyze a source of debt financing used for 10 years (life of the project). Debt refunding is done by 120 fixed monthly mensualities, starting in January 2008. Annual nominal rate of interest is 10.5%. The commission of 2% is retained from the loan, so that debt raised is 4,985.7 thousands USD (the commission represents 99.7 thousands USD of this amount).

Monthly rate of interest is 0.875% and value of a monthly mensuality is 67.27 thousands USD. Table 2 illustrates annual interest payments. The financial leverage, determined in concordance with the Fiscal Code, as annual average value of long term debt divided to annual average value of equity capital, does not exceed 3, which means that interest payments are entirely deducted in the same year.

Thousands USD

YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Long term debt (end of the year)	4,985.7	4,687.9	4,357.2	3,990.0	3,582.5	3,129.9	2,627.6	2,069.8	1,450.6	763.2	0.0
Average value of long term debt	0	4,836.8	4,522.5	4,173.6	3,786.2	3,356.2	2,878.8	2,348.7	1,760.2	1,106.9	381.6
Equity capital (end of the year)	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0
Average value of equity capital	0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0	1,774.0
Leverage		2.7	2.5	2.4	2.1	1.9	1.6	1.3	1.0	0.6	0.2
Interest payments		509.4	476.6	440.2	399.7	354.8	304.9	249.6	188.1	119.9	44.1
Deducted interest payments		509.4	476.6	440.2	399.7	354.8	304.9	249.6	188.1	119.9	44.1

Table 2. Leverage and deducted expenses associated with debt financing

A company could not benefit from the tax shields from interest deduction if operating profit (EBIT) is negative or it is positive, but lower than the interest payments for debt. Because of the time value of money, such an advantage is less valuable if it is delayed.

Thousands USD

YEAR	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EBIT	**480.1**	**763.6**	**1,348.1**	**2,046.0**	**2,869.1**	**3,512.6**	**3,417.5**	**3,324.1**	**3,232.6**	**3,142.8**
Interest payments	509.4	476.6	440.2	399.7	354.8	304.9	249.6	188.1	119.9	44.1
Other financial expenses (commissions)	99.7	0	0	0	0	0	0	0	0	0
EBT	**-129.1**	**286.9**	**907.9**	**1,646.3**	**2,514.3**	**3,207.7**	**3,167.9**	**3,136.0**	**3,112.7**	**3,098.7**
Cumulated loss	129.1	129.1	0	0	0	0	0	0	0	0
Recovered loss	0	129.1	0	0	0	0	0	0	0	0
Fiscal income	0	157.9	907.9	1,646.3	2,514.3	3,207.7	3,167.9	3,136.0	3,112.7	3,098.7
Income tax	0	25.3	145.3	263.4	402.3	513.2	506.9	501.8	498.0	495.8
Net Income	**-129.1**	**132.6**	**762.7**	**1,382.9**	**2,112.0**	**2,694.5**	**2,661.0**	**2,634.3**	**2,614.7**	**2,602.9**
Interest payments and commissions	609.2	476.6	440.2	399.7	354.8	304.9	249.6	188.1	119.9	44.1
Expenses that generate tax shields	**480.1**	**605.7**	**440.2**	**399.7**	**354.8**	**304.9**	**249.6**	**188.1**	**119.9**	**44.1**

Table 3. Net income and tax shields from debt financing

For our case study, EBIT for year 2008 is less than the expenses with interest payments and commission, so the tax shields is partly obtained in year 2009, when the net loss is recovered. Subsequently, tax shields are effectively realized in the same year when interests are paid, because operating profits have substantial positive value (Table 3).

In column (2) of Table 4, the interest and commission payments are "carried forward" in years when the tax shields are effectively generated. Corporate tax rate of 16% multiplied with interest expenses deduced from EBIT represents the nominal tax shields (column (4) – this procedure is valid only for the first three methods).

Present value of tax shields – Myers [1974]

Monthly effective interest rate of 0.9158% (annual rate of 10.9896%) is determined as the internal rate of return that equals the amount of capital borrowed with present value of the 120 mensualities: $4{,}896 = \sum_{t=1}^{120} \frac{67.27}{(1+\mathrm{RIR})^t}$. Present value of tax shields is 343.6 thousands USD (column (6) of Table 4).

Present value of tax shields – Miles and Ezzell [1980]

Tax shields adjusted with $(1+r^U)/(1+r_d)$ are discounted with the cost of equity capital (18.3%) and have a value of 295.7 thousands USD (column (8) of Table 4).

Present value of tax shields – Harris and Pringle [1985], Ruback [2002]

Benefits gained from tax shields associated with debt financing are liable only to operational risk, so the discount rate for unadjusted tax shields is still the cost of equity capital (18.3%) and have a value of 277.4 thousands USD (column (10) of Table 4).

Present value of tax shields – Benninga and Sarig [1998]

This method is preferable if external financing is gathered from individual investors that pay income taxes. For Romania, the three tax rates are equal to 16% and parameter used to adjust interest payments is $[(1-0.16)-(1-0.16)\times(1-0.16)]$ = 0.1344. In this situation, the tax shields have the same risk with debt and the adjusted discount rate is $(1-\tau_d)\times r_d$ = 9.23%. The present value of these cash flows is 363.7 thousands USD (column (13) of Table 4).

Thousands USD

Year	Deducted expenses with interest payments / commissions	Expenses that generate tax shields	Tax shields	Discount rate for tax shields (r) and present value of tax shields (PV(TS)) for assessment model proposed by:								
				Myers [1974]		Miles and Ezzell [1980]		Harris and Pringle [1985], Ruback [2002]		Benninga and Sarig [1998]		
				r	PV(TS)	r	PV(TS)	r	PV(TS)	Tax shields	r	PV(TS)
0	1	2	4	5	6	7	8	9	10	11	12	13
2008	609.2	480.1	76.8	10.99%	69.2	18.3%	69.2	18.3%	64.9	64.5	9.21%	70.3
2009	476.6	605.7	96.9	10.99%	78.7	18.3%	73.8	18.3%	69.2	81.4	9.21%	81.3
2010	440.2	440.2	70.4	10.99%	51.5	18.3%	45.4	18.3%	42.5	59.2	9.21%	54.1
2011	399.7	399.7	64.0	10.99%	42.1	18.3%	34.8	18.3%	32.7	53.7	9.21%	45.0
2012	354.8	354.8	56.8	10.99%	33.7	18.3%	26.1	18.3%	24.5	47.7	9.21%	36.5
2013	304.9	304.9	48.8	10.99%	26.1	18.3%	19.0	18.3%	17.8	41.0	9.21%	28.8
2014	249.6	249.6	39.9	10.99%	19.2	18.3%	13.1	18.3%	12.3	33.5	9.21%	21.6
2015	188.1	188.1	30.1	10.99%	13.1	18.3%	8.4	18.3%	7.8	25.3	9.21%	14.9
2016	119.9	119.9	19.2	10.99%	7.5	18.3%	4.5	18.3%	4.2	16.1	9.21%	8.7
2017	44.1	44.1	7.1	10.99%	2.5	18.3%	1.4	18.3%	1.3	5.9	9.21%	2.9
Total	**3,187.0**	**3,187.0**			**343.6**		**295.7**		**277.4**			**364.0**

Table 4. Present value of tax shields from debt financing

Conclusions

Estimation results from Table 4 are quite different (from 277 to 364 thousands USD). As operational profits are high enough (excepting the first year) and allow interest payments deduction, the company faces only a financial risk, so the second and the third model are not appropriate in this particular case.

If the external financing proceeds from individual investors (bondholders) we can use Benninga and Sarig [1998] assessment model. If an institutional investor (a bank or a leasing company) provides financing, is more appropriate to use APV model of Myers [1974].

Anyway, the two values are close enough (364 thousands USD and 344 thousands USD) and represent about 13% of the project value, if it is entirely financed with equity capital. Because of the low corporate tax rate (16%), the present value of tax shields is only 7% of debt.

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CONTROL ON PUBLIC INTERVENTIONS THAT CAN AFFECT THE ECONOMIC COMPETITION

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Abstract: "State aid policy" represents the legal approach regarding state aids, meant to ensure the predictability and an increased transparency for the initiators and suppliers or state aid, for the business environment, as well as for the internal and international financing institutions, regarding the orientation of investments and of incentives they can benefit from, the definition of the conditions to access those financial incentives, as well as the obligations thereof.

Key words: State aid policy, low taxation, NUTS

Introduction

Article 87 of the Treaty stipulates that "any aid awarded by a Member State or from state resources, in any way, affecting or menacing to affect the competition by favouring some enterprises or the production of certain goods, shall be considered, whether affecting the commercial relationship among the Member States, as incompatible with the common market", so it has a detrimental potential when: it grants an economic advantage to the beneficiary, it is offered selectively to certain companies or for manufacturing certain goods, it can affect the competition or the commercial relationship among the Member States.

But not all state aids are forbidden. The main situation where the state aid is allowed is when it has a social character, being offered to the individual consumer, provided that these aids be compatible with the domestic market, such as:

- aid of promoting the development of certain activities or areas;
- aid for promoting the execution of a project of European interest or for repairing some serious disturbance in the economy of a Member State;
- fiscal subsidies admitted within the development programmes.

Regimes of preferential taxation

OCDE issued in 1998 a report "Competition affected by excessive taxation – a global problem". The key factors in identifying and assessing the regimes of preferential taxation:

a) Zero tax or the effective low taxation quota or an effective low taxation quota applied to relevant incomes is the starting point necessary to determine whether a preferential taxation regime is harmful. The zero tax or the effective low taxation quota can occur when the taxation graph rate is low or from the way a country defines its taxation basis.

b) The "restriction" regime: the restriction represents a clue that, through the preferential tax regime applied by the respective country, it has the potential to create harmful chain reactions. Thus, the restriction can be:

c) a regime that can exclude the resident tax payers explicitly or implicitly from benefiting from it;

d) the enterprises benefiting from this regime can be forbidden to function on the domestic market, explicitly or implicitly.

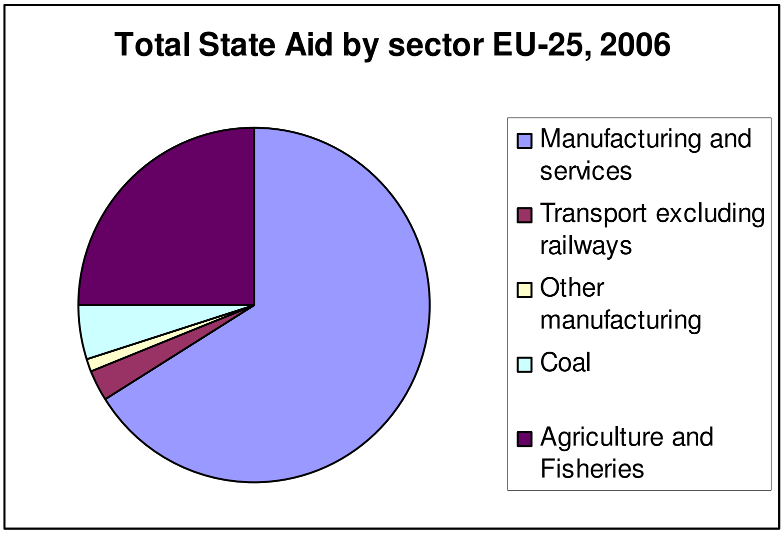
e) Lack of transparency: non-transparency is a wide concept including the favourable application of laws and regulations, negotiable tax provisions and inability to apply the available tax practices on a large scale.

State aid awarded in the EU Member States, 2006

	Total State aid less railways in billion €	Total State aid for industry and services in billion €	Total State aid less railways as % of GDP	Total State aid for industry and services as % of GDP
EU-25	66.7	47.9	0.58	0.42
EU-15	61.1	44.7	0.56	0.41
EU-10	5.6	3.2	0.91	0.52
Belgium	1.2	0.9	0.39	0.28
Czech Republic	0.8	0.6	0.66	0.51
Denmark	1.3	1.0	0.59	0.46
Germany	20.2	16.0	0.87	0.69
Estonia	0.1	0.0	0.41	0.08
Ireland	1.0	0.5	0.57	0.28
Greece	0.6	0.3	0.26	0.15
Spain	4.9	3.9	0.50	0.39
France	10.4	7.4	0.58	0.41
Italy	5.5	3.8	0.37	0.26
Cyprus	0.1	0.1	0.76	0.48
Latvia	0.3	0.0	1.80	0.15
Lithuania	0.1	0.1	0.54	0.23
Luxemburg	0.1	0.0	0.32	0.13
Hungary	1.4	0.8	1.57	0.93
Malta	0.1	0.1	2.29	1.77
Netherlands	1.9	1.3	0.35	0.24
Austria	2.3	1.6	0.90	0.60
Poland	2.3	1.2	0.85	0.45
Portugal	1.5	1.4	0.93	0.91
Slovenia	0.3	0.1	0.83	0.48
Slovatkia	0.2	0.2	0.51	0.45
Finland	2.6	0.6	1.53	0.35
Sweeden	3.5	2.9	1.15	0.94
United Kingdom	4.2	3.1	0.22	0.16

Source: European Commission, Economic forecast Autumn 2007, State Aid Scoreboard

In relative terms[202], State aid amounted to below 0.6% of EU Gross Domestic Product (GDP) in 2006. This average hides significant disparities between Member States: the share of total aid to GDP ranges from 0.4% or less in Belgium, Greece, Italy, Luxembourg, the Netherlands and the United Kingdom to 1% or more in Latvia, Hungary, Malta, Finland and Sweden. The high proportion in some of the EU-10 Member States is due largely to pre-accession measures which are being phased out under transitional arrangements or limited in time. In Sweden, it can be attributed to the very high amounts of aid for environment and energy saving which represents 86% of total aid. In Finland and Latvia, the explanation can be found in the relatively large amount of aid to agriculture which represents almost 75% for Finland and around 67% in Latvia. The EU average of State aid for industry and services expressed as percentage of GDP hides differences between Member States. The sharpest falls can be observed in Czech Republic, Cyprus and Malta, largely due to the phasing out of pre-accession measures, and in Poland due to the declining aid to the coal industry. Ireland, Denmark, Spain and Germany experienced also a significant decrease. In 2006, around 65% of State aid in the Member States was earmarked for the manufacturing and services sectors. A further 24% was directed towards agriculture and fisheries, 5% for coal and 3% to the transport (excluding railways) sector and the remaining 1% went to other non manufacturing sectors. The sectoral distribution is relatively stable over time with the exception of the coal sector which is clearly decreasing.



The state aid policy

“The state aid policy” creates the premises for a better orientation of state aids available to satisfy the economic development priorities of Romania in compliance with the adopted national and sectorial strategies. The document deals with the issue of state aids in compliance with the development objectives contained in the Lisabona Strategy, reviewed, and with the nationally adopted programmatic documents:

- The governing programme for 2005-2008;
- The National Development Plan 2007-2013;
- The Sustainable Development National Strategy of Romania “Orizont 2025”;
- The sectorial strategies adopted by the Romanian government.

“The state aid policy” contains the general objectives, the priorities that shall benefit from the respective support and also the community legislation applicable for state aid. The necessity of establishing a balance between necessities and available resources imposed the necessity of prioritizing the domains benefiting from support by granting state aids, thus establishing three categories of priorities:

- priorities identified by the National Development Plan (PND);

[202] For the purposes of the scoreboard, aid to the manufacturing includes aid for steel, shipbuilding, other manufacturing sectors, aid for general economic development and aid for horizontal objectives including research and development, SME's, environment, energy saving, employment and training for which the sector is not always known.

- priorities relying on financial instruments such as state aid granted only from state resources;
- priorities related to the privatization process.

By OUG no. 117 of 21st December 2006, the state aid national procedures were established in order to apply articles 87-89 from the Treaty of establishing the European Community and the secondary legislation adopted. Thus, the Competition Council shall be the contact authority in the relations between the European Commission and the public authorities, including the public institutions involved in the privatization process and other state aid suppliers and the state aid beneficiaries, involved in the state aid procedures. The phenomenon of distortion of the competitive relations among countries is favoured by their involvement in a process of concentration that can become dangerous and by the existence of state aids or by the persistence of some monopoles in favour of private companies benefiting from privileged advantages

The concept of state aid was construed by the Commission and by the Court of Justice very widely, so that it includes any public aid granted by central authorities, as well as the aids given by local or regional authorities. Moreover, the aid can come even from private bodies or other bodies on which the state, a public institution, a local or regional authority has, directly or indirectly, a powerful influence.

The range of state aids is larger than that of subsidies and contains all measures that, ia a way or another, involves the state resources. The selective character is vital for a tax measure to be considered as state aid.

In most cases, state aid creates discrimination between competitors. The form of the aid (tax deductions, guarantees for loans) or the reason for granting it, are not relevant. It is the effects generated by state aids on the competition on the market that counts.

In the opinion of the Commission and of the community courts there are four cumulative conditions according to which an economic measure or transaction in which the state is involved can be considered as concerning a state aid. They are:

- measure to involve the use of state resources;
- measure to award an advantage to the beneficiary company/companies;
- measure to distort or to threaten with distortion the competition at the cross border level.

Therefore, we can conclude that a measure shall be considered as state aid under the following circumstances:

1. Involving the use of state resources

Pursuant to Article 87(1) EC, the state aid can be granted "by the state or from the state resources". So, the form in which state aid is granted is irrelevant concerning the control of state aid: the effect of the measure is important. So, the distinction between "aid granted by state" and "aid granted from the state resources" is made to clarify that not only the aid granted by the central government, but also the aids granted by the local and regional state authorities and by the public or private bodies acting on behalf of the state are included in the exclusive control range of the Commission. As for the effective form in which the aid is granted, the state aid does not only refer to direct expenses made from the state resources (ie subsidies to the budget), but also to the indirect transfers of state resources (thus incurring revenue losses for the state), this concerning the generally accepted jurisprudence. Indeed, a revenue loss from taxation is equivalent to consumption of state resources, regardless of the level, regional or local, at which the loss is incurred.

2. Awarding an advantage to the beneficiary company/companies

The interpretation of the concept of "awarded advantage" proved to be vital in ensuring a large range of coverage for the community regulations concerning state aid. Starting from the first years of applications of the state aid community regulations, the European Court of Justice (ECJ) defined the notion of state aid as "including any measure, no matter its form, reducing the burden normally borne by a company, even if it is not a direct subvention *stricto sensum*, but it is equivalent to it in the virtue of its nature and effects". Accordingly, in Fiscal Aid Notice, the Commission only reiterates a well-known concept: a tax measure forgiving the companies of burdens normally borne from their own resources, measure satisfying the second criteria from the state aid definition. The Commission also gives some examples of tax measures awarding such an advantage:

- Measures reducing the tax basis (as well as special deductions, special or accelerated depreciation arrangements, inclusion of contingencies in the company balance sheet);
- Measures involving a partial or total reduction of the amount owed as tax (eg. tax exemptions or fiscal credits);
- Deferrals, annulment, even exceptional rescheduling of the debts to the budget.

Moreover, even the tax measures which ultimately are not equivalent to a loss of revenue for the state, as well as tax deferrals and payment deferrals to the social security budget, are also included in the state aid category, as long as this kind of facilities offer the beneficiary companies an advantage – allowing them to use amounts of money that would not be at their disposal otherwise.

3. It is selective

Article 87(1) EC is applied only to the selective measures, ie those which "favour certain activities or the production of some goods". The application of the selection criteria implies the assignation of a distinction between general application measures, ie those measures applicable to all companies and sectors, and the measures generating advantages only for certain companies or sectors. Though, many times it is difficult to put a clear line between the general support measures and the selective ones. The tax measures are difficult to be assessed according to this criterion and to the fact that community law considers that the selectivity of certain tax measures can be justified by "the nature or general sketch of the system" (such measures not being covered by the state aid EU regulations).

4. Affecting the commercial relationships between the Member State

The interventions involving state aid lead to the modification of commercial relationships between the Member States and to the distortion of competition. The two conditions are organically dependent; if granting an aid leads to strengthening the position of an enterprise compared to others acting in the community area, those who did not benefit from an aid are discriminated and affected negatively.

The EC Treaty deals with this in three articles, from 87 to 89 (the former articles 92 – 940. Article 87 (former 92), first paragraph, stipulates that "except the derogations provided herein, there are incompatible with the Common Market all aids granted by the state or from the state resources, regardless of their form, as long as they affect the changes between the Member States, distort or threaten to distort the competition, by favouring certain enterprises or activities".

As absolute forbiddance of aids would be impossible, the second paragraph of Article 87 mentions the situations where aids are compatible with the common market regulations, such as:

- social aids granted to individual consumers, subject to non discrimination related to the origin of such products;
- aids meant to remedy the damage caused by natural disasters or extraordinary events.

Also, the third paragraph mentions the situations where the aids can be considered compatible to the Common Market:

- aids meant to favour the economic development of the areas where life standard is very low or unemployment is very high;
- aids meant to promote the achievement of an important European project, or to remedy serious disturbances of the economy in a Member State;
- aids meant to make easier the development of certain activities or certain economic areas when not affecting the commercial and competitive conditions within the Community;
- aids meant to promote the culture and the preservation of the patrimony when not affecting the commercial and competitive conditions within the Community;
- "other categories of aids determined by the Council's decisions" (issued with a qualified majority, based on the Commission's proposal).

In Romania, the main aid plans involving financial aid are:

- the plan for disadvantaged areas (D areas) offering a series of tax facilities to companies which invest in the area;

- the plan for industrial parks offering a series of tax facilities to those companies specialized in rendering services to parks infrastructure;
- the plan for free areas offering tax facilities to companies which invest in the area.

Compatibility between the Romanian plans of regional aid and the acquis communautaire

The plan of D areas: the geographical coverage of this plan is more reduced than the eight "development areas" established at administrative level NUTS II (in fact, the 35 D areas covers territories corresponding to administrative areas NUTS IV, or even V), the concentration on smaller geographical levels can still be considered acceptable and pursuant to community regulations as long as they can be justified from the perspective of the regional development strategy;

NUTS is the acronym for Nomenclature of Territorial Units for Statistics, created by Eurostat in order to have a coherent and unitary territorial framework. It was used for the community legislation regarding Structural Funds starting with 1988 (at present, this nomenclature includes 15 EU countries, with 78 levels NUTS I, 210 levels NUTS II and 1093 levels NUTS III.

The plan for industrial parks: this plan does not identify particular issues concerning the compatibility with the community regulations. Industrial parks are confined area where they deploy economic activities, scientific research industrial production activities and services, activities of capitalizing the scientific research and/or technological development, with specific facilities, with a view to capitalize the material or human potential of the area. The industrial parks are based on the association in participation between public administration authorities, economic agents, research and development institutes and/or other interested partners. There are certain aspects regarding the future operation of the plan, as there can be problems regarding the compatibility with the community regulations in case the operating companies will offer services on preferential terms to different companies. These "preferential" services can affect the competition, especially if the companies in advantage belong to some "sensitive" sectors.

The plan for free areas: is incompatible with state aid EU regulations, as the income tax exemption for the entire period of existence of the area (of maximum 50 years) represents an operation aid (regarding the daily activity of the respective company and it is not related to supporting a new investment project). This facility is modified in practice so that it is strictly related to an investment project or to the creation of new jobs (modified so that it includes the conditions of approving the operating aids: temporary character, progressive reduction).

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CORPORATE TAX COMPETITION IN UE

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Abstract: The taxation of corporate income creates huge difficulties in an open economy; each government tries to take advantage by undercutting the tax levels of other governments or offering superior levels of public services. The existence of a strong interrelation implies that competition between countries, interested in capturing the tax base of the whole market, becomes more significant because capital will follow the maximisation of profits in the global market. The most competitive countries will have an advantage in terms of total revenue in the short run and a greater rate of economic growth in the medium-long term.

Key words :tax policy ,corporate income tax, CCCTB

Introduction

Fiscal degradation occurs through the erosion of the tax base resulting both from tax competition (the relocation of taxable bases to other countries) and from the development of the underground economy (the relocation of taxable bases towards the black market). The former depends on the differential between effective rates of taxation, the latter on their absolute level. Firms in Europe countries increasingly adopt global strategies and establish overseas sales, marketing, production and research units to cope with new competitive pressures. The notion of control allows all of a company's activities to be attributed to the controlling investor. This means that variables such as a company's turnover, staff or exports are all attributed to the controlling investor and the country from which he or she comes.

Elaborating the tax policy of a state is a very complex act of decision that should be based on the efficiency criterion. Thus, they have in view the reduction of fluctuations, of economic instability, the protection of incomes and the stimulation of economic development. Taxes and the other levies to the state budget modify the initial distribution of incomes, influencing the economic activity, the investments and the consumption. Fiscal degradation affects every major source of taxation (consumption taxes, business taxation, capital income taxation, social contributions), its effects differ greatly according to the nature of the tax concerned. Even consumption taxes, which are harmonized to a much greater extent than direct taxes, are not immune from the risk of fiscal degradation

As foreign investments stimulate the economic growth, the degree of unemployment, the transfer of technology and know-how, the increase of competition and the increase of revenues from taxes and duties, the countries strive to attract investors through their adopted tax policy. The tax policy is essential for all Member States, and the actions of a country can have an influence not only on that country, but also on the neighbouring countries. Therefore, on the European Union unique market, the Member States should cooperate and should not perform actions in different directions. The tax competition can be materialized also in measures considered as non acceptable al the EU level, such as:

- Attracting some funds from abroad and protection at the same time the funs of their own residents;
- The existence of some tax measures that can be considered isolated within the specific of the national economy;
- Granting some tax benefits if there is no effective economic activities, and others.

Using criteria like those mentioned above, the 1999 Primarolo report identified 66 harmful tax measures at the level of the European continent, such as: the regime of distribution centres in Belgium, the regime of coordination centres in the Basque country, the regime of the Luxembourg holdings established pursuant to law in 1929, the regime of the international financial services centre in Dublin, the regime of the Portuguese free areas in Madeira and Azore, the regime of the financial and insurance services centre in Trieste, the rules applicable to foreign insurance companies in Sweden, the tax treatment of the naval companies in Germany, Greece, France, Italy, Netherlands, the regime of the insurance companies in Gibraltar, the deductions for investments in mineral processing in Greenland etc.

The relation between the tax policy and investments establishes that, by its contents, the tax policy can favour the expansion of investments, and the investments, by their volume, have an influence on the tax incomes collected, thus determining the economic growth. Stimulating investments leads to the creation of new production capacities, expansion of the already existing ones, also to the increase of taxable incomes that largely contribute to the formation of state budgetary incomes. As the countries compete among them for investments, on international level, each government will try to implement a taxation rate at a reduced level.

Corporate income tax rate in OECD's European countries (2007)

Country	**Central government corporate income tax rate**[203]	**Adjusted central government corporate income tax**[204]	**Combined corporate income tax**[205]
Austria	25.0	25.0	25.0
Belgium	33.99	33.99	33.99
Czech Republic	24.0	24.0	24.0
Denmark	25.0	25.0	25.0
Finland	26.0	26.0	26.0
France	34.43	34.43	34.43
Germany	26.375(25.0)	21.9	38.9
Greece	25.0	25.0	25.0
Hungary	20.0(16.0)	20.0	20.0
Ireland	12.5	12.5	12.5
Italy	33.0	33.0	33.0
Luxembourg	22.88(22.0)	22.88	30.4
Netherlands	25.5	25.5	25.5
Poland	19.0	19.0	19.0
Portugal	25.0	25.0	26.5
Slovak Republic	19.0	19.0	19.0
Spain	32.5	32.5	32.5
United Kingdom	30.0	30.0	20.0

Source: www.oecd.org/ctp/taxdatabase

Thus, regarding the investors' taxation, we can see a discrepancy between the very low taxation quotas used by the new Member States compared to EU, as well as the existence of a narrow taxation basis (the case of Estonia) which was partially widened with the harmonization of the European economic policy.

The recently adhered countries benefit from a very low effective investment taxation level compared to the one used within the union. In some OECD Member States (the Czech Republic, Hungary, Poland and the Slovak Republic) the indicator tax/GDP decreased in 1999-2002, except for the Czech Republic, where it increased from 38.9 to 39.2. As for Hungary, this indicator decreased from 39.1 to 37.7, in Poland from

[203] This column show the basic central government statutory (flat or top marginal) corporate income tax rate, measured gross of a deduction (if any) for net central tax.
[204] This column show the basic central government statutory corporate income tax rate adjusted to find the net rate where the central government provides a deduction in respect of sub-central income tax.
[205] This column show the basic combined central and sub-central (statutory) corporate income tax rate given by the adjusted central government rate plus the sub-central rate.

35.5 to 34.3 and in Slovakia from 34.4 to 33.8.[206] In the last 14 years, the taxation level in EU decreased by 32%, reaching to 25.8%. These diminutions are especially due to the adhesion of the 10 new Member States in 2004.

Generally, the effect of the expansions in 2004 and 2007[4] was a decrease of the taxation average in EU, as in most of "old" Member States the taxation increased in 1995-2000. Except for Ireland, where it decreased from 33.1% in 1995 to 30.8% in 2005 – being one of the factors of the rapid economic expansion of the "Celtic tiger". Also, in the Netherlands it decreased by 2% from 40.2% in 1995 to 38.2% in 2005. The lowest taxation quotas of the company incomes are in Bulgaria and Cyprus – 10%, Ireland – 12%, Latvia – 15%, Romania – 16%, Lithuania and Hungary – 18%. The highest quotas are in Germany – 38.7%, Italy 37.3%, Malta 35%, and France 34.4%. The 27 EU average is 24.5%, and 28.5% in the Euro area. These taxation differences partially explain the delocalization phenomena of several production units towards to countries with reduced taxation, firstly because the new Member States rely more on indirect taxes rather than the direct ones, and secondly because of the tendency of Central and Eastern European countries especially to increase the competition in order to attract foreign investments. So, these implemented the necessary tax reform in order to modify the taxation of the income of soviet inspired investors[207], thus orienting the economy towards the modern policy trend.

The preparation of a coherent tax strategy should take into consideration the taxes that can occur regarding the operations of each company from the group in different tax jurisdictions, *ie* direct taxes (income tax, dividend tax, non resident income tax) and indirect taxes (VAT, customs taxes, excise taxes). The preponderance of different taxes and duties within the tax strategy is different according to the objectives of the performed project, the particular activity domain of such company and the areas of interest for the future (eg. expansion on international level, reorganization of distribution activity, sale of a business line, obtainment of significant financing, change of shareholders etc.).

The tax race is the reason that makes the EU to show concern towards the countries that establish very low taxation quotas. The taxation effective quotas take into consideration the statutory quotas, and also include aspects related to taxation basis, such as the provisions for accelerated tax depreciation, taxation credits etc. Thus, Baldwin and Krugman[208] published a theoretical pattern of industrial agglomeration s where the tax policy, even under the capital mobility conditions, does not lead to competitive taxation quotas due to rentals. Therefore, there will be no competition of excessive taxation quotas between "center" (old EU Member States) and "outskirts" (new Member States), but a "keen race" among the latter is not to be excluded.

The responsibility of adopting the tax policy within EU comes to the Member States' governments, this being the main reason why the tax harmonization is characterized by inconsistency (in most cases, unanimity is necessary to adopt decisions).

The tax measures providing a significantly low level of effective taxation, including the zero tax, compared to the quotas applied in general within the member States, are considered potentially harmful. The following aspects are considered when assessing the harmful potential of tax measures:

- Analyze if the advantages are granted only to non residents or only concerning the transactions performed by non residents, and if these advantages are protected on the domestic market so that they do not affect the national basis of taxation;
- Pursue if the advantages are granted without performing a significant activity on the Member States' market, thus establishing if these offer such tax advantages;
- Determine if the rules for profit determination regarding the activity of a group of multinational companies "are different from the internationally accepted principles, especially from the rules agreed within OCDE";
- Examine the tax measures from the perspective of the advantages offered, including the cases where the legal provisions are relaxed at the administrative level, in a non transparent way.

[206] Bernardi, L.,Chandler W.S., M.,Gandullia, L., Tax Systems and Tax Reforms in New EU Members, Routledge Studies in the Modern World Economy, London, 2005, page 28.
[207] Martinez-Vazquez, J., McNab, R., The Tax Reform Experiment in Transitional Countries, National Tax Journal, vol 53, no 2, 2000, pages 273-298.
[208] Baldwin, R., Krugman, P., Agglomeration, Integration and Tax Harmonization, National Bureau of Economic Research, working paper no. W9290, 2002, p. 11.

Approaches on tax competition

A great part of the specialty literature, including Wilson[209] deals with the basic pattern of tax competition. This supposes that the production of goods is determined by two factors: work that is immobile between areas and the capital which is mobile. Also, they are considered the zero commercialization costs and the fact that the companies face a perfect competition. Within this pattern, the authorities choose the imposition of the capital in a Nash game.

The standard approach supposes the comparison of balance rates when the capital is involved in migration operations or not. The intermediary result, called balance taxes, was modified and expanded by the researches made in the domain. In one of these approaches, in which the authorities assumed the deviation from the maximization of social satisfaction, the tax competition can improve the prosperity by moving the balance rates closer to the social optimum in a second-best approach.

Ludema şi Wooton[210] studied the impact of globalization on the enhancement of tax competition, starting from the fact that both factors, having an influence on the mobility cost and on the commercialization cost, change. Their conclusion is that the decrease of commercialization costs can attenuate the tax competition, and the reduced mobility causes multiple effects. These authors, together with cu Andersson and Forslid[211], Kind, Midelfart-Knarvik and Schjelderup[212] pointed out that the concentration will give birth to the need of space for deploying the activity. Therefore, the state benefits from the tax applied on rents for the mobile factor, thus compensating the decrease of the commercialization costs.

The growth of European admission is not a new development, the commercial and natural barriers being eliminated several times starting with the 40s. To achieve the comparison, they start from the fact that Europe is divided in two parts: a central part benefiting from developed economies and a peripheral part characterized by developing economies. Also, they established that the aggregate taxation, represented by the incomes from taxes and duties in GDP, suffered modifications as follows: in the 70s, the precipice between outskirts and center increased compared to the 60s, while between 80-90s the difference reduced significantly, the high taxation countries trying to keep up with the other countries where there was a tendency to decrease it.

Both the European Union and OECD[213] (Organization for Economic Co-operation and Development) introduced towards the end of the 90s initiatives meant to stop the tax competition considered as *harmful*. Fuest, Huber and Mintz[214] emphasize in their research that there is a powerful pressure exerted by the increase of competition on the governments concerning the reduction of taxation.

The economic theories support the fact that the authorities have at their disposal two instruments of determination: tax rate and tax basis. In the standard pattern developed by Zodrow and Mieszkowski[215], then resumed by Wilson[216], one instrument is used – the tax on income produced by investing the capital. The introduction of corporative tax in the Zodrow, Mieszkovsky and Wilson pattern supposes its equivalence with a tax on the income brought by investing the capital plus a rent fee of the production factors. In other words, the fixed factor is taxed with a statutory rate plus a rate on the earning brought by the capital (call the effective tax margin rate).

According to Baldwin and Krugman, the European Union countries should establish common rates for taxes in order to avoid a *keen race* [217] with possible effects of welfare for the states adopting low levels. The starting assumption is the following: the other factors of influence being equal, the producers will orient towards the countries with more reduced rates, and the absence of a firm coordination to try to

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[210] Ludema, R., Wooton, I., Economic geography and the fiscal effects of regional integration, CEPR Discussion, Paper 1822.

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[216] Wilson, J D., A Theory of Interregional Tax Competition, Journal of Urban Economics, no. 19, 1986, p. 296-315.

[217] Baldwin, R., Krugman, P., Agglomeration, Integration and Tax Harmonization, National Bureau of Economic Research, working paper no. W9290, 2002, p. 2.

reduce the taxes in order to attract investors will determine a competition that will reduce the taxation even more. In reality, there are factors that allow the differentiation. The welfare countries offer the capital the advantage of the existing solid infrastructure and of accumulation of experience so that they allow a higher taxation. But the balance should be carefully maintained because, if the taxation is too high, the phenomenon of capital migration will occur.

The mobility of labour within the European Union is undoubtedly lower than the mobility of capital: the globalisation and the closer integration of the capital markets and the accelerated penetration of the new communication technologies have done much to encourage the international mobility of activities, in particular in the financial sector. While liberalisation of the financial markets has considerably improved the efficiency of resource allocation and reduced the cost of financing, it has also widened the scope for tax planning and increased the opportunities for tax avoidance and evasion and thus helped to erode the tax base in many countries in the world. This concern was recognised by the Council when it agreed that the liberalisation of capital movements should be accompanied by appropriate tax measures.

The need for a more co-ordinated approach in taxation policy

There is a clear contrast between the need for progress in tax co-ordination and the decisions adopted so far in this area, which has been substantially lagging relative to many other area of European integration. Tax co-ordination at the EU level has suffered from two main obstacles: the decision making rules and the lack of an overall perspective showing the economic and social downside of failing to reach decisions.

Under EU law Member States are largely free to design their direct tax systems so as to meet their domestic policy objectives and requirements. However, national tax rules designed solely or primarily with the domestic situation in mind may give rise to incoherent tax treatment when applied in a cross-border context. An individual or corporate taxpayer who is in a cross-border situation may suffer discrimination or double taxation or face additional compliance costs.

Coordination and corporate tax base harmonisation : this initiative is complementary to the Commission's ongoing legislative initiatives in the direct tax area. The Commission believes that the only systematic way to address the underlying tax obstacles which exist for corporate taxpayers operating in more than one Member State is to provide multinational groups with a common consolidated corporate tax base for their EU-wide activities. The Commission has announced its intention to present a comprehensive legislative proposal for such a Common Consolidated Corporate Tax Base (CCCTB) in 2008.

However, the CCCTB will only apply to companies which are eligible and opt for it. There is still a more general need to ensure better co-ordination for the benefit of individual and corporate taxpayers and to prevent erosion of Member States' tax bases through mismatches and abuse.

This initiative does not aim to replace existing national tax systems by a uniform Community system. It seeks to improve the functioning of the 27 national taxation systems in the Internal Market by improving cooperation between Member States and better coordination of their rules.

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REGARDS ABOUT THE STATE INTERVENTION IN IMPROVING THE NEGATIVE EXTERNALITIES OF THE ENVIRONMENT

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Abstract: The environment has an important role in the economic activity and in achieving a sustainable economic growth, this is way the article aims to present, starting from the economical principles of the environmental policies, the possibilities that the state has to influence the economical activity in the sense of diminishing it's negative impact upon the environment. The authors have presented other economic principles then the polluter payes that can be used by the state to influence the environment policies. It is stated that applying the economic incentives supposes the acceptance of the economic instruments used by the organs of the competent administrations, the polluters community and lately by the non working organisations that are more and more affected by the damages produces upon the environment.

Key words: environment, externality, environment policy

The European Union Treaty, adopted in 1991 at Maastricht and entered in function two year later, is stating in the exclusive act as main objective, the integration of the environment in all types of European Union politics introducing amoung the polluator-payer principle the subsidiary principle and the prudence principle.

The Amsterdam Treaty is focusing on the adopting procedures of the environmental communion acts, these assuring in the European Union an harmonious, balanced and sustainable development of the economic activities.

The prudence principle was introduced in Germany in 1970 when the financial planning had a great importance. By appling this the state has to realize a carefull planning in order to avoid the environmental damages. In Germany this principle was applied in 1980 against the acid rains, global warming and the North See pollution. After it's introduction in the European Union Treaty it has been adopted in different international agrements like the Bergen Declaration of the United Nation Economic Commision for Europa and at Rio Conference. Starting from a radical definition the principle is including notions like:

- Preventive action: the existence of a minimax strategy that supposes the minimization of the negative effects. In case of uncertainty these actions are recommended because they are less expenses and have as results the limitation of damages;
- Adequacy of the damage spreading: every action has to be analysed from a double perspective – cost and efficacy;
- Paying the ecology debts: based on the extention of the notion of responsability of the current generation that id producing damages upon the futures ones.

In co-operation with this principle their are others like:

- the efficiency principle which has as objective finding the ways to achieve the environmental goals by minimizing the costs, which favors the utilisation of the economic instruments to internalise the costs;
- the equity principle is justified by the transfer of the revenues obtained from taxes, penalities and fines suported by the ones that are plluting the environment, revenus that are transfered in favor of the poor regions or to the social community affected by the damages.

The subsidiary principle is based on the maerican experience which supposes a precise definition of the different levels of intervention. In this sense the European Commission is defining the actors (the community, the local, regional ar international authorities, the firms, the public and the consumers) and the actions (economical growth, research, communication, market).

In Romania[218] the frame law regarding the environmen protection is setteling the principles and the stategic elements that are leading to sustainable growth: the principle of precaution in taking decisions, the prevention principle, the reduction and the integrated control of the pollution through using the best available techniques for the activities that are producing meaningful pollution, polluator-payer principle.

Putting in practice these principles is bases on different mechanisms. One one side we have the ones that think that the state should regulate the activities of the resources users or of the pollution factors, or limit the range of action of these one's. These limits can be used in simultaneously with other types of restrictions like fines and penalities in case the threshold are overpassed. On the other side we have the ones that think that the state intervention is leading to less satisfactory results then in the absence of any regulations. In this case the state can use the economic incentives.

The goal of these stimulants is to force the ***polluators*** to reduce the toxic emissions through: taxes,even financial aids or by creating the market for a negociable passes, that are offering the choice between:

- diminishing the own level of pollution;
- maintaining a high level of polltion but paying others to reduce their own level under the legal limit.

But will the economic incentives have effects in the developing countries?

First, the regulations regarding the environment in the develop countries are stating fines and/or jail time in case of fraude. In most of the developing countries the justice is not often brought into discussion. This atitude is well knowed but little is done to change it[219].

Second, these regulations are not applied in the developing countries because it is almost impossible to control all the dispersed operations that are causing pollution.

In the developing countries there is another problem that take the form of the gap between the level of the elaboration, control and practicability costs of the regulations, on one side, and on the either side, we have the constraints of the budget and of the administrative means existing in these countries. In the develop countries the environment regulations assume a high degree of competence and fiscal power of the local and central authorities that are decreasing the elaboration, control and practicability costs.

Third, the penalties are set to an tolerating level and are not able to change the behavior of the traspassers. This is way in the developing countries the possibility to detect a violation of the regulations regarding the environment is almost nule and furthermore the penalty level should be fixed higher then the advantage obtained by infringing. Most times the penalties level is not fixed according to inflation this is way their level is considered negligible.

Fourth, in the developing countries the regulations are often influenced by the individual behaviors according to their own profit. It is in the best interest of the transpasser to pay part of the penalty to the clerk, like a small "attention", the later beeing poorly remunerate[220]. Increasing the penalties or intensifying the control is leading towards the increase of the compensations rather then to the decrease of the degradation of the environment.

We state that the regulations are not enough to reduce the pollution and they should be combine with other types of instruments.

To better use the economic instruments there are some conditions that should be taken into account, condition presented in the following table, and that are including: a suitable knowledge base, a solid judicial structure, competitional markets, administrative capacity and a proper policy.

The conditions are different putting into light the problems that are met in the developing countries.

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[218] The Law for the environment protection no. 137/1995, published in the Official Monitor 512/22 October 1999

[219] OCDE, L'utilisation d'instruments économique pour la protection de l'environment dans les payes en développement, 1989

[220] T. Panayoton, Harvard Institute for International Development, 1989

Tabel no. 1 Different methods to efficiently use the economic instruments in the environment policy

Conditions	Essential characteristic
Knowledge	the way the economic activity is affecting the environment; the way the environment is affecting the economic environment; the way the environment programs are made up and put up in practice
Judicial structure	the guarantee of the existance of the property rights indisputable and executory upon the resources; ascribing the judicial competences for the use of the economic instruments;
Competitional markets	the existence of a resonably number of buyers and sellers; the price should be establish according to the rareness of the resources
Administrative capacity	the capacity to realize and put in practice programs of economic incitation; the capacity to control the concordance of the programs; the capacity to make the laws and rules obeyed
Policy practice	receptivity to the environment improvement and protection policies

Another important element in putting in practice the mechanism of reglementation of pollution is the system of the property right. This system supposes that the owners should be able to transfer the properties, control the access to the resources and endure the costs tied to their management.

The regime of the common property where all the access rights are very good define can be receptive to the economic incentives. In the developing countries these systems can act upon the demographic growth, the technological evolution and the market of the products base on natural resources.

Both in the develop countries and developing countires (especially amoung the Eastern European countries) it has been proved that the administrators that are under the state administration are not taken accountable when it comes to the cost of the environment pollution.

But in order for the economic incentives to be efficient, the prices and the competition have to play an important part in the economic structure and the decisions made by the actors that are polluting by creating the competitional market. In this case the economic incentives are more efficient then the direct regulations (if there is a large number of sellers and buyers). On other markets (for example credit markets) the responsability and the inssurance are playing an essential role in the use of the protection programs of the environment. On these market the enterprises have difficulties in creating the sources use to sustain the environmental programs.

From the administrative point of view we consider that we should take into consideration some condition, that are according to the capacity of the public power to:

- draw up and administrate the instruments;
- control the lay on of the instruments;
- applying the conditions for the use of the instruments;
- modifying the instruments according to the circumstance.

In conclusion, the policymakers should dispose by enough financial resources and personnel in order to put in practice the propose instruments. This implies a compromise between a simple model which implies limitative efforts but will not produce the desired reuslts and a complex model capabile to realize the optimal result but it is over the administrative capacity.

Applying the economic incentives supposes the acceptance of the economic instruments used by the organs of the competent administrations, the polluters community and lately by the non working organisations that are more and more affected by the damages produces upon the environment.

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THE ANALYSIS OF THE RELATION BETWEEN THE EVOLUTION OF THE BET INDEX AND THE MAIN MACROECONOMIC VARIABLES IN ROMANIA (1997-2008)

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Abstract: Starting from the conclusions which result from conducting some similar empirical studies on the great stock markets, in this work, we have set as our goal to analyze the return series behaviour of the main index of the Bucharest Stock Exchange (BSE) - the BET index, during different periods of time, compared to the evolution of some macroeconomic variables, like interbank interest rates, inflation rate or unemployment rate. The results confirm that there is a weak relation between these variables, in what monthly data are concerned.

Keywords: stock market, macroeconomic variables, empirical study

Analysis of the evolution of the BET index between the 19th of September, 1997 and the 7th of February, 2008

The evolution of the most important index on the Romanian stock market can be looked at on several time horizons, depending on the envisaged objective. Yet, in general, a fertile image from the point of view of the information contribution with intuititive character[221], of the evolution of an index, is given by the graphic of point levels recorded by this one, ever since its launching. Thus, by dint of a simple graphical representation, most of the descriptive characteristics of the index and, indirectly, of the Romanian stock market, can be identified: evolution tendencies, the intensity of ascending and descending gaps, possible annualized cycles, the delimitations between the phases of the stock exchange cycle (accumulation, growth, discharge, decline), possible standard formations (patterns), etc.

Figure 1 represents, on a logarithmical scale, the evolution of the BET index, since its launch on the 19th of September, 1997, until the 21st of March, 2008, the evolution comprising a number of 2.602 daily stock exchange transactions. In the graphic, we have delimited the main subperiods of homogenous evolution, corresponding to the BET index, respectively secondary trend turning points, the main trend being obviously a growing one, starting with 1999. By looking at the graphical representation, one can talk about the existence of several distinctive periods in the evolution of the index, delimited as follows[222:]

1. September 1997 – October 1998: accelerated descending trend, with a -53 degree gap (1);
2. November 1998 - July 2001: moderated ascending trend with a 17,61 degree gap (2);
3. August 2001 – May 2005: accelerated ascending trend with a 35 degree gap (3,4);
4. June 2005 – September 2007: moderated ascending trend with a 21,41 degree gap (5);
5. October 2007 – March 2008: accelerated descending trend with a -46 degree gap (6).

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[221] We can note that "ardent" adepts of the technical or charter analysis consider the graphic of a financial asset as a source of information which is enough to undertake the most sophisticated analyses, due to the fact that it comprises all available or not available information for the public, the past, present and future ones.

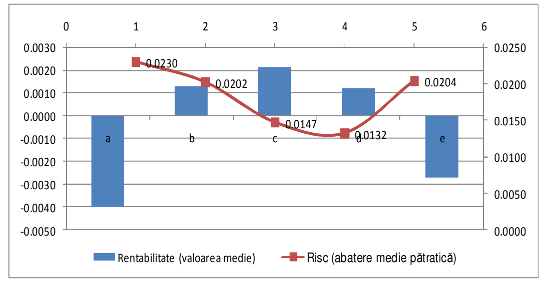
[222] At the end of the row which enumerates the subperiods, we have added in brackets the number representing those subperiods in figure 1.

If we were to characterize the five subperiods in relation to the classical phases of a stock exchange cycle, we can very easily place subperiod *a)* into the decline phase, subperiod *b)* in the accumulation phase, and subperiod *c)* in the growth phase. Somehow more subjective would be the placing of subperiod *d)*, in our opinion it represents a top discharge phase, or in the best case, a late phase of the growth period. Closely correlated to the evolution on international markets, subperiod *e)* obviously represents an adjustment tendency.

Figure 1: BET index evolution between September 1997 and February 2008

Source: Author's own manipulations in MetaStock.

Figure 2: The evolution of the risk-return relation in the case of the BET index



Source: Author's own manipulations in MS Excel

In order to quantify the differences concerning these evolution subperiods of the stock market, we will analyze the behaviour of the daily rentabilities of the index, by calculating the main characteristics of their distribution. By synthesising the values of the main characteristics

Table 1: Characteristics of the daily return series associated with the BET index on subperiods

	All	Subper. a	Subper. b	Subper. c	Subper. d	Subper. e
No. Returns	2,601	280	701	924	579	117
Average Val.	0.0007	-0.0040	0.0013	0.0021	0.0012	-0.0027
Median Val.	0.0004	-0.0033	0.0000	0.0011	0.0005	-0.0008
Maximum Val.	0.1063	0.1011	0.1063	0.0992	0.0483	0.0461
Minimum Val.	-0.1122	-0.0928	-0.0896	-0.1122	-0.0551	-0.0756
Strd. deviation	0.0179	0.0230	0.0202	0.0147	0.0132	0.0204
Skewness	0.0769	-0.0543	0.4442	-0.0362	-0.1443	-0.4567
Kurtosis	7.3870	6.2958	7.8042	11.1740	1.4051	0.8986

Source: Author's own manipulations.

of the daily logarithmic rentabilities distributions, within each evolution subperiod and on its whole, the results were the values comprised in table one.

By watching the average values presented in the mentioned table, there is also a confirmation of the delimitation in numbers of the two subperiods of adjustments/decreases (*a* and *e*) reported to those of accumulation/increase (*b*,*c* and *d*), also differentiated according to the intensity of the previous by gap evaluated tendencies. A decrease of the volatility of the stock market is also confirmed, it is being quantified by the evolution of standard deviation values associated to daily rentabilities, but also through the reduction of the amplitude between extreme rentabilities (maximum-minimum). At the same time, it is being observed that, in the case of market decrease subperiods (*a* and *e*) an intensification of the daily average volatility can be recorded, resulted according to the documented realities in case of most stock exchanges.

If we look at the average value and the standard deviation associated to the daily rentabilities of the five subperiods from the evolution of the BET index as estimates of return series and risk, we can analyze the evolution of the risk-return series relation, by using figure number 2.

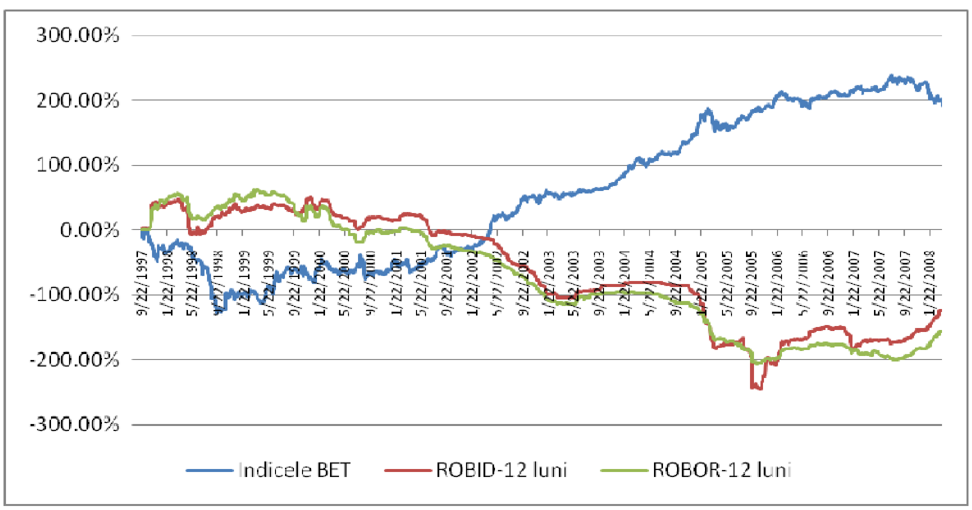
As one can notice, there is an inverse relation between the two, the subperiods *a* and *e*, which have generated significant negative rentabilities, *b* recorded the highest volatility, while in the case of the subperiods *c* and *d*, the average positive rentabilities were accompanied by small volatility values. Apparently contradictory, the inverse relation between the two concepts can be explained by dint of reasonings associated to the evaluation model of equilibrium assets (CAPM): the increase of the market risk leads to the increase of expected return series and indirectly to the fall of share prices, for shares which were overvalued.

The relation between the stock market and the interest rate level in the economy

As it resulted from the conclusions of empirical studies which investigated the relation between the stock market and macroeconomic variables, the evolution of the interest rates in economy represents a potential candidate for the role of causing factor. In this respect, we have chosen to analyze the evolution of the daily interbank interest rates in Romania, in the period between the 19th of September, 1997 and the 21st of March, 2008, on available maturities: a week (1W), a month (1M), three months (3M), six months (6M), nine months (9M) and a year (12M), both for passive rates (ROBID or P) and for active ones (ROBOR or A).

In order to be able to analyze the possible relation to the evolutions of the Romanian stock market, we will successively transform the initial chronological series of the interest rates in series of percental modifications. By estimating the correlation between the evolution of the rentabilities recorded by the BET index and the evolutions of interbank interest rates on different maturities we could notice the absence of any significant correlation. The explanation for the small degree of correlation of the two variables can consist of the fact that the relation between the two phenomena is not manifest on the level of daily data, but on longer time horizons or that the relation is, nevertheless, also manifest on the level of daily data, but in a lagging manner. Due to this reason, we have represented in figure number 3 the evolution of cumulated return series, associated to the BET index and to the ROBID and ROBOR rates, with a 1 year

Figure 3: Evolution of the cumulated return associated with the BET index and the interbank interest rates ROBID and ROBOR with a maturity of 12 months



Source: Author's own manipulations.

maturity, in order to be able to compare on the level of the entire analyzed period the possible connections between the three variables.

From the above graphic representation one can clearly see the manifestation of an inverse relation between

Table 3: Estimațiile parametrilor regresiei liniare dintre rentabilitățile zilnice ale indicelui BET și modificările relative succesive ale ratelor interbancare ale dobânzii active

	A1W	A1M	A3M	A6M	A9M	A12M
a (intercept)	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010
t-stat	2.8600	2.8600	2.8500	2.8200	2.7700	2.8300
ß (panta)	0.0013	-0.0043	-0.0085	-0.0249	-0.0472	-0.0227
t-stat	0.2200	-0.3400	-0.3900	-0.8600	-1.4500	-1.3900
R^2	0.0000	0.0000	0.0000	0.0003	0.0009	0.0008

Source: Author's own manipulations.

the ascending evolution of the Romanian stock market and the evolution of interbank interest rates during the entire analyzed period (19th of September, 1997 - 21st of March, 2008), the graphics of the two phenomena appearing like a double mirror image. Thus, we can assert that the result obtained in the case of the other stock markets is being confirmed, that means a negative correlation of the stock market with interest rates in the economy, with the mention that this relation is not significant on the daily evolution level.

Although such a representation is extremely suggestive, stock exchange investors with a shorter investment horizon cannot use it in order to formulate forecasts based on this relation between the stock exchange and the interest rates. In order to do this, statistical modellising of these connections take place, their performance being tested.

In the following, we will analyze the utility of modellising a regression on daily data regressions level between the two variables, starting from the premise of a linear relation. Tables no. 2 and 3 contain the estimates of the regression parameters modelled between the series of daily rentabilities of the BET index and the series of relative successive modifications of the active and passive interest rates.

Table 2: Estimates of the parameters associated with the linear regression between the daily return series of the BET index and the subsequent daily changes of the passive interbank interest rate

	P1W	P1M	P3M	P6M	P9M	P12M
a (intercept)	0.0010	0.0010	0.0010	0.0010	0.0010	0.0010
t-stat	2.8500	2.8700	2.8800	2.8800	2.8800	2.8700
ß (panta)	0.0014	0.0075	0.0142	0.0105	0.0090	0.0089
t-stat	0.3400	0.6900	0.7700	0.5400	0.3800	0.6100
R^2	0.0000	0.0002	0.0002	0.0001	0.0000	0.0001

Source: Author's own manipulations.

Thus, it is being confirmed that, both in the case of passive, as well as in the case of active interests, very little of the daily variations associated to the BET index are applied, the most significant influences being exerted by A9M (0,09%) and A12M (0,08%). At the same time, it is being confirmed that, between the index and passive rates there is a direct relation, while in the case of active rates, excepting A1W, an inverse relation is being recorded.

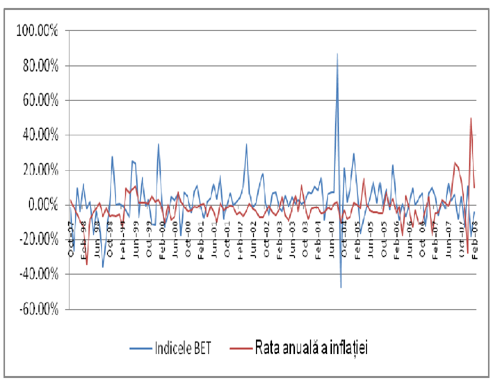
On the other hand, by repeted attempts, it is being observed that, when we estimate the rentabilities of the index according to the lagged series of the interest rates, the 8 period lag is being frequently remarked as having a superiour explaining power. For instance, in the case A12m(-8), the result for the gap parameter of the regression is an estimate of -0,0409, this time, a significant value (t-stat = -2,51), which leads to a coefficient of determination R^2=0,27%.

The relation between the stock market, the inflation rate and the unemployment rate

Within this section, we will analyze the relation between the monthly rentabilities of the BET index and the monthly percentual modifications of the annualized inflation rate (in the period between between September 1997 – February 2008, sample of 125 monthly observations) and of the unemployment rate (in the period between February 2002 – February 2008, sample of 73 monthly observations). In figure no. 4, we have represented the monthly percentual evolution of the BET index, compared to the monthly variations of the annualized inflation rate. As one can notice, there is no significant correlation between the two and, moreover, there are periods in which the high volatility, associated to a variable, cannot be found in the volatility of the other one (in the period August-September 2004, in the case of the BET index, respectively by the end of the year 2007 and the beginning of the year 2008 in what inflation is concerned).

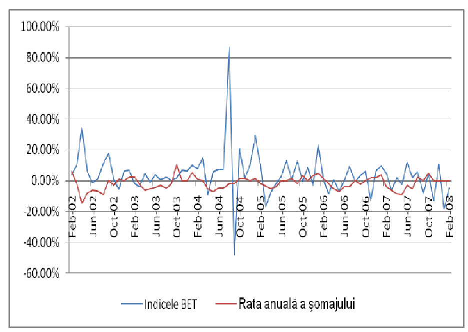
As a confirmation, the estimate of a liniar regression between the BET indexand the inflation rate, analyzed on monthly data ($R_{BET}=a+b*\Delta^{\%}Rate_{of\ inflation}$) does not lead to significant results: a=0.0245 (t-stat=1.92), b=-0.0677 (t-stat=-0.46) şi R^2=0,17%. By extending the analysis on the lagged series of the two variables, after successive attempts, we noticed the fact that a larger part of the variation of the BET index is explained by the modifications of the inflation rate 14 months ago, there being an inverse relation between the two. By estimating the parameters of the regression, in this case we obtained the following values: a=0.0343 (t-stat=1.81), b=-0.4222 (t-stat=-2.04) şi R^2=2.80%.

Figure 4: Monthly percentage changes of the BET Index and the annualized inflation rate



Source: Author's own manipulations.

Figure 5: Monthly percentage changes of the BET Index and the annualized unemployment rate



Source: Author's own manipulations.

A likely situation can be found also in the case of the relation of the stock market with the unemployment rate. The comparative evolution of the variations of the two variables is being presented in figure no. 5. The estimation of a linear regression between the BET index and the unemployment rate on monthly data ($R_{BET}=a+b*\Delta^{\%}Rate_{of\ unemployment}$) does not lead, either, to the obtaining of a significant relation. Thus, in the case of the two parameters, the following values can be found: a=0.0413 (t-stat=2.25), b=0.0093 (t-stat=0.022) and R^2=0,17%. Again, trying some models by using lagged series leads to a bettering of the significance of the relation, for the unemployment rate, lagging by 10 months with regard to the rentabilities of the BET index the following parameters being obtained: a=0.0522 (t-stat=2,69), b=1,1286 (2,57) and R^2=8,33%. As a result, in this situation, there is a direct realtion between the two phenomena, the parameters of the linear regression being significant from the statistical point of view.

Also, the fact that the evolutions of volatility associated to the stock market cannot be found, not even lagged, in the case of the evolution of the unemployment rate, balances the scale even more in favour of the lack of a significant relation between the two variables.

By taking into account the manifestation of a first degree self-correlation within the framework of the rentabilities of the BET index, we have estimated the parameters of a model AR(1) (in this case, the BETSOM(-1) variable). to which we have added as an exogenous variable the monthly unemployment rate variation, with a 10 month lag (SOM(-10)). Table no. 9 presents the results of the estimate of this regression. In the case of this regression, the value of the adjusted determination coefficient R^2 can be remarked (19,87%), which is by far superiour to all other regressions, which means that approximately a

Table 4: Estimation of the parameters of the regression between monthly differences of the BET index, its lagged series and the 10 months lagged series of the unemployment rate

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.065291	0.018610	3.508316	0.0009
BETSOM(-1)	-0.355525	0.113642	-3.128470	0.0027
SOM(-10)	1.162931	0.409698	2.838511	0.0062

R-squared	0.224625	Mean dependent var	0.035279
Adjusted R-squared	0.198779	S.D. dependent var	0.151257
S.E. of regression	0.135392	Akaike info criterion	-1.114836
Sum squared resid	1.099860	Schwarz criterion	-1.012782
Log likelihood	38.11735	F-statistic	8.690939
Durbin-Watson stat	1.920872	Prob(F-statistic)	0.000485

Source: Author's own manipulations in Eviews 5.

fifth of the monthly variations of the BET index are being explained by the two exogenous variables: the series of the monthly variations of the BET index, with a one-month lag, respectively the series of monthly variations of the unemployment rate, with a ten-month lag.

Conclusions

As we could see, from the three analyzed macroeconomic variables, only the inflation rate and the unemployment rate have lead to the estimation of significant relations to the variations of the stock market. Thus, between the monthly variations of the BET index at a given time and the monthly variation of the annualized inflation rate 14 months ago, an inverse relation can be observed, which results from most of empirical studies conducted in this direction. In the case of unemployment rate, the relation between the two variables is a direct one, the reduction of the unemployment rate leading to the reduction of the return series of the BET index. Apparently paradoxical, this relation can be explained by the fact that, on a stock market with a long-time growth tendency, the continuous shrinking of the unemployment rate is associated with the possibility of the over-heating of the economy and with an emergence of inflationist pressures. In any case, the two macroeconomic variables account only for 2,8%, respectively 8,33% from the variations of the BET index, significantly reducing their influence upon stock market evolution.

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BANKS

THE ANALYSIS OF THE CREDIT RISKS IN THE BANKING ACTIVITY

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Abstract: We could say that banking risk is a phenomenon which appears during the banking operations and which induces negative effects to those activities by the deterioration of the business' quality, the elimination of profit and even losses are registered. In this paper I shall present in short the way in which the financial and nonfinancial analysis is made in the Romanian banking system, as instruments of quantification of the credits risks and as a way of managing it.

Whatever the level of the taken risks the loss can be minimized if the creditation operation are organized and managed in a professional way.

Keywords: the crdit risk, the financial performance, the SWOT analyses, asset classification.

The banking risk can be provoked inside the bank by clients or by the external competitive medium. The conditions which lead to the emergence of the banking risks are determined by the manifestation of a complex of factors which depend on:

- the general evolution of the economy;
- changes connected to the structure of the bank;
- the political and economical conditions.

The analysis of the banking risks implies, first of all, the complete onset of the main categories of inner risks like: the lending risk, the liquidation risk, the credit solvency risk, the interest rate risk, the currency risk. The analysis of the inner banking risks is completed by the evaluation of the external risks, like those associated with the delivery process of goods and services (technological risk, product risk) or with the business medium (the competition risk, the settlement risk) on which the banks have a limited control.

There are a lot of banking risks and they are multidimensional and they have to be grouped and defined as well as possible in prospects of meaning, pursuing and controlling them. The management of risks and the management of the assets and passives which address first of all, to the quantifiable risks as:

- the financial risks connected to the variation of the rate of interest, the risks connected to the insurance of liquidities and the risks of losses in funds operations;
- the credit risk which expresses the losses caused by the impossibility of the clients to acquit the obligations to the bank, this being considered to be a commercial risk emerging from choosing the friends and clients.

The bank has a purpose the quantification of risk, using international known methods, procedures and techniques, taking into consideration the main elements like:

- The client's financial performance;
- The structure of the assets or of the made investments;
- The quality and structure of the refund source;
- The quality and structure of the guaranties.

The quantification analysis of the risk of the credit has as a purpose the knowledge about the client's evolution in the past periods and the prognosis about his future performances, so that we could make a prognostic on his viability.

The analysis of the quality and the classification of the credit portfolio are made considering the evolution of the lent person's financial performances, as well as his debt service and his ability to honour his debts in time.

The framing of the economical agents in one of the five categories of the financial performance marked from A to E is made on the basis of the financial analysis of the data provided by the accountant documents solicited from the bank's client's. This thing allows the assignment of a scoring to the quantificable criteria, which then corroborate with the analysis results of the unquantifiable criteria, that is to say the nonfinancial analysis. Following the analysis of the financial performance according to the main liquidity indicators, solvency, capitalization and the debts service, the credits are classified: standard credits, under observation, under standard, questionable and loss. The main used method of nonfinancial analysis in the SWOT method (strenghts, weaknesses, opportunities and threats).

Following the classification of the credits in order to limit the risks in the crediting activity and the keep to minimum level of solvency, the banks constitute peculiar victuals of risk besides the general reserve of the credit risk. This is made by the application of a percent on the balance on current account of the given credits. They also have recourse to the cession of the risks by striking assurances with specialized institution in order to cover the risk of loss to the credits portfolio.

When giving credits, the banks take care that the solicitors present credibility for their payment at the dead line. All banks analyze the reliability of their clients and ask the guarantee of the credits in the conditions established by the credit laws. For limiting the credit risk, the central bank can establish the following rules:

- limitation of the credit for one debtor.
- limitation of large credits
- provision making

The Romanian norms establish that the credits given by a bank to one sole debtor cannot pass 20% of their own funds. Moreover, there are restrained the credits given to persons that have special relations to the bank. For instance, the amount of credits that can be given by a bank to their stock holders is of minimum 20% of its own funds.

According to the careful norms of BNR the total amount of the big credits given to the debtors cannot overpass 8 times the level of the company's own funds. The big credits can be given only upon a decision taken in unanimity by the Committee of Directors, and the amount must be communicated by BNR.

The credit risk can be defined as the interest risk, the credit or both not being paid back at falling due or partially reimbursed. The incapacity to reimburse the credit can come from some internal factors of the company, as:

- quality and morality of management;
- the company's incapacity to adapt to the market;
- the time in which the debentures from the beneficiaries can determine financial blockages and therefore production troubles in the company's activity.

The credit risk management implies:

Preventing the risk that has 2 aspects: dividing the risk that has as objective the dissipation of risks so that the law of probabilities reduces the possibility of some losses and the constitution of some guarantees that must be seen as a subsidiary insurance, the decision to give the credit being taken according to the possibility of credit reimbursement that results from the analysis on the business that the bank is crediting.

The measurement of the risk is done in 2 stages. The first one is the establishment of some maximum limits of the risk assets compared to the own funds of the bank by recalculating the solvability rate (COOK norm). The second step is the measurement of the risks to which the bank is exposed by the periodical evaluation of the credit portfolio. The measurement of the credit risk in order to constitute the risk provisions imposes the evaluation of the financial performances of all bank clients based on their balances.

a) The duty service (client's capacity to fulfill their duties at falling due). This might be:

- good - if the rates and interests are paid on falling due with a delay of maximum 7 days
- poor, if rates and interests are paid on falling due with a delay of up to 30 days
- inadequate - if rates and interests are paid on falling due with a delay of more than 30 days

b) The financial performance (evaluated based on some criteria established by each bank). The financial performance reflects the economic potential of an economic entity obtained after the analysis of an assembly of economical and financial indicators (cash, solvability indicators, benefit mini indicators, activity indicators) calculated based on the data from the annual financial situations, through which one appreciates the client's financial reliability. Besides the financial standing indicators analysis, the qualitative factors are also used for the appreciation of the financial performances: the company's management quality, marketing policy - competence, market position, distribution and other aspects related to the credit history and the stock holder quality.

The performance is calculated based on some points by giving them for each analyzed aspect, calculating an average of the quantity component and one for the quality component.

After the evaluation of the financial performances of the clients, the credits will be enclosed in one of the following categories:

- A category or Standard credits
- B category or In observation
- C category or Substandard
- D category or Doubtful
- E category or Loss

For individuals, the classification of the portfolio of credits is done according to the duty services.

c) Initiating the legal procedure

3. The actual management of the risk lies in the use of some techniques as the revision of credits through which the bank can lesser or eliminate the losses or can save the credit.

The revision of credits, besides reducing the losses, allows the solving of some other problems as:

- ensure the uniform application of the credit documents
- verifies if the credit politics, bank's norms and bank norms are respected
- the information of the bank management about the credit portfolio situation.

Another salvation technique is the debenture sale by bank of a trusty bank that takes care of the debenture forfeiture, transforming them in money for a commission.

Credit risk is the most common cause of bank failures, causing virtually all regulatory environments to prescribe minimum standards for credit risk management. The basis of sound credit risk management is the identification of existing and potential risk inehrent in landing activities. Specific credit risk management measures typically include three kinds of policies:

- policies to limit or reduce credit risk;
- Policies of asset classification;
- Policies of loss provisioning, or the making of allowances at a level adequate to absorbed anticipate loss not only on the loan portfolio, but also on all other assets that are subject to losses.

Policies to limit or reduce credit risk. Bank regulators have traditionally paid close attention to risk concentration to banks. A regulator's objectives in credit risk management is to prevent banks from relying excessively on a large borrower or group of borrowers, but not to dictate to whom banks may or may not llend.Modern prudential regulations usually stipulates theta bank not make investments, grant large loans, or extend other credit facilities to any entities in excess of an amount that represents a prescribed percentage of the bank's capital and reserves.

Most cou8ntries impose a single-customer exposure. The Basel Committee on Banking Supervision has recommended a maximum of 25 percent, with intention to reducing it as soon as this is practical.

Lending to connected parties is a particularly dangerous form of credit risk exposure. Related parties typically include a bank's parent, major shareholders, subsidiaries, affiliate companies, directors and executive officers. Most regulator establish limits for aggregate lending to related parties, typically stipulated that total lending to related parties cannot exceed a certain percentage of tier 1 or total of qualifying capital. A prudent banking practice wood requires all loans to related parties to be approved by the board.

Asset classification is a key risk management tool, a process whereby an asset is assigned a credit risk grade, which is determined by the likelihood that debt obligations will be serviced and debt liquidated according to contract terms. Assets are classified of the time of the origination and than reviewed and reclassified is necessary a few times per year.

Assets classified as “pass” or “watch” are typically reviewed twice per year, while critical assets are reviewed at least each quarter.

Standard rules for asset classification that are currently used in the most developed countries, according to the international standards, are:

Standard or pass. Loans and other assets that are fully secured by cash or cash substitutes are usually classified as standard regardless of arrears or other adverse credit factors.

In some advanced banking systems, banks use more than one rating level for assets in the pass category. The objective of such at practice is to improve the quality of portfolio analysis and trend analysis to be able to better differentiate among credits of different types, and to improve the understanding of the relationship between profitability and the rating level.

Banks engaged in international lending face additional risks, the most important of which are country, or sovereign, and transfer risks. The former encompass the entire spectrum of risk posed by the macroeconomic, political and social environment of a country that may affect the performance of borrowers. Transfer risks are the difficulties that a borrower might have in obtaining the foreign exchange needed to service a bank’s loan.

Specially mentioned or watch. In this categories are includes:

- Credit given through on inadequate loan agreement, a lack of control over collateral, or without proper documentation.
- Loans to borrowers operating under economic or market conditions that may negatively affect the borrower.
- Borrowers with of adverse trend in their operations or an unbalanced position in the balance sheet.

Substandard. This classification indicates well – defined credit weaknesses that jeopardize debit service capacity , in particular when the primary source of repayment are insufficient and the bank must look to secondary sources for repayment, such as collateral, the sell of the fixed asset, refinancing, or fresh capital.

*Doubtful.*Such *a*ssts have the same weaknesses as substandard assets, but their collection in full is questionable on the basis of existing facts. Nonperforming assets that are at least 180 days past due are also classified as doubtful, unless they are sufficiently secured.

Loss. This classification does not mean that an asset has absolutely no recovery or salvage value, but rather that it is neither practical nor desirable to defer the process of writing it of, even through partial recovery may possible in the future.

Loan Loss Provisioning Policy

Assets classification provides a bases for determining an adequate level of provisions for possible loan losses.. Such provisions, together with general loss reserves that are normally counted as tier 2 capital and are not and are not assigned to specific assets, form the basis for establishing a bank’s capacity to absorb losses. The established level of mandatory provision is normally determined by certain statistics. In countries where the legal framework for debit recovery is highly developed, such as the United States, studies have demonstrated that approximately 10 percent of substandard assets eventually deteriorate into loss. An analysis of adequacy of the overall allowance for losses should include the following aspects:

- A survey of the bank’s existing provisioning policy;
- An overview of asset classification procedures and the review process, including the time allotted for review;
- Any current factors that are likely to cause losses associated with a bank’s portfolio and that differ from historical experience of loss;
- Trend analyses which service highlight any increases in overdue loans and the impact of such increases;

- An opinion of the adequacy of the current policy and. On the basis of the loans reviewed extrapolation of additional provisions necessary to bring the bank's total loan-loss provision to a level in line with International Accounting Standards (IAS).

At present, the risks represent an ever more increased role in the bank management activity, and without a corresponding identification and prevention policy applied to them the bank can be exposed to certain situation of an utmost gravity.

Any economical activity involves a risk, but in the case of the banks, the dictum "risk is my job" fits like a glove because, indeed, what could be more risky than to collect money available from the market and to lend it to various clients-physical and juridical persons- for long periods of time, being mainly based on promises and provisions regarding the business/audited project and less on the collaterals (non-cash) which are either insufficient., or very hard or even impossible to be recovered.

The quantification of the risk and the company uncertainty, as well as the determination of the influences that they have over the economical phenomena, represent a permanent problem for the decision factors which coordinate the activity in companies.

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THE DIRECTIVE NR. 2006-43-CE STIPULATIONS' IMPACT ON THE ROMANIAN BANK ENVIRONMENT

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Abstract : The Directive 2006-43-CE regarding the statutary audit of the annual accounts and the funded consolidated accounts gets the power of an actual law from the moment of its inclusion in the national legislation, respectively for Romania from the end of June 2008. The banks will be between the economic entities of public importance compelled to respect this norm. The article presents some of the obligations of the bank sistem and the audit firms starting with the second half of 2008. At present we may say that our country is setting its time for adhesion to international accounting procedures by a convergence process. Bank appreisal in a competitive and volatile market environment is a complex process wich normally centers around the analysis of particular aspects, including risk profile and management, financial statements, portofolio structure and quality policies and practicies, human resources, and information capacity.

Keywords: Directive, Statuary Audit, Audit Committee, Internal Control, Financial Statements

The Directive 2006-43-CE regarding the statuary audit of the annual accounts and the funded consolidated accounts has been published in the Official Journal nr. L 157-87 from 09.06.2006 of the European Union and it gets the power of an actual law from the moment of its inclusion in the national legislation.

The Directive 2006-43-CE replaces the Directive 84-253-CEE regarding the authorization of the persons responsible for the legal control of the accounting documents. The responsibility for transforming the directive into a law belongs to the Government through the Department of Economy and Finances, the deadline for the transformation being the end of June 2008 in Romania.

There is already a current law project regarding the transformation of the Directive concerning the statuary audit. The project can be consulted on the site of the Department of Economy and Finances (www.mfinante.ro), conform to the procedure of decisional transparency. According to the Directive 2006-43-CEE the banks are considered to be entities of public interest.

In Romania, the public interest entities are defined by the article 33 of the Accounting Law nr 82-1991, republished, modified and upgraded by the Law nr. 259-2007, such as:

- Credit institutions;
- Non-banking financial institutions, defined according to the legal regulations, inscribed in the General Register;
- Assurance, Reassurance and Assurance-Reassurance societies;
- Authorized entities, regulated and overseen by the Committee of Supervision Of the Private Pensions System;
- Societies of Financial Investments ;
- The juridical persons that are part of a group of societies and they enter the perimeter of consolidation by a mother-company that applies the International Standards of Financial Reporting.

The motivations for including special stipulations in case of public interest entities:

- They have a great visibility on the market;
- They present a special importance from the economical point of view;

- In the case of banks, we consider that the motivations for the inclusion of special stipulations can be extended, without limiting to:
- The high degree of exposure to a very large scale of risk;
- The enhanced sensitivity of bank's actives and passives to the circumstantial factor;
- The rapidity of receiving and dissemination of negative signals in the economy.

The member states must assure themselves that the statuary auditors and the audit firms that make the audit for the public interest entities will publish on their website, in the next three months from the closing of the financial year, an annual report concerning transparency including at least the following:

- A description of the legal structure and of the shareholders;
- A description of the network and of the legal and structural agreements of the network, when the audit firm belongs to a network;
- A description of the audit firm's leadership;
- A description of the internal systems of quality control of the audit firm and a declaration of the administrative or management structure regarding the efficiency of its functioning;
- A notification of the moment in time when the last check of quality was done, as the Directive requires;
- A list of the public interest entities for which statuary audits have been done in the last year by the audit firm;
- A declaration about the policies of the audit firm concerning the independence which confirms as well that an internal check of the way in which independence was respected has been done;
- A declaration about the policy the audit firm follows regarding the continuous professional training of the statuary auditors, respecting as well the Directive's stipulations;
- Financial information that prove the importance of the audit firm, such as the total business figures divided into fees from the statuary audit of annual and consolidated accounts and fees received from other assurance services, services of financial consulting and other non audit services.
- Information regarding the base for the partners' remuneration;

The report regarding the transparency will be signed by the statuary auditor or the audit firm, whatever the case. Directive -43-CEE has the compulsory special stipulation that every public interest entity should have an audit committee. It is left to the member states latitude the competence of this committee:

- The non-executive members of the administrative structure and-or
- Members of the structure supervising the audit entity and-or
- Members elected by the general assembly of the shareholders of the entity under audit.
- Another condition of the Directive refers to the Audit Committee's structure so at least one member of the Audit Committee must be independent and have competence in the accounting and-or audit domain. The Council of Administration has the final responsibility for the bank's activity and it has to answer to the structures of bank regulation and supervision, to shareholders, to depositors and to the public society. The Councils of Administration are compelled to chose a strategy, based on adequate policies, starting from the observation that liberalization and volatility of financial markets, the greater competition and the diversification expose the banks to new risks and challenges which bring the necessity to of continuous innovation of the manner of administrating and activity and its afferent risk in order to maintain competition. [223]

The responsibilities of the Audit Committee mentioned in *The Directive concerning the statuary audit* are:

- To survey the process of financial reporting;

[223] H. van Greuning, S. Brajovic Bratanovic, Analiza si Managementul riscului bancar, Casa de Editura Irecson, Bucuresti, 2003, p.12.

- To survey the efficacy of systems of internal control, internal audit, when necessary, and of risk management inside the society;
- To survey the statuary audit of the annual, individual and consolidated financial statements;
- To verify and survey the independence of the statuary auditor or the audit firm and especially, the carrying out of supplementary services for the entity under audit process.

As far as the survey of the reporting process is concerned, the audit committee expects the statuary auditor to have the possibility of expressing an opinion upon the financial statements, therefore making sure that the bank adheres to specific format and terminology mentioned by the law, by the authorities for regulation and supervision, by the professional structure in this domain and by the practical activity of credit institution.

Another obligation of the audit committee is to survey the adjustments brought to the financial statements of the branches and offices from abroad that are included in consolidated financial statements of the bank in order to be put in conformity with the financial frame of reporting on the basis of which the bank reports in the native country. The foreign banks that have entered the Romanian can bring about some clashes of opinions on the accounting principles currently applied and the possibility of applying the reporting frame from the native country and the Romanian financial reporting frame. If the financial statements are in concordance with only one of the reporting frames, the auditor is compelled to state an opinion about the conformity with this frame, respectively the non-conformity with the other financial reporting frame.

Regarding the survey of internal control, the bank's audit committees are familiar with the COSO (the Committee of Sponsoring Organizations of the Tradeway Commission)[224], which considered by a large number of professional structures and credit institution to be a real standard for the evaluation of internal control, and it is based on five component parts :

1. control environment;
2. risk evaluation
3. control activities
4. survey and learning process
5. information and communication.

The International Audit Standard ISA 315 Understanding the entity and its environment and evaluation of the risk of significant distortion, states for the financial auditor that internal control targets the following parts:

- control environment;
- the process of evaluating the risk by the entity;
- informational system, including the linked activities, which are relevant for the financial reporting and communication;
- control activities;
- surveying the control processes.

The five components parts of the COSO model are quite close to the sense International Audit Standard ISA 315 Understanding the entity and its environment and evaluation of the risk of significant distortion [225], and their aim is a the existence of a good communication between the Audit Committee and the statuary auditor in order to achieve a correct evaluation of the internal control, starting from the common base of understanding the place and the role of the control in the bank management.

The Audit Committee surveys the statuary audit of the annual, individual and consolidated financial statements, its objective being the new approach oriented towards the identification and treating the domains of risk instead the traditional manner of approaching the balance and the profit-loss account.

Verifying and surveying the independence of the statuary auditor or of the audit firm, is of great importance for the banks, the proposal for the appointment of an auditor from an audit firm, made by the administrative or supervision structure, depends on the recommendation of the Audit Committee.

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[224] www.coso.org.ro
[225] Audit Financiar 2006 – Standarde – Codul Etic, Editura Irecson, Bucuresti, 2007, p. 131.

The statuary auditor-audit firm reports to the audit committee:

- about the important problems that are reflected in the statuary audit;
- about the significant clashes of opinions on the internal control regarding the financial reporting process.

A special compulsory stipulation referring to the independence of statuary auditors that audit public interest entities is that the Member States must assure themselves the statuary auditors or the audit firms auditing public interest entities:

- confirm annually in writing to the Audit Committee aspects concerning their independence from public interest entities;
- inform annually Audit Committee about the supplementary services made for the public interest entity;
- discuss with the Audit Committee about the threats to their independence and the protection measures made to diminish those threats.

The statuary auditor the key partner that makes the statuary audit on behalf of the audit firm is not allowed to have an important leading job in the entity under audit before the pass of at least two years from the date of the resignation from the auditor job or the key partner in the audit mission. The member states assure themselves the statuary auditors or the key partners responsible for the statuary audit are replaced periodically, in their auditing mission, after seven years at most from their appointment and they are allowed to participate again to the entity's audit process after a period of at least two years.

The survey of assuring quality like it is stated by the Directive must be made at least every three years for the statuary auditors or audit firm that make statuary audits for the public interest entities. As far as the banks are concerned the auditors will take into account The international declaration regarding the practical activity of audit 1006, created by the International Committee for Practical Activity in Audit of the International Federation of Accountants which has included surveyors on behalf of the Basel Committee on matters of bank supervision, the only objective of this declaration is to offer practical assistance to auditors and to promote a good practice in applying the International Audit Standards in the audit of the bank's financial statements [226], based on the characteristics that make banks different from other commercial societies:

- Banks have for safekeeping a larger amount of currency elements, including cash money and negotiable titles; their security must be permanently assured. The liquidity of this element induces a high degree of risk expressed in an enhanced vulnerability of the bank in front of fraud and theft.
- Banks often starts transaction in a primary jurisdiction, and they are developed, administrated and finalized in other jurisdictions.
- Banks operate in conditions meant to maintain a very law report between permanent capitals and total actives, that determining a higher vulnerability in front of negative economical situation with consequences on the risk of liquidity and therefore on the risk of bankruptcy.
- The bank actives may suffer rapid changes of value, sometimes being difficult even to evaluate actives; a small decrease of the actives' value can have a significant effect on the banks' solvability.
- Banks obtain important funds from short-term deposits, which can become really volatile in certain conditions, a loss of public trust having then catastrophic effects.
- Banks have responsibilities like the trust of their clients regarding the actives; that is why operational procedures and internal controls are needed in order to make sure those actives are treated in conformity with the contract's conditions and terms.
- Banks are involved in a large number and variety of transactions for the surveying of which are necessary complex systems of accounting and internal control, the IT technology being irreplaceable.

[226] Audit Financiar 2006 – Standarde – Codul Etic, editura Irecson, Bucuresti, 2007, p. 748.

- For a better coverage of the territory, banks operate through networks of branches and departments divided on geographical criteria, which implies a decentralization of authority and a dispersion of the functions of accounting and control, with the normal difficulties of maintaining a certain standard ; the situation is more complicated when the network exceeds the national boundaries and enters different jurisdiction.
- The possibility of the client to initiate and carry out transaction without the bank's employees help has increased by the use of ATM or e-banking.
- Banks accept and take upon quite frequently important commitments without an initial transfer of funds to be reflected in the active or passive balance which makes the evidence of extra balance accounts more important for the banks than for other common commercial societies.
- The bank activity is regulated and supervised by authorities, and the requirements of regulation can influence the accounting principles a bank follows, the conformity with the requirements of regulation and authorization
- The relations the audit firm through its representatives can have with the bank from the position of the client can affect the independence of auditor in a considerable manner when facilities are received, other than those offered to common clients.
- Banks have almost exclusive access to systems of compensating and payment of checks, fund transfers etc.
- Banks are connected to national and international systems of payment, being therefore vulnerable to the systemic risk in the countries where they operate.
- Banks must establish adequate procedures of evaluation and administration of risks, having work methods and instructions similar to those of the European Union. The convergence in the accounting domain will be continued by the transposition of the Directive 2006-43-CE in the national legislation. The Romanian Bank system has succeeded in a high degree to be compatible with the European bank system, the proof being the presences on the market of foreign capital banks that are already respect the international procedures. We appreciate there is sufficient experience so the banks and the financial auditors may successfully assimilate the Directive 2006-43-CE.

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FINANCIAL INTEGRATION OF NEW EU MEMBER STATES AND FOREIGN BANKS

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Starting from the idea that foreign banks which have invested in Central and Eastern Europe have an important role in raising the financial integration of the banking systems from the region with banking systems from Western Europe, this paper has two parts closely connected. The first part emphasises the main factors which determined Western banks to extend their activity to the Eastern part of the continent. The second part refers to the implications that foreign banks have on Central and Eastern Europe, positive aspects as well negative aspects being underlined.

Key words: foreign banks, banking systems in Central and Eastern Europe, European financial integration, European Union

1. Introduction

The reorganisation, beginning with the 90's, of the banking systems in Central and Eastern Europe[227] (CEE) and the tendency to globalise the banking activity have created the premises that foreign banks to have an important participation within the banking sector of these countries. A characteristic of the foreign banks involvement in CEE countries is represented by the prevalent presence of the foreign banks which come from the first European Union (EU) member states (before 2004 enlargement).

The causes which determined the foreign banks to adopt such a decision are multiple and vary from the desire to service their clients which have invested in the region to privatization of state-owned banks and the growing potential presented by the banking systems in these countries. Last but not least, the historical and cultural ties between CEE countries and the countries from Western Europe should be mentioned.

After closing the transition period during which the Eastern-European banking systems were, mainly, reorganised and privatized, nowadays, together with the accession process, one could notice the more and more powerful integration with the developped European banking systems. Besides some other factors which have contributed to the financial integration of the new European Union member states an important role was played by foreign banks. Excepting the capital infusion, foreign banks have realised an important transfer of know-how in many domains of banking activity. All these have had positive effects on the efficiency of the local banking systems but also have substantially contributed to the alignment of the banking systems in the host-country to the techniques and practices used in the mature banking systems in the home-country.

2. The determinants of foreign bank participation in new EU member states

In time, the specialty literature has emphasised a series of factors which influence the decision of a bank to make investments abroad. Later on, a synthesis of these factors has been made and their analisis on the specific case of Central and Eastern Europe, as destination market of foreign banks.

2.1 „Follow the clients" motivation

The traditional factor which explains what drives foreign bank participation is represented by the banks' desire to service their clients, nonfinancial firms, which have invested abroad („follow the client" motive). Once arrived on the destination market, the firms need a bank to provide services they ask. Consequently, the banks from home-countries follow their clients which invest abroad, intensifying their activity and maintaining the relationships developped in the home-country. This finding adds new meanings when the financial and banking system from the host-country is not developped. One should underline the fact that also the clients are interested to maintain the relationship began with the bank in the home-country

[227] For the purpose of this paper, Central and Eastern Europe is defined as the following EU member states: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Bulgaria, and Romania.

because, knowing their history, it can offer credits and facilities more rapidly and more conveniently than a local bank.

After 1990, CEE countries have began an important and ample process of reorganisation and liberalisation of the economy whose effect was, amongst other, raising of the direct foreign investments made on their territory and the intensification of the commercial exchanges with Western Europe. The development of the economical integration of the Western and Eastern countries of the continent was stimulated also by the geographical proximity and by the historical ties and transformations that the Eastern countries have experienced once the accession negotiations to European Union have begun. Under these circumstances, initially, the decision of the foreign banks from Western Europe to extend towards CEE was a normal consequence of extending the activity of its own clients towards the Eastern Europe. In the first phases of transition towards the market economy, this attitude of the foreign banks was necessary also due to the fact that the CEE banking systems were not developped enough.

2.2.The legal conditions

An important factor for a bank to take the decision to extend its activity abroad is represented by the regulations in use on the destination market and the treatment applied to foreign banks. For a long time, the CEE banking systems were closed, and the foreign banks did not have the permission to operate in the region. Once the reorganisation process begun, the restrictions concerning the activity of the foreign banks on the territory of these countries were eliminated, and the process of deregulation which, initially, had taken place in developped countries, was extended towards developing countries, including ex-communist countries.

Goldberg and Saunders (1981) underlines the fact that foreign banks tend to extend their activity especially in countries in which the credit activity is expected to grow and in which important normative liberalization processes take place. Thus, in CEE countries both conditions could be fulfilled, the banking legislation was under an important process of harmonisation with regulations from European Union, and the banking credit had an enormous development potential.

Even the attitude of the national authorities towards foreign banks was different from one country to another or from one stage to another, however, presently, as previously mentioned, the foreign bank participation in these countries is very big. A relevant example regarding the treatment applied to foreign banks is represented by the model applied in Poland. In the first phase of transition towards a market economy (1990-1992), the policy regarding foreign banks entry was quite liberal. Beginning with 1993, the Polish authorities imposed some restrictions. In order to operate on the Polish territory, foreign banks were obliged to invest in already existing banks. As, during that period, many of the Polish banks were in a difficult situation, the foreign banks were not very interested in making such investments.

Cooperation in the banking sector was promoted through a series of twinning agreements between local state-owned banks and foreign banks from Western Europe. These agreements promoted the development of the institutional connections between Polish and Occidental banks, which were even able to participate with Polish banks' capital. Also, technical assistance programmes were perfected in order to disseminate in the Polish banking system the knowledge and experience of the foreign banks. However, the involvement of the foreign banks was not realised as much as it was desired. The first state-owned bank was privatized in 1993, and the process of privatization and consolidation of the Polish banking system accelerated in 1997, when the banking legislation was modified, as to correspond to European Union requirements. The accession negotiations to European Union began in November 1998. The Polish government delayed total opening of the banking sector until 1999, when, according to the agreements with European Union it had to open to foreign competition.

The differences between countries concerning the regulations of the banking activity were another cause which, for a period of time, drives foreign banks participations. The existence of these differences determined the banks from many countries to invest in those foreign markets in which the regulations and the control of the banking activities were less severe than in the home-country. This is the case, for example, of the banks from the USA, which, immediately after the World War II, had to extend their activity abroad in order to evade the restrictions imposed by the American authorities.

Presently, under the circumstances of globalisation of the financial markets, respectively the harmonisation of the banking regulations at international level, the importance of this factor for justifying the foreign bank participation is diminishing. These appreciations are valid also for the foreign banks which invested in CEE, as the accession negotiations to European Union have imposed adopting the *acquis communitaire*, the banking legislation in CEE countries being alligned to legislation in European Union. In this sense, Cull and Peria (2007) mention that a factor which can determine foreign bank participation refers to institutional and regulatory similarities between home and host-country.

2.3. Particularities and opportunities specific for the CEE markets

Focarelli and Pozzolo (2000) underlines that the most important factors which influence foreign banks to choose the destination market are the opportunities they represent, respectively the countries with higher expected rate of economic growth are preferred, and the banks from these countries are less efficient.

The same observation is emphasised by Claessens, Demirgüç-Kunt and Huizinga (1998), which underlines that a reason for which foreign banks extend their activity in developped countries is in order to follow their clients, while, in the case of the developing countries, the foreign banks, which are more profitable than local banks, extend their activity willing to exploit the competitive advantages resulted from a bigger efficiency.

The mentioned conclusions are valid also for the specific case of CEE countries as destination markets for foreign banks. The restructuring process of CEE economy has created the premises that, in this region, the rate of economic growth to be bigger than in other countries.

At the beginning of the transition towards the market economy, the CEE banking sector has suffered fundamental changes. The monobank system was eliminated and the banking system on two levels was established. A part of the new commercial banks were carved out of the old central banks from which they took the commercial functions. Also, some other private local banks were authorised to function. But the lack of experience of the new banks together with a reduced capitalisation were one of the major causes which made them be not so efficient as the banks from developped banking systems. Under these circumstances, the foreign banks could take advantage of the experience they had and obtain supplementary profit.

Later, the majority of state-owned banks were reorganised and recapitalised, so that the consolidation of the privatization process represented another opportunity for the foreign banks. This happens as in their home-countries, the foreign banks were confronted with a harsh competition and limited possibilities to raise traditional banking activities. Also, in the Central and Eastern Europe, the credit market presented a huge growth potential.

The specific factors which have transformed the CEE banking market into prioritary destinations for the banks in Western Europe include economical, historical and cultural ties which have existed in time, between the two regions. This explains, at least partially, the interest manifested towards the Central and Eastern Europe by the Austrian banks, as „descendants" of their predecessors from the Austro-Hungarian Empire, or of the Greek banks to invest in the Balkans. Similar observations regarding the importance of economical and cultural connections between the home-country and the host-country are underlined by Cull and Peria (2007), too.

3. Implications of international investments on new EU member states banking systems

The entry liberalisation of foreign banks in CEE has some **positive effects** on banking systems in the region.

The general accepted oppinion is that, by capital infusion or the know-how they brought, the foreign banks have an important role in modernising the CEE banking systems, in raising the competition and its efficiency, with beneficial implications on the quantity and quality of the services offered, and also on costs. Lastly, those who take advantage of these transformations are the local consummers of products and banking services.

By introducing some new products and services, the modern usage and occidental management methods, and some innovative techniques, such as assessing and monitorising credits or the personeel training, the foreign banks contribute to diversification and improvement the products and services within the destination banking systems and also contribute to strenghtening the banking management. All these lead to raising the integration process of the CEE banking systems with developped European banking systems.

Also, in the first phases of transition, the foreign banks, having an advanced technology, have had the opportunity to offer their clients high quality services compared with local banks. In this context, the local banks were motivated to make important investments regarding technological developement, which resulted in raising the quality of the services offered.

The foreign institutions which have bought shares in state-owned banks have facilitated capital obtaining from the international financial market, which resulted in improving their credit capacity. Also, the foreign banks which invested in CEE due to the fact that they are, generally, important banks, had the possibility to finance themselves from international markets with more reduced costs than local small banks, less known at international level. At the same time foreign banks can obtain cheaper capitals from their home-countries. Indirectly, this is reflected in offering the clients credits with lower interest, with positive effects on economical developement of the host-country.

At the same time, as the foreign banks are, generally, better capitalized than local banks, can more easily satisfy the minimum capital requirements imposed by the regulations in use, as part of the prudential supervision policy envisaged by the national supervision authorities.

Another associated advantage of the foreign banks in the region is represented by the possibility of developement financial markets from the host-country. This advantage is more obvious in the case of foreign banks which did not take over local banks and, consequently, do not have an extended territorial network, which could allow them to obtain deposits. In these conditions, in order to finance their activity, they can use the host-country interbanking market, contributing to intensifying the connections with other banks, to raising the operations volume on this market, implicitly its level of developement.

Even if it is well known the fact that one of the main reasons for which banks invest abroad is to follow their clients from the home-country which extended their activity abroad, though, the reverse can be valid. Thus, the investments of the foreign banks in CEE may attract clients from their home-countries, which feel safer to work with a known bank, which they trust.

Although the host-countries are aware of the role that foreign banks can play in modernising and developement the national banking system, in some cases, and, especially phases, foreign investments were treated with **some reserves**.

The host-country authorities manifested some reserves regarding foreign banks due to the possibility to lose national control on banking systems and raising their fragility. As foreign participation has an important weight, the massive and quick withdrawal of foreign banks from the CEE market could determine the destabilization of the local banking systems. Also, the stability of the CEE banking systems will depend on the stability of the banking systems from countries which invested in CEE, respectively the situation of their parent banks.

Many times, restricting the activity of foreign banks in CEE was motivated by the necessity to protect local banks, which are not developped enough in order to compete with important foreign banks, with international reputation.

Another concern manifested by authorities in CEE countries refers to the possibility that foreign banks could serve the most profitable market share, respectively the best local clients and the big multinational companies, leaving the local banks clients with the biggest risks. At the same time, one may add the fear that foreign banks will attract the most qualified personeel from the local banks.

Another reason of concern is represented by the fact that foreign banks which invested in Central and Eastern Europe could transfer some of the activities to the central headquarters from the home-countries.

Also, we should mention the fact that, generally, the supervision of a foreign bank is more difficult to make than the supervision of a local bank, sometimes, the supervision authorities having difficulties in assessing the risk of the parent bank.

4. Conclusions

An obvious characteristic of the international banking after 1990 was extending the operation of the foreign banks towards CEE, as at the moment the foreign participation in the banking sector of these countries is very important. The banks from Western Europe hold the biggest part from the foreign banking capital in the Central and Eastern Europe.

This orientation was determined by the changes produced in CEE and by the possibility to obtain important profits, as a consequence of the growth potential presented by the CEE banking systems. The phenomenon is due mainly to the privatization process of the state-owned banks. The foreign banks' interest for this part of Europe was also due to the fact that in their home-countries the possibilities to develop traditional banking activity were limited. Last but not least, the foreign banks have made investments in the Central and Eastern Europe countries to serve their clients which invested on these markets.

Besides the positive effects which they have on CEE countries, the foreign banks from Weastern Europe have an important role in raising the financial integration between the Eastern and the Western part of the continent.

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INSTITUTIONAL HETEROGENEITY, IMPEDIMENT OF THE EUROPEAN MORTGAGE MARKET INTEGRATION ?

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Real assets, represented by residential properties, hold about half of the tangible capital in developed countries. Consequently, mortgage market, which assigns the market for financing real assets, is a key component of the financial market. Because of this importance, the mortgage market's efficiency is considered to be a key factor of the financial market's efficiency. In particulary, a weak functionning of the former is believed „to pollute" other components of financial market. The article is meant to emphasize, for the euro area, those institutional caracteristics that maintain the national mortgage markets' heterogeneity. In this way, we have identified the presence of heterogeneity both in terms of mortgage products features (essential from the viewpoint of mortgage market integration) and of consumers preferences (influenced mainly by demographic factors). Also, we question about the possible implications of mortgage market's expansion to the monetary policy and financial stability.

Key words: mortgage products, mortgage debt, institutional heterogeneity, financial integration

1. Basic caracteristics and institutions of mortgage market

The mortgage market represents a particular type of credit market, specialised in lending activities collateralised with real assets. Although mortgage products cover a great variety of forms, some of them close to the consumer credit, there is an important difference between the two products in terms of maturity, sureties and financing techniques. The caracteristics of this market arise from the utilization of real assets as a guarantee:

- real assets are durable
- their evaluation isn't accurate. Each property and location are unique, therefore it is extremely difficult to compare similar mortgage products.
- in most countries residential mortgage is limited to the property itself, not being accepted other assets.
- mortgage collateral is at the core of mortgage lenders' activity. European Mortgage Federation introduced the term of „collateral's efficiency", which is determined by a series of actions: the constitution and registration of the guarantee, the ranking of the surety, its repossession.

The mortgage market consists in two major segments: the residential market, financing the real estate ownership, and the non-residential market, which finance other types of real assets. The first component has a special importance because dwellings represent the only significat households' real asset. That's why governments adopt special measures having as purpose the good functioning of residential mortgage market.

The non-residential mortgage market gathers, generally, the caracteristics of the residential one, but it distinguishes by three main aspects:

- real non-residential properties have a bigger value than the residential ones, and therefore create needs for substantial mortgage loans.
- non-residential mortgages are much more risky than residential ones because the demand for commercial or business spaces is more volatile than that for dwellings.
- the meeting between borrowers and lenders needs in this special field of mortgage market includes a great variety of special elements.

The most recent statistical study published by European Mortgage Federation (Hypostat 2006) revealed a growth in the volume of residential mortgage loans in the EU 27 of 11.1% in 2006 compared to the precedent year. A detailed evolution for the main european countries is presented in table 1.

TABLE 1: Mortgage market in EU countries (2006)

Country	Value of Mortgage Debt, € million	Growth in Mortgage Debt	Residential Debt to GDP Ratio	Per Capita Mortgage Debt, € thousand
Belgium	114,105	12.9%	36.3%	10.9
Bulgaria	1,745	73.5%	7.0%	0.2
Czech Republic	8,055	33.9%	7.1%	0.8
Denmark	221,970	13.4%	100.8%	40.9
Germany	1,183,834	1.8%	51.3%	14.4
Greece	57,145	25.8%	29.3%	5.1
Spain	571,746	20.2%	58.6%	13.1
France	577,800	14.7%	32.2%	9.2
Italy	276,102	13.3%	18.7%	4.7
Hungary	10,215	11.0%	11.4%	1.0
Netherlands	525,874	7.9%	98.4%	32.2
Austria	60,669	12.7%	23.5%	7.3
Poland	22,514	53.7%	8.3%	0.6
Portugal	91,895	15.7%	59.2%	8.7
Romania	2,276	57.2%	2.3%	0.1
Slovenia	1,956	43.0%	6.6%	1.0
Slovakia	4,209	36.7%	9.6%	0.8
Sweden	173,499	9.1%	56.7%	19.2
UK	1,583,372	11.9%	83.1%	26.2
EU27	**5,713,615**	**11.1%**	**49.0%**	**11.6**

Source: European Mortgage Federation

We have observed that countries in south-eastern Europe have a lower mortgage debt to GDP ratio, and therefore a less developed mortgage market. The main reason consists in the delay of the restructuring their banking systems, in the lateness implementation of economic and institutional reforms. In this context, the lack of an official institution having as purpose the accurate and timely evaluation of non-financial assets' price, the absence of explicit regulations concerning the property right, the securitisations, the possibility of refinancing and the additional costs justify the low level of mortgage loans.

On the other hand, there are several countries (Denmark, United Kingdom, Netherlands, Sweden, Switzerland) caracterised by a significant ratio of mortgage debt to GDP. This evolution had been determined, firstly, by the predominance of mortgage banks in the banking system. Also, demographic expansion, caused both by the natality growth and by the increasing number of immigrants, maintained the high dinamics of dwellings demand.

The high level of mortgage debt to GDP ratio suggests, however, a large level of loan-to-value ratio, which implies a large degree of borrower's indebtness and, consequently, longer terms for the repayment of debt. To a similar conclusion reached Tsatsaronis, Zhu (2004) too, which have identified two groups of countries in the euro area: one including the countries with weak, undeveloped and strong regulated mortgage markets, caracterised by a low ratio of mortgage debt to GDP, and a second one, of countries having a liberalised, deregulated mortgage market and a high level of the ratio mentioned above.

In our opinion, the main leading factors of the dinamics observed on the credit market, and particularly on the mortgage one, are: the performances concerning the economic growth, a close monitoring of inflation rate, as a premise for financial stability, the predominance of bank based financial systems, the increase of households income and the existence of favourable expectations concerning the maintainance of this trend, the boosting of the building activity on the basis of the excess in dwellings demand. Further, low interest rates and the development of mortgage market by introducing new, innovative products, contributed to a rise in customers interest and access on this market. Nevertheless, on the background of recent evolutions on the international financial market, of the increases in the key interest rate adopted by ECB and other central banks in member states and of a surplus in dwellings supply relative to the demand in some european states, one can foresaw a small shrink of mortgage market activity.

A great variety of institutions acts on the mortgage market, namely deposit taking institutions or mortgage banks and non-deposit taking institutions. Mortgage banks are credit institutions which finance the investments in real assets, having as financing source the issuance of mortgage bonds. Deposit taking institutions include commercial banks, savings banks and represent the main mortgage market institutions in most countries. The major advantage of this institutions results from the access to cheaper financial ressources and the deposit insurance. It is also the source of the main drawback, namely the duration differences between assets and liabilities. Thus, the ressources obtained from households are caracterised by short-term maturities, meanwhile the mortgages with fixed interest rate have long-term maturities, which implies a significant exposure to liquidity and interest rate risk. One solution consists in opening a credit line at international financial institutions or at a parent-institution, or the recourse to alternative financing sources (covered bonds, mortgage baked securities).

Another possible disadvantage of deposit taking institutions is their inability in achieving a high level of geographic diversification. This aspect is of particular importance especially in US, because most banks are of small dimension, with a limited territorial covering, therefore the most mortgage loans proceed from the own market share. On the other hand, banks reach at a significant degree of sectorial diversification, because loans are offered to a great variety of investors and customers.

The main distinction between deposit taking institutions and mortgage banks consists in their access to financing sources, which emphasizes the direct link of mortgage banks with capital market. Countries that frequently appeal to the financing of mortgage loans by issuing bonds are: Denmark, Sweden, Germany and France. Concerning the mortgage collateral holding, there are different practices. The final owner can be the mortgage institution, which issues bonds and uses the ressources obtained for buying the mortgage from the initial owner, or the mortgage bank will issue an instrument of debt and will use these funds for giving loans, the borrower keeping the mortgage collateral in his balance sheet.

Mortgage loans involve a high risk exposure, especially in countries with an unsound, weak mortgage market. Also, vulnerability to macroeconomic shocks is more accentuated on those markets caracterised by an intense banking activity but a small degree of banking products diversification and sophistication, mainly of the credits portfolio, which implies an inadequated risk dispersion on type of borrowers, activity areas and geographic regions.

2. Cross-country heterogeneity on mortgage market

In the euro area the mortgage market isn't homogeneous, integrated, but rather is caracterised by distinct features and products from one country to another, term the market's size, reflected by mortgage debt to GDP ratio, legal regulations, institutional caracteristics or tradition.

An important element of the dicrepancy between national mortgage markets is represented by the product's specific features. Consequently, European Mortgage Federation (2008) has grouped mortgage loans into three categories:

- mortgage loans granted for housing purposes, secured on real estate property;
- mortgage loans granted for consumption purposes, named also equity withdrawal;
- housing loans, which consist in loans secured by a personal guarantee or unsecured, granted for housing purposes.

Among the countries members of EU, Great Britain holds the most and diversified mortgage products (flexible rates, high Loan To Value ratio, buy-to-let, lifetime, subprime). Generally, countries with marketbased financial systems, for which the capital market rends long term financing, as an alternative to customers' deposits, and diminishes the mismatch between assets and liabilities maturity, are caracterised by an active role of mortgage market, and, implicitly, are exposed on a greater extend to the process of liberalisation and deregulation.

European Mortgage Federation (2006) revealed the predominance of variable interest rates in countries having as main financing source the customers' deposits, meanwhile the countries with an active mortgage bond market employ frequently a fixed interest rate for the mortgage loans. In table 2 we have synthetised the most relevant institutional caracteristics of mortgage markets, for a representative sample of EU countries, in order to catch their degree of development and flexibility.

TABLE 2: Institutional caracteristics of the mortgage market

Country	Representative interest rate	Type of mortgage loans provided	House prices	Organisations which compute and publish house prices indices
Belgium	fixed	Mortgage and housing loans	n/a	Private consultancy
Denmark	fixed	Mortgage, equity release and housing loans, secured on residential property	Transaction price	Mortgage association
Germany	fixed	Mortgage, equity release and housing loans, secured and not secured on residential property	Values quantified by experts	Central bank of Germany
Greece	variable	Mortgage, equity release and housing loans, secured and not secured on residential property	Transaction price	Central bank of Greece
Spain	variable	Mortgage and housing loans, equity release loans	Official valuations	Ministry of Housing
France	fixed	Mortgage, equity release and housing loans, secured and not secured on residential property	Transaction price	Chambre de Notaires de Paris, National Statistics Office
Romania	variable	Mortgage, equity release and housing loans, secured and not secured on residential property	Transaction price	No house index
Sweden	variable	Mortgage, equity release and housing loans, secured on residential property	n/a	Statistics institute
UK	variable	Mortgage, equity release and housing loans, secured on residential property	Transaction price	Department of communities and local government

**informations were collected from European Mortgage Federation*

Correlating the informations from tables 1 and 2, we can statuate that cross-country heterogeneity is persistent in all the considered indicators. From this point of view, the empirical studies focusing on mortgage market are difficult to realise and interpret, because heterogeneity means the absence of a unitary approach of the concept of mortgage loan, discrepancies in the process of evaluation of house prices, in computing the house price index, in the frequency of its publication (monthly in Great Britain and Holland, quarterly in Sweden, Ireland, France, Spain, Greece, Denmark, Belgium, semi-annually for the euro zone index and annually in Germany), the geographical representativity of the index (reflects house price changes nationally in Belgium, France, Holland, Ireland, Sweden and UK, or only for representative cities in Germany, Denmark, Greece, Spain). Further, some countries don't keep a distinct statistical evidence for mortgage loans, but only for the entire amount of consumers' loans, don't have official institutions to evaluate real assets or don't compute a house price index.

Several studies had analised the influence exerted by institutional caracteristics of national mortgage markets on house prices, on consumption and on the monetary policy. In this context, the empirical research revealed the existence of a correlation between house price and private consumption, which varies significantly between countries. A strong correlation was reported for US, UK, Canada and Holland, meanwhile France, Germany and Italy registered an insignificant statistical value.

According to Egert, Mihaljek (2007), the leading factors of the house price dinamics for countries in centre and eastern Europe are: income, real interest rate, the growth of mortgage debt, demographic factors. Debelle (2004), Terrones and Otrok (2004), Calza, Monacelli, Stracca (2006) tried to underline the leading factors of house prices growth and the potential implications on monetary policy and financial stability.

Calza, Monacelli, Stracca (2006) had identified the presence of a significant correlation between private consumption and house price in countries having a developed and diversified mortgage market. After conducting a VAR analysis on the effects of monetary policy shocks on consumption and house prices, the authors revealed the presence of heterogeneity both in the duration and severity of effects. Moreover, the shock' s amplitude is positively correlated with the development indicators specific to mortgage markets, such as: mortgage loan to GDP ratio, loan-to-value ratio, the existence of equity release products.

OECD (2004) ascertained that the monetary policy's impact on mortgage interest rates varies significantly from one country to another. One explication is given by institutional factors, namely: the preponderence of a certain interest rate regime, refinancing costs, the senzitivity of mortgage market to the changes in house demand.

3. Perspectives of the european mortgage market. The emergency of new mortgage products.

An important step towards the harmonization of the european mortgage market took place at the end of 2007, when European Commission adopted the White Paper on the integration of EU mortgage credit markets. The act statuates the necessity of eliminating the legal and administrative barriers which bound the supply of mortgage loans in the euro area, consecrating the term "supply driven integration". Further, a special attention is paid to the consumer's protection, to the standardization of precontractual clauses and to promoting new products. Analysing the regulatory changes in member states' legislation, we have synthetized several types of innovative mortgage products:

- Securitisation, a mortgage operation whose aim is to improve the structure and performance of mortgage market. This technique consists in gathering in a mortgage pool a great number of individual mortgages, and in issuing an instrument of debt. Each investor in mortgage titles receives a share of the net cash flow with which has contributed to the pool. Contrary to the success registered in US, securitisation is a negligible factor in most european countries.
- Rechargeable mortgage allows the reuse of a mortgage loan's collateral as a guarantee for a new loan. It is extremely important to include in the mortgage contract the recharging clause.
- Reverse (lifetime) mortgage aims to provide a complementary funding source to elder or retired people, which own a dwelling. The originator rends a mortgage loan to elder customers, lagged in time, according to their specific needs, taking over the property as a collateral. The particularity of this mortgage product consists in the fact that the borrower doesn't pay-back the loan. The contract ends after one year from the borrower's decease. There are two possibilities: borrower's heirs repay the loan and receive the property right on the dwelling, or the originator will execute the guarantee. This type of contract was introduced in UK, Spain, Hungary and is very popular in US.
- Life annuity is a product conceived to increase the income of retired people, which consists in the payment, by the originator, of a monthly annuity for the customer's lifelong, in exchange of the property right on customer's dwelling. The contract ends at the customer's decease, when the originator becomes the new owner of the dwelling. This mortgage product registered a particular success in Hungary, and was introduced too in Belgium, Spain, Italy, Ireland and UK.

– <u>Equity withdrawal (equity release loan)</u>, as a particular type of the clasic mortgage loan, is more intensely emploied in US, UK, Australia, Denmark and Netherlands, countries caracterised by the amplitude and flexibility of the mortgage market. It represents an alternative to consumer credit, because it provides liquidities without a pre-established destination, the guarantee being represented by the borrower's house. Therefore, the bigger the increase in house prices, the bigger the value of collateral, and implicitly, the amount that can be obtained as a loan.

The non-uniform implementation of mortgage products in the euro area, followed by distinct contractual clauses (financing at a variable or fixed rate, the possibility of refinancing, the method for computing the annual effective global rate) accentuate the degree of the european mortgage market segmentation, and, implicitly, the response to a change in monetary policy.

Conclusions

Although the harmonization of the regulatory framework is a difficult, long lasting process, we believe that the european mortgage market integration will bring three main benefits. The authorities will benefit from a more efficient transmission of the monetary policy signals into the entire euro area, favouring the increase in the degree of resistance to financial shocks and the financial stability of the integrated markets. Households will have access to diversified mortgage products, to a more transparent legal framework, in which the consumers protection has a key role. Last, but not least, the lenders will take advantage in terms of management and portfolio diversification, risk dispersion, the possibility of achieving scale economies, and therefore, an improvement in the activity's efficiency.

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THE NECESSITY OF OPERATIONAL RISK MANAGEMENT AND QUANTIFICATION

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Beginning with the fact that performant strategies of the financial institutions have programmes and management procedures for the banking risks, which have as main objective to minimize the probability of risk generation and the bank's potential exposure, this paper wants to present the operational risk management and quantification methods. Also it presents the modality of minimum capital requirement for the operational risk. Therefore, the first part presents the conceptual approach of the operational risks through the point of view of the financial institutions exposed to this type of risk. The second part describes the management and evaluation methods for the operational risk. The final part of this article presents the approach assumed by a financial institution with a precise purpose: the quantification of the minimum capital requirements of the operational risk.

Key words: Operational risk, operational risk profile, standard approach, gross income, administrative general expenses

Operational risk conceptual approach

In the last period of time the changes that took place on the financial market, because of the development of new activities and implementation of new products, generate new types of risks, more complex and bigger. A recent category is represented by the relative operational risk, for which the Basel Committee elaborated standards and regulations. In this way it was recognized the impact of this risk for the activity of the credit institution.

The past experiences indicated that in the case in which the financial institution has not an adequate risk management, it is exposed to jeopardis which can transform into important losses. These losses can generate even the cessation of the institution activity.

The Basel Committee considers the operational risk a distinct category, as the credit risk or the market risk. It defines the operational risks as „the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events". It also takes into consideration the legal risk, but excludes categorical the strategic and reputational risks.

According to Merrill Lynch, this definition does not explain clearly how should be interpreted the nature and the measure of the indirect losses. This determines the financial institutions to have their own definitions, but this will create unsubstantiality. Because of the fact the Basel Committee wanted to underline only the minimum standards for all the financial institutions, as well as the non-existence of a concrete definition of this risk, in practice were adopted the list of risk categories and the analyse of each one. The separation was made in order to cover all the possible operational risks and to concentrate the most significant causes of the loss severity met day by day.

The specialized literature presents the opinions of more authors regarding the operational risk area. Therefore in 2001, The PNC Financial Services Group recommended a more concise definition for the operational risk, a definition that should be based more on direct losses and which exclude categorical the business risk, the strategic risk and the reputational risk: „the operational risk is the risk of the income direct loss, which results from internal events connected to inadequate personal, important errors or ilegal behaviour because of the errors or the systems and processes inadequation, or from external events where the risks are not cover by the credit, market or interest rate risk ”. Thus the operational risk can be interpreted as a vulnerability of the financial institution, that can be reduced or eliminated though an increased control.

The important increase of the operational risk is due to organisational, infrastructure, business environment or improvment changes. These changes were materialezed in: the development of the technology, the increase of the attention to the transparency, the increase of the electronic commerce, the increase of the operations for the natural person and small economic agents, deregulation, the incompatibility of the systems, the increase use of the authomatic technologies, globalization, the increase use of the external sources and the complicated technologies to reduce the credit and market risks. All these determined a healthy management of the operational risk and the inclusion in the internal process of a bank. Thus, the financial institutions considers that this risk appears in the departments called „Operations” and are concretized into potential losses generated by errors and controls, systems and processes omissions. That is why it is not necessary to have a special department for the operational risk. Also, the risk management is made by a global risk committee. But there are some institutions that consider the operational risk as the risk that not harmonise with the credit or market risks and which incorporates all the risks, except the credit risk and the market risk, in order to take into consideration all the potential influences over the profit and losses account. This thing brought some problems and thus the financial institutions decided to limit themselves to things that can be measured easily.

For a banking-financial institution we can mention a series of main operational risk factors, as: internal fraud, external fraud, employment practices, the job safety, clients, products and business practices, bank’s products and operation practices, the technic infrastructure deficiency, activity disturbances and system defections. For a good management of the operational risk there are six steps that have to be followed: identification of the risk type, identification of the risk factors, the exposure to the risk rank evaluation, the risks estimation, the loss and profile estimation and source explanation, the comparison of the risk with the profitability of each risk type, being complusory to know the potential loss or the causes that generated this type of risk.

The operational risk management and evaluation

In the last period of time more and more authors were interested by the operational risks, especially because of the fact that operational risk can appear not only for banks. Until now, most of the banks considered operational risk through the past events. Therefore, because they hadn’t an operational risk management they pointed out more the effects and less the causes. But recently, the Basel Committee proposed the responsabilities share between the risk management and the operational risk management. For an adequate operational risk management it has to be respected the second pillar of the Basel Agreement. This pillar follows the set up of the capital minimum level, the minimum funds used to cover the unexpected loss that can appear unexpectedly during the activity of a financial institution.

For the operational risk management are followed the next elements:

- the analyse of the operational risk profile. This point starts from the identification of all operational risk types to which the institution is exposed. This identification follows: the portfolio composition of the institution and the characteristics of each entity; the methods and the producs used for the issurance(design, processes); the competition; the market structure; the business environment; sources for clients; distribution channels; human resources management; the transaction complexity and volume; the behavior and the attitude to risk;
- the assignement of the operational risk type accepted or rejected by the institution;
- the methods of identification, evaluation, monitoring and control of the operational risk. These evidence the processes, the systems and the people involved in the activities and generate information that in the past were given by the internal control department: operational loss that took place in the past, events that could have generated losses, but were avoided, evaluation of the essential risk; the characteristics of the insurance operations; the control strictness that provides the efficient quantification of the operational risk and the identification of the diminuation solutions of this risk: autoevaluation, sensitivity tests, limit

scenarios; other souces that generate operational risk: clients dissatisfaction, employees migration, a high number of operation, incapacity of the system, high degree of manual intervention in the IT system, external loss and operational risk exposure report; changes suffered by the business environment.

as an option we can describe the manner operational risk is incorporated in the methodology of determination of the necessary capital to control this risk.

Taking into consideration the fact that this risk is a new risk on the market, today there are a few institutions that make an adequate management of this type of risk. Therefore, the affirmation that there is a optimum solution, is false, because we can follow at the most the components of the operational risk: operational risk instruments. These changes from one institution to another and include: the estimation of the necessary capital to cover the operational risk, the scenarios against the exposure, the adjustment of the statistic distribution, the connection cause-effect, the distribution into risk category; a data base to create all that we mention before. The data base has information regarding the transactions, the events, control and reference points, exceptions, variants, process maps; reports regarding management. These reports are different and can have information as broken interfaces, confirmation lack, incomplete transactions, correlations, trends, capital at risk.

Taking into account the data limited character and the lack of flexible informational system, the quantification of this type of risk is very difficult to be made and sometimes even impossible. Therefore the financial institutions are in the situation of spending a lot of money with the specialised employees, technological process or specialised institution in this area.

During the time, there were a lot of opinions regarding this type of risk, but the most important quantification methods of the operational risk and constitution of the mandatory reserves to cover the risk, are the one presented by the Basel Committee: Basic Indicator Approach, Standard Approach and Advanced Approach: Scorecard Approach, Internal Evaluation Approach and Loss Distribution Approach.

The implementation of the Basel Agreement II in Romania involves both the development of the rating agencies and the statistics data basis and econometric methods to substantiate the internal models of the bank. The preference of the Romanian banks for the models that determine the capital requirements for the operational risks was in 2007 81% for the Basic Indicator Approach and 1% for the Advanced Approach. According to a study made by the National Bank of Romania for the 2008 are the next anticipations: 68,75% of the financial institutions are going to use Basic Indicator Approach in order to evaluate the operational risk and only 3,12% are going to use advanced models. This trend is due to some factors as the capital value, which is bigger that the legal one, non-existence of the stimulus to make the institutions to reduce the capital value through advance approaches, high expences for the implementation and use of the internal evaluation approaches of the operational risk.

Any sensitive method that measures the need of capital for the operational risk follows the estimation of real loss, potential on a probability basis for each business line or at the level of the all bank, as:

- the evaluation of the risk on the basis of a correlation between the risk and an indicator, the case of Basic Indicator Approach, Standard Approach and Internal Evaluation Approach;
- the risk evaluation on the basis of loss distribution, the case of Loss Distribution Approach;
- the risk measurement on the basis of the scenarios made by the experts

The advantages of the quantification of the operational risk are:

- the banks can identify the operational loss to which they are exposed and for which they don't have the necessary experience, for exemple: the low impact of the events, the high number of the events with high frequencies;
- it promotes a frame to model extreme events: the analise of the scenarios with low frequencies, the high impact of the events; for exemple: the business stop;
- potential high pay-off for banks: it helps to incorporate the risk reduction quantification in the process of making a decision regarding a private investment; the banks that administrate and measure this risk can reduce their costs and they are less sensitive to the systemic problems.

The quantification of the minimum capital requirements of the operational risk

In order to apply the II Pillar of the Basel Agreement, regarding the minimum requirements to cover the operational risk, the financial institution X, we can not mention the name, used from 2007 the Standard

Approach, although its group uses an internal model. The group uses an internal model because it has not hystorical data in order to make proper scenarios or to measure some relevant indexes to determine loss liquidation. It proposes 2 years until the group would use the advanced approach.

The Standard Approach supposes the organisation of the financial institution into eight standard business lines, that use as a common index, as a substitute for the bank general exposure to the operational risk, the gross income. Also the Basel Committee recommends the use of this index. But this index was criticized in a recent german study: the increased of the gross income supposes an increase of the capital needed to cover the operational risk and therefore we have a decrease of the bank income and this is oposite to the bank strategy; this method is not sensitive because there is no strong correlation between the income level and the operational risk exposure; the institutions can not influence the capital requirements through a prudential management or a reduced operational risk; we have a negative correlation between losses and the capital need; a reduced capital is needed in case of more loses; the capital need is not adjusted to the real value of the operational risk and this generates a non-efficient risk control and an incentive management. As an alternative for the gross income, the majority of the ZKA[228] Association recomends the use of the „General administrative expenses" index, because it can used by all the banks, no matter the business lines and can produce distortions in the case of the banks organised in a different way.

Though the Standard Approach presents some limits:

the results are not connected directly to loss data

the operational risk profile varies from one event to another even in the same business line.

Therefore, in the case of the Standard Approach, the capital requirements are determined as a product between the relevant index for each business line and a percentage comprised between 12 and 18. In the case we have for one of the three financial exercices a negative requirement, this will be equalised with the positive requirements from the other business lines, from the same financial exercise. In the case in which the total capital requirement is negative, in the formula used to determine the capital need for the financial institution, it will be considered zero. So, we can conclude that the capital need can be determined as:

$$\text{Capital}_{SA} = \frac{\sum_{t=1}^{3}(\max[\sum_{i=1}^{8}\beta_i \cdot Ir_i ,0])}{3}$$

For the analysed financial institution, the relevant index is called „gross income". Also, in the group view this index represents the sum of the values from the profit and loss account. These values are results from interests, incomes from shares and other income bonds, commission results, financial operation result and other operation incomes.

For the loss analyse, the financial institution considered as main business lines: corporations financing, payments and discounts, retail brokerage(although there is not the case from our country, because the company has such activities the institution included them as a business line, but for the capital need formula it was considered zero), tranzactions and sales, retail activity, commercial activity, agent services and assets management. These operations were made taking into consideration specific norms and policies, part of the internal procedures.

For all the business lines, the financial institution used as relevant index „the gross income". According to Basel Committee, this index is a transparent index, present in all the financial reports and used to make easily calculations and national and international comparisons. Also, it is easily audited and reflects very good the operational risk sensitivity.

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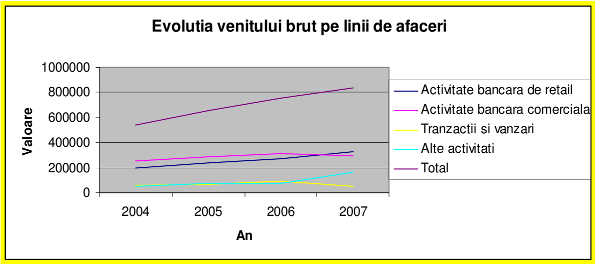
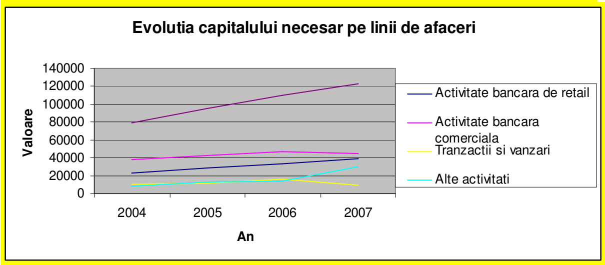
[228] Zentralerkreditausschuss (2001) „Comments of the Zentraler Kreditausschuss on the Basel Committee's Consultative Document of 16 January 2001 on a New Capital Adequacy Framework for Banks ("Basel II")" Berlin

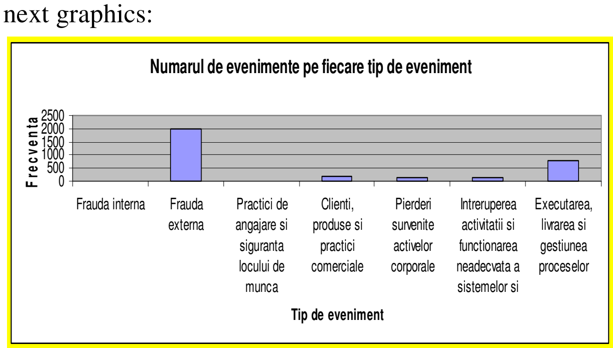


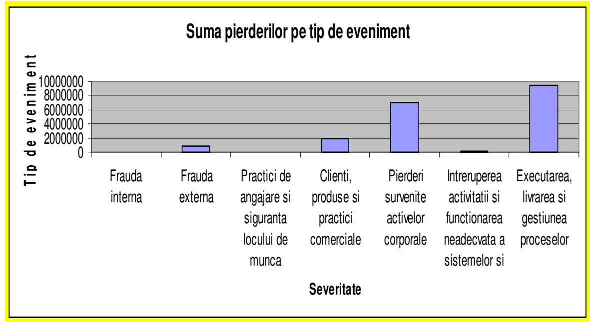


Source: personal process

For some business lines we can observe high values. These values reflects the gross income dimension and the intensity of the institution activity for all the activity sectors. Also they offer to other departments involved, information regarding the potential loss that can appear and the necessary value to cover the operational risk loss for all the business lines. Analysing the graphic, we can conclude that the most risky business lines are the commercial and the retail banking activity and they are due to trading and processing errors that can appear during the time. The most are connected to the open account operation, as follow: the wrong introduction of the general data; incomplete documentation; the signature absence; errors in the pay office: non checked signatures, the issue of discordant documents in the case of foreign exchange; errors at the payment: un-authorized payments, the payments delay, the wrong choice of the currency in the payment process, the payment orders transmission delay, the multiple transmission of the same order, the incorrect introduction of data in the system, the loss of checks, compensation of the false debit instruments; errors in the foreign exchange process: disrespect of the foreign regulations; IT errors: the incorrect data transfer, nonfunctioning of the systems; frauds in the credit process: the acceptance of the incomplete files, the information distorsion, the use of false IDs; errors regarding complaints: the delay of the reports for other authorized departments, the delay of the complainets responses.

The losses generated by the operational risk are identified and connected in accordance with the international standards for the seven events types, as: internal fraud, external fraud, employment practices and the safety of the working place, the clients, the products and the commercial practices; the tangible assets loss, the activity rupture and the unadequate systems functionment and the process execution, the delivery and management. Therefore, on the basis of the information generated by the back office department, internal audit, IT and risk management department, the Operational Risk Department can present the loss situation for each event that can cause demages for the financial institution. The events status is presented in the next graphics:

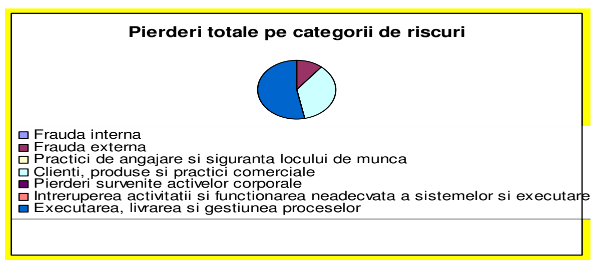


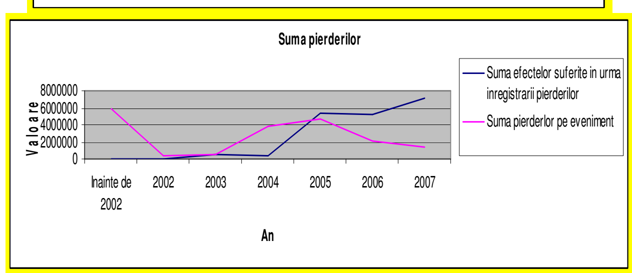


Source: personal process

As we can see the most frecquent losses are generated by the external frauds, especially the cards frauds, as: unproper protection systems, „chargeback" situations, thefts, duplicating. On the second place we have the losses generated by the bad execution, delivery and management of the processes that appeared in the transactions.

From the point of view of the events severity the first place is taken by the events generated by the execution, delivery and management of the processes caused by: incorrect communications, disfunction of the models or systems, the incorrect safe-keeping of the data base; introduction, operating, keeping and updating errors; not keeping the deadlines; processes externalisation; the documentation missing; losses; processes externalisation followed by the clients category, commercial products and practices, that includes losses because of the: unproper products, neglect, low preparation or unprofesionalism, agressive sale of the products, disrespect of the behaviour rules, confidential information un-proper use and incorrect analyse of clients need.



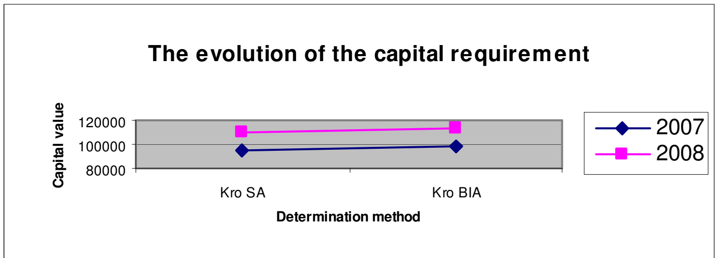


Source: personal process

As we can see from these graphics, the non-existence of the internal frauds and the employment safety can be explained by an efficient management of the financial institution.

The key indicators can identify at the right moment the appearence of a loss generator event if they are used at the proper time. The Administration Council decided to make a very strict control of all the departments exposed to the identification of the operational risk and make a report for the Operational Risk Department of the financial institution, which was responsible with the trainings for all the other departments, in order to identify and report corectly this type of risk. The implementation of this type of risk needs a very high cost in order to adopt the risk policy, to train the employees and to adopt the informational system. Also there were analysed the trends of the loss events and the effects of these losses for the institution; The Operational Risk Department monitored the risk profile and the material exposures to losses, based on key indicators. These indicators prevent the risk increase, through the identification of un-expected events signals and allow a transparent scheme of the operational risk, using some criteria: the analyse of the operational risk events, of the external data, of the internal audit reports, others experience.

In conclusion the dinamic approach of the capital need for the operational risk demonstrates the frequency increase of the events that generate this type of risk. This idea is supported both by the Basic Indicator Approach and the Standard Approach.



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STABILITY OF THE EXCHANGE MARKET IN ROMANIA, IN THE PERSPECTIVE OF JOINING THE ERM II

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Romania joined the European Union last year and now it is preparing to join the ERM II. The paper is investigating the recent evolution of the exchange rate leu/euro and its compatibility with a future participation to the ERM II. The findings show that while the exchange rate evolution was not very smoothly in the last few years, the stability of the exchange market was high enough and Romania does not seem to encounter any problems concerning a future participation to the ERM II. The forecasts for the next years confirm the maturity of our exchange market and its capacity of maintaining the exchange rate sufficiently stable so that Romania might achieve its objectives in terms of euro adoption.

Keywords: stability, exchange rate, ERM II

1. Introduction

From the 1st January 2007 Romania is a member of the European Union. Not yet a full member, since full membership is granted only to the countries having adopted the euro. Accomplishing the convergence criteria and joining the Euro Area is the next step in the European integration process of our country. Before adopting the euro, Romania must spend at least two years in the ERM II (European Exchange Rate Mechanism II), keeping its exchange rate towards the euro stable, inside a band of ±15%. As many other countries from Central Europe, Romania decided to wait and join the ERM II only when it counts on accomplishing all the convergence criteria in the next 2 years.

Table no. 1 – Objectives of the Central and European countries concerning the ERM II and the euro adoption (as expressed in 2004)

Country	Objectives concerning ERM II participation	Objective set for euro adoption
Estonia	Rapid entry, maintaining the fixed exchange regime (fluctuation band zero)	2007
Latvia	Maintaining a narrow fluctuation band, of ±1%	2008
Lithuania	Rapid entry, maintaining the fixed exchange regime (fluctuation band zero)	2007
Poland	The shortest possible duration (2 years), with a standard fluctuation band (±15%)	2008-2009
Czech Republic	The shortest possible duration (2 years), with a standard fluctuation band (±15%)	2009 – 2010
Slovakia	The shortest possible duration (2 years); possible start in 2005	2008
Slovenia	Rapid entry (end of 2004)	2007
Hungary	Rapid entry, followed by a participation of a duration depending on the pace of convergence criteria accomplishment	2008

Source: Călin (2004), p. 68

The ERM II is the successor of the ERM (Exchange Rate Mechanism) established in 1978 in order to limit the fluctuations of the exchange rate movements between the currencies of the Western European countries. The ERM II is a fixed and adjustable exchange rate system, involving the risk of speculative attacks. Naturally (and especially after the crises experienced by the Western countries participating to the

ERM in 1992), countries try to avoid such vulnerable exchange rate arrangements. But participation to the ERM II is required, because it is considered that a successful participation proves the durability of the nominal convergence reached by the members of the EU (and before being accepted as a new member in the Euro Area, a country should be put to the test, so that a nominal convergence forced and superficial is detected before jeopardizing the stability of all the countries from the Euro Area).

The rest of the paper is organised as follows: the second section is presenting the opposite views of the communitarian institutions and new member states, and the arguments used by each side; the third part is presenting the evolution of the exchange rate between the Romanian (new) leu and the euro; the forth section assesses the compatibility of the evolution of the exchange rate in Romania with the requirements of the ERM II, evaluating the stability of the exchange rate of the leu towards the euro; finally, the last section contains the conclusions.

2. ERM II – accelerator of real convergence or unnecessary purgatory?

There is no consensus between the communitarian institutions and the representatives from the new member states, concerning the ERM II. Yet the fact remains that participating to the ERM II for two years is a mandatory condition for the countries wanting to enter the Euro Area. But while the communitarian institutions are encouraging early entrance in the ERM II and a long stay inside the mechanism, the national authorities from those countries have opting for the shortest possible stay: 2 years (see table 1).

For their part, the communitarian institutions agree that the real and nominal convergence obtained by the EU member states adopting the euro must be durable. They argue that the ERM II is offering the participant countries a flexible, yet stable exchange rate arrangement, ideal for achieving nominal convergence (price stability) while allowing the exchange rate to adjust to the movements of the equilibrium exchange rate determined by the real convergence and the Balassa-Samuelson effect.

Although a soft peg, the ERM II is not considered a threat for the financial stability of the participating member states, since the extended fluctuation band ($\pm$15%) is large enough to discourage speculative attacks (it was tested on the EMR after 1993 and no currency was pushed outside the fluctuation limits by speculative attacks). Moreover, the ERM II is endowed with a short term financing facility allowing the countries attacked to find support and supplementary means for fighting the speculative attacks. There are even some economists from the new member states supporting this strategy (Orlowski, 2002; Jankovics, 2002; Backé and Wójcik, 2002). And the experiences of the current members of the Euro Area seems to prove that participation to the ERM II is safe and does not imply a high risk of speculative attacks.

So far, everything sounds very logical, but then, why are all the new member states afraid to stay too long in the ERM II?

Well, it remains a soft peg imposing the national authority to defend a certain exchange rate towards to euro, and such an exchange rate arrangement can engender severe crises, because exchange crises appear always in the countries trying hard to defend a fixed exchange regime (Aubin C., Norel Ph., 2000: p.268).

Many economists suggested that, for the Central and Eastern European countries, the best strategy would be to join as soon as possible the Euro Area (Csajbok and Csermely, 2002; Buiter and Grafe, 2001; Coricelli, Jazbec and Masten, 2003). Also, outstanding economists from outside Europe recommended the new EU members to spend as little time as possible inside the ERM II – P. Kenen (see IMF, 2004).

Some economists even proposed the unilateral adoption of the euro in the Central and Eastern European countries, even before the accession to the EU (Begg, 2001; Buiter and Grafe, 2001; Balcerowicz, 2002; von Hagen and Zhou, 2003) – this strategy was declared from the start as unacceptable by the communitarian institutions. Under no circumstances participation to ERM II can be avoided, since the communitarian institutions insist on the necessity of equal treatment of old and new member states and on the idea of using the exact same set of convergence criteria.

In June 2004, the first countries from Central and Eastern Europe joined the ERM II: Slovenia, Estonia and Lithuania. In May 2005 other three countries joined the ERM II: Malta, Cyprus and Latvia. Slovakia fallowed in November 2005. There were no problems – Slovenia, Cyprus and Malta successfully finished their stay in the ERM II and adopted the euro. The countries counting on a latter adoption of the euro have not entered yet into the ERM II (Czech Republic, Poland, Hungary, Romania, and Bulgaria).

3. The evolution of the exchange rate between the Romanian leu and the euro

The exchange policy of Romania is, since 1991, the exchange rate managed float. The National Bank of Romania monitored closely the evolution of the exchange rate. First, the US dollar was used as a reference currency. After the euro was launched, the US dollar was replaced by a currency basket made by the US dollar and the euro. Gradually, the part of the euro increased in this basket. Finally, the reference currency remained the euro.

Although the legislation did not impose the NBR to focus on the evolution of the exchange rate, it chose to do so. The BNR allowed a real appreciation of maximum 2 – 2,5% per year, against the currency basket used (made by the euro and the US dollar).

Before 2004, while the annual inflation rates were well above 10%, the analysis of the real exchange rate is definitely preferable to one of the nominal exchange rate. For the period 1999-2004 the real exchange rate (RER) of the Romanian leu against the euro and its trend (determined by means of a Hodrick-Prescott filter) is analysed and presented in figure 1.

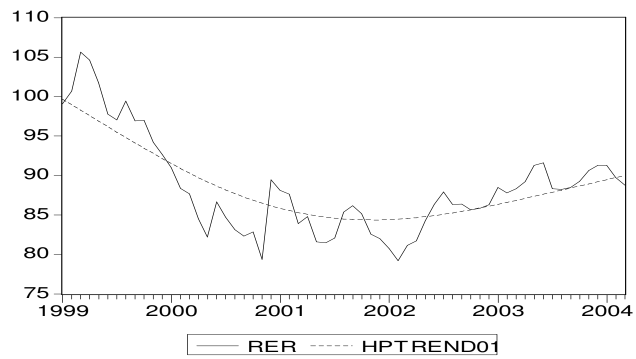


Figure 1 – The trend of the evolution of the real exchange rate

Source: Călin, 2004: p.267

The graphic clearly shows that after an evident real appreciation experienced in the first part of the period (January 1999 – beginning of 2001), the trend changed.

In October 2004, the NBR decided to reduce the frequency of its interventions on the exchange market. Its interventions became fewer, but more massive and less predictable. In only a few months, the nominal exchange rate of the Romanian leu against the euro passed from 41.127 lei/euro (October 2004) to 38.494 lei/euro (December 2004) – an appreciation of 6,84%. In March 2005, the exchange rate was 36.422 lei/euro – meaning a nominal appreciation of 13% for a five months period. If we consider also the inflation differential between Romania and the Euro or the USA – around 7% at that time) we can have a clearer image of the size of the real appreciation of the Romanian leu.

This evolution came as a shock to most Romanians (population and companies). After 15 years of depreciation, for the first time, the Romanian leu strongly appreciated in nominal terms against strong currencies as the euro and the US dollar. Apparently, the strong appreciation of the national currency was not desired by the NBR and may be, not even anticipated by it. Nevertheless, the NBR held to its decision, and after several months of strong appreciation, the exchange rate stabilised. Its level in January 2006 (3,6445 RON/EUR) was very close to the level from February 2005 (3,6765 RON/EUR). The market seemed to have found its equilibrium.

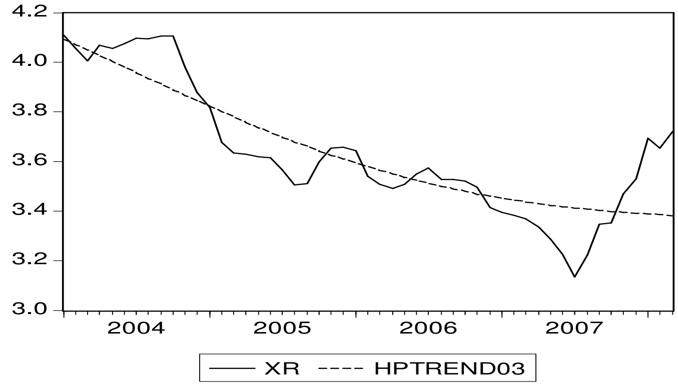


Figure 2 – The trend of the evolution of the nominal exchange rate (January 2004 – March 2008)

Starting with February 2006, the Romanian leu showed a clear tendency of appreciation, but in a completely different rhythm (passing to 3,1337 RON/EUR in July 2007 – an appreciation of 14,75% over a period of 18 months).

In the last few months, in the context of an increase in the level of the inflation rate (at over 8%), the nominal exchange rate started to depreciate (passing from 3,1337 RON/EUR in July 2007 to 3,7218 RON/EUR in March 2008). This seems to be a short-term deviation from the trend- as it can be seen in the figure 2, the trend did not change. Still, it represents a depreciation by 18,75% in only 9 months.

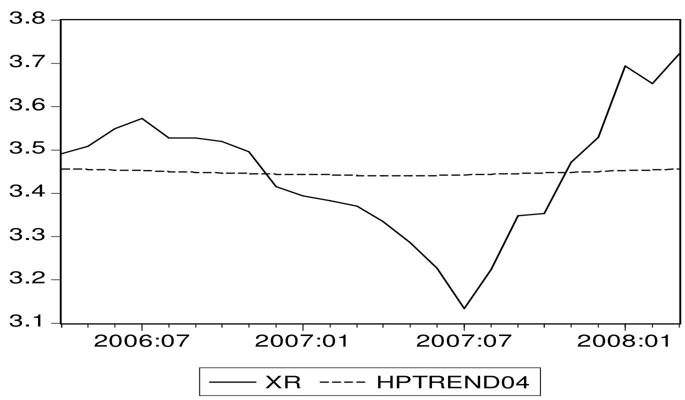
We could say that the exchange rate between the leu and the euro is now stable. In the end, the level of the exchange rate nowadays (April 2008) is around 3,6 RON/EUR, very close to the level from January 2006 or February 2005. But is a depreciation of over 18% in just a few months compatible with the ERM II?

4. Stability of the exchange rate

The ERM II allows fluctuations inside a band of ±15%, a band established around a central rate. If we should have chosen a central parity for the leu, it would have been, most probably, somewhere around 3,5 RON/EUR (most forecasts made in the last few years are estimating the exchange rate RON/EUR between 3,4 and 3,65 RON/EUR for the period 2007-2013).

Let us consider the last 2 years: April 2006-March 2008. The evolution of the exchange rate is presented in figure 3. If we look at the trend, the stability is obvious.

For our data sample, the mean is 3.446571, and the median is 3.4809. The maximum level reached by the exchange rate in the last 24 months is 3,7218 RON/EUR in March 2008, while the minimum value is 3,1337 RON/EUR in July 2007.



In table 2 we present the maximum deviation of the exchange rate between the Romanian leu and the euro, assuming various central parities.

Table 2 – Compatibility of the exchange rate evolution with the ERM II

Central parity	Maximum depreciation	Maximum appreciation	Compatible with ERM II
3,2	**16.3%**	2%	NU
3,3	12,78%	5%	DA
3,4	9,46%	7,83%	DA
3,5	6,33%	10,46%	DA
3,6	3,38%	12,95%	DA
3,7	0,59%	**15,3%**	NU

Considering the fluctuation band accepted in the ERM II as ±15%, the evolution of the exchange rate between the leu and the euro can be considered as stable (and compatible to the ERM II) for any central parity between 3,2363 and 3,6867 RON/EUR.

5. Conclusion

The Romanian exchange rate market reached a high level of maturity. By the time the NBR decided to dramatically cut the frequency of its intervention, the market was already able to function well without many interventions.

For years it has been said that in Romania the main problem concerning the convergence criteria is the inflation rate and that once the inflation is under control, the criteria concerning the interest rate and the exchange rate would be easily accomplished. This seems to be true for the exchange rate – with annual inflation rates expressed with a single digit, the exchange rate is already stable enough as to fluctuate within a band of ±10% around a central parity of 3,4 RON/EUR. Certainly, this does not mean that the participation to the ERM II is risk-free (on the contrary – so far, since the NBR was not forced to defend a certain level of the exchange rate, the incentives to speculative was lower; after joining the ERM II, that incentive will increase). But it proves that Romania will soon be able to participate to the ERM II and to accomplish the convergence criteria concerning the exchange rate, if that participation is handled with competence and caution.

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PROVISIONS SYSTEM – METHOD FOR PREVENTING CREDIT RISK IN BANKS

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Abstract. In the paper the author shows the modalities of preventing credit risk in financial institutions, based on provisions method.

Key words: provisions, protection at risk, credits classify

1. Introduction

The risk of non reimbursed credits represents a serious threat as far as the banks' possibility of paying bank deposits is concerned. For this purpose, the regulation of The Central Bank of Romania no. 5/2002 regarding the classification of credits and placements, as well as the formation, regulation and use of provisions specific to credit risk. The methodological norms no. 12/2002, both completed by Regulation no.7/2002, state that banks, for the purpose of protecting the deposits of individual and legal entities, have to limit credit risk and try as much as possible to obtain their receivables from debtors.

As a result, banks classify credits in:[229]

- standard;
- under supervision (only for the credits given to clients belonging to the non banking system;
- below standard (only for credits given to clients belonging to the non banking system;
- doubtful (only for credits given to clients belonging to the non banking system;
- Loss.

The classification of credits and placements is made by the simultaneous use of the following criteria:

- debt service;
- financial performance;
- Initiation of juridical procedures.

The evaluation of the financial performance of a company, outside the sector of credit institutions, will lead to its framing into one of the five categories of financial performance (A-E). This evaluation will be made according to internal norms, based on the score attributed to quantitative and qualitative factors.

The quantitative factors mainly refer to the following indicators:

- liquidity;
- solvability;
- risk;
- Profitability.

The qualitative factors that banks take into account when analyzing the credit, refer to aspects concerning:

- the administration method of the analyzed company;
- the equality of the shareholders; structure;
- received collaterals (others then those accepted with the reduction of the exposal towards the debtor);
- the market context in which the company performs its activity.

The financial indicators are calculated based on the data included in the financial statements of the company, dawn up according to the regulations issued by the Ministry of Public Finances or by foreign

[229] *The regulation of the Central Bank of Romania no. 5 from 22.07.2002 regarding the classification of credits and placements, as well as the formation, regulation and use of provisions specific to credit risk.*

authorities with similar role. The category of financial performance is determined, and helps the category chooses, in the month following the month when the banks had access to the respective reporting.

In the case in which banks are not able to evaluate the financial performance of a client from the non banking sector, it will go directly to category E.

The frequency, with which the financial performance of a company is determined, coincides with frequency with which financial statements are made.

The analysis and classification of the credit portfolio has as purpose the evaluation of the financial performances of the credit requester and their debts service.

The framing of the requesters into categories A, B, C, D, and E is made after the analysis of their financial performance, as shows below:

- **A Category** – their financial performances are very good and they afford to reimburse in due time the interest and the rate and their financial performance are likely to remain very high.
- **B Category** – good and very good financial performance, but they are not maintained at the same level for an extended period of time.
- **C Category** – adequate financial performance, but with an explicit tendency of decrease.
- **D Category** – low financial performance and an explicit cyclic tendency on short period of time.
- **E Category** – the financial performance show losses and there are clear perspectives that neither rates, or would interest be paid.

The debts service of the credit requester is divided into five intervals:

- 0-15 days;
- 16-30 days;
- 31-60 days;
- 61- 90 days;
- Minimum 90 days.

By correlating the data referring to financial performance with the data referring to the debts service, there is obtained credit classification.

<table>
<tr><td>Debts service</td><td>A</td><td>B</td><td>C</td><td>D</td><td>E</td><td rowspan="6">No juridical procedures/ with juridical procedures</td></tr>
<tr><td>0-15 days</td><td>Standard /Loss</td><td>Under supervision/ Loss</td><td>Below standard/ Loss</td><td>Doubtful/ Loss</td><td>Loss/Loss</td></tr>
<tr><td>16-30 days</td><td>Under supervision/ Loss</td><td>Below standard /Loss</td><td>Doubtful/ Loss</td><td>Loss/Loss</td><td>Loss/Loss</td></tr>
<tr><td>31-60 days</td><td>Below standard /Loss</td><td>Doubtful/ Loss</td><td>Loss/Loss</td><td>Loss/Loss</td><td>Loss/Loss</td></tr>
<tr><td>61-90days</td><td>Doubtful/ Loss</td><td>Loss/Loss</td><td>Loss/Loss</td><td>Loss/Loss</td><td>Loss/Loss</td></tr>
<tr><td>Min. 90 days</td><td>Loss/Loss</td><td>Loss/Loss</td><td>Loss/Loss</td><td>Loss/Loss</td><td>Loss/Loss</td></tr>
</table>

Table 1 - The Rating Credits System

Under these circumstances:

- **Standards credits** are those which do not imply deficiencies and risks that might endanger the administration of the debts as stipulated in the credit contract.

- **Credits under supervision** are the credits given to clients with very good economic results, but which, during short periods of time, met difficulties in reimbursing the due rates and the corresponding interest.
- **The below standards credit** presents deficiencies and risks that endanger the liquidation of the debts being insufficiently protected by the net value of the capital and/or the payment capacity of the credit beneficiary. These credits are characterized by the real possibility that the bank should partly overtake some losses as a result of the impossibility in recovering the entire loan, unless the credit's deficiencies are corrected.
- **Doubtful credits** are those loans that the reimbursement or the liquidation of which, based on the existing circumstances, values and collaterals, is uncertain. These assets are those which are unprotected or little protected by the accomplishable value of their collaterals.
- **Loss credits** are those credits that can no longer be repaid to the bank, a fact that causes their recording as assets to be un-guaranteed.

2. Forming risk provisions

The same regulation included the rules regarding the formation of provisions for the expected losses from the crediting activity.

Thus, for determining the required provisioning for credit risk corresponding to a credit or placement, there are covered the following stages:

1. determining the calculation basis for provisions for credit risk:[230]

a) by deducting from the exposal of the bank the collaterals accepted to be taken into account according to the methodological norms of The Central Bank of Romania no. 12/2002, in the case of a credit classified as "standard", "under supervisions", "below standard" and "loss", in circumstances in which there are no juridical procedures and all the amounts corresponding to that credit record a debt service of no more then 90 days.

b) by taking into account the entire exposal, irrespective of collaterals, in the case of a credit classified as "loss", in the circumstance in which there were started juridical procedures or when at least one of the amounts pf the respective credit record a debt service over 90 days, as well as in the case of a placement, irrespective of the corresponding classification category.

2. Applying the provisioning coefficient to the calculation basis obtained; the correspondence between the classification categories and the provisioning coefficients.

The provisioning coefficients are:

- 0 for "standard" category;
- 0.05 for "under supervision" category;
- 0.2 for "below standard" category
- 0.5 for "doubtful" category;
- 1 for "loss".

The formation of credit risk provisions refers to their creation and will be made by including as expense the amount representing the provisions requires.

The regularization of credit risk provisions refers to the change of their existing level in order to recreate the balance between the existing level and that so the requirement and it will be made by including in expenses of the sum representing the difference between the level existing in balance of credit risk provisions and the level of the requirement.

The use of credit risk provisions refer to the annulment of credit risk provisions in the event of credit risk and it will be made by the reversal on income of the sum representing the level existing in balance of credit risk provisions and the placements taken out of the balance sheet.

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[230] *The methodological norm of The Central Bank of Romania no. 12 from 22/07/2002 for the application of The Regulation of The Central Bank of Romania no.5/2002 concerning the classification of credits and placements as well as the formation, regulation and use of rpovisions specific to credit risk.*

Banks form and/or regulate on a monthly basis their credit risk provisions corresponding to the credits and placements appearing in the balance at the end of the respective month, by including as expense and/or by reversal on the incomes of the month for which the reporting is made, irrespective of the financial result of the period.

Up to 30.06.2007 considered as extra balance sheet the sums corresponding to a credit or placement in the following circumstances:

1. at least one of the respective sums record a debt service over 360 days;
2. there was given an executor function to:
3. the credit contract, as well as collateral contracts, if the case;
4. the final court decision regarding the credit contract, as well as the collateral contracts, if the case;
5. there was started the procedure of forced execution in the case of individual or legal entities; the court decided to declare bankruptcy;
6. the court decided to declare bankruptcy

3. The solvability indicator

According to the methodological norm of BNR no. 12/2003 concerning the supervision of solvability and large exposal of credit institutions, the banks are forced to calculate the solvability indicator and to maintain it at a minimum level of 12%. This solvability indicator represents the transposable into Romanian legislation of Basel I Agreement concerning capital adequacy, with the mention the minimum value recommended by this agreement for the solvability indicator is 8%.

The solvability indicator expresses own funds (as defined in the norms of The Central Bank of Romania regulating the own funds of the credit institutions) as percentage from the total assets and extra balance sheet elements, net of provisions, adjusted according to the risk.

Credit institutions report to The Central Bank of Romania on a quarterly basis the solvability indicators calculated on individual basis, and, quarterly, the solvability indicators calculated on consolidated basis.

In the calculation of the solvability indicators, assets and extra balance sheet elements are evaluated according to the accounting regulations harmonized with Directive no. 86/635/CEE and with The International Accounting Standards applicable to credit institutions.

The own funds, as defined in the norms of The Central Bank of Romania regulating the own funds of credit institutions; represent the numerator of the solvability indicator. The numerator of the solvability indicator is represented by assets and extra balance sheet elements, adjusted according to the risk.

The risk degree ascribed to assets is expressed by a percentage, while the balance sheet value of each asset is multiplied by the adequate percent in order to obtain a value adjusted according to the risk. In the case of extra balance sheet elements, expressly enumerated by these norms, there is performed a two staged calculation.

In the case of extra balance sheet elements, the potential costs for replacing contracts, in the case in which the counterparty does not pay its obligations, is calculated by applying the method described in annex II to Norms no.12/2003. These costs are multiplied by the amounts corresponding to the counterparty, excepting the amounts of 100%, which are replaced with 50% in order to obtain values adjusted according to the risk. The sum of the amounts according to risk of assets and extra balance sheet elements represents the numerator of the solvability indicator.

In the case in which the asset elements and the extra balance sheet elements enjoy a lower weight due to the existence of direct, express, irrevocable and unconditioned collaterals or to the collateral acceptable in the opinion of The Central Bank of Romania, the smaller weight will be applied only to the parts guaranteed or entirely covered by collateral.

Credit institutions are obliged to permanently maintain the solvability indicator calculated above on a level of at least 12% and, in the case in which the indicator decreases below 12%, the respective credit institutions have to adopt adequate measures in order to re-establish, as soon as possible, the minimum level of this indicator.

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BASEL II CREDIT RISK MANAGEMENT AGREEMENT

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Abstract. In the paper the author show the modalities of financing the companies taking into account Basel II Agreement.

Key words: capital adequacy, currency mismatch, haircut

1. The necessity of improving Basel I Agreement

In July 1988, The Basel Banking Supervision Committee issued a set of recommendations referring to the introduction of a minimum level of capital for international active banks in order to facilitate the fair competition between them (foe example, the Japanese banks has a much lower capital then non Japanese banks with the same credit risk).

The proposals of Basel Committee were not imperative, but an expression of good practice. In the European Union there were introduced though the Capital Adequacy Directive.[231]

According to the agreements, the basic capital of a bank has to be maintained at least 8% from the banks' exposal, and to the different exposal categories there were given a percent from 0 to 100, while to loan for companies a percent of 8%, irrespective of the credit's quality.

The main deficiency of this agreement was the fact that the percents used – 0, 20, 50 and 100% - was given on a simplistic basis. For example, a bank had to form the same capital irrespective if it gave a guaranteed credit to an AAA rating company or an un-guaranteed credit to a BBB rating company. Thus, a bank could administer these norms in the sense that exposal from high quality credits could be sold and credits could be given to debtors of inferior quality, but with a better yield. But, at that time the agreement was considered as a good compromise, since the technology of risk management was not developed enough to enable finer tuned capital request, and the banking industry required minimum capital requests harmonized for fighting the decline in banks' capital.

From that moment on, the process of allocating capital as compared to given credits became more sophisticated and many banks developed their own rating systems. Many banks went forward and used the series of historical data referring to the losses in the crediting activity in order to estimate the average and variation of losses for every type (measures) of credit and, thus, there were estimated the probability distributions of losses. These estimations could have been used for the whole management of credit portfolio, so that the bank would maintain a target rating of its credit portfolio.

In 1999, the Basel Committee decided to rectify the capital adequacy regime in order to adapt it to the changes in the process of risk management used by banks and that would offer them more freedom in credit risk management. In this sense, in 1999 and 2003, there were made public two consultative agreement projects and in July 2004 there was published the final version of the agreement.

The new agreement acknowledges the progresses made in credit risk management and brings incentives for enabling banks to use sophisticated models of risk management. Moreover, it is allowed the use of credit risk derivatives for covering the positions generated by crediting.

The agreement is structured on three pillars:

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[231] 393L0006 (Capital Adequacy Directive) – Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions (Annex V), modificată de 398L0031 – Directive 98/31/EC of the European Parliament and of the Council of 22 June 1998 amending Council Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions şi de 398L0033 – Directive 98/33/EC of the European Parliament and of the Council of 22 June 1998 amending Article 12 of Council Directive 77/780/EEC on the taking up and pursuit of the business of credit institutions, Articles 2, 5, 6, 7, 8 of and Annexes II and III to Council Directive 89/647/EEC on a solvency ratio for credit institutions and Article 2 of and Annex II to Council Directive 93/6/EEC on the capital adequacy of investment firms and credit institutions.

- Pillar 1: minimum requirements of capital – the quantitative approach of prudential requirements;
- Pillar 2: supervision of the process of capital adequacy;
- Pillar 3: market discipline – requirements of more detailed reporting of the supervision institution and the population.

In order to calculate the required capital, Basel II agreement suggests three different approaches:

1. Standard approach, similar to that proposed by Basel I, uses more refined percents. This approach also enables the use of derived financial instruments for limiting credit risk and decreasing capital requests.
2. Foundation internal rating based (IRB) approach, which allows the bank to use its own rating system, including the use of own calculation regarding the probabilities of entering payment default (PD), but the losses recorded when the counterpart enters loss given default (LGD) are provided by the supervision authority.
3. The advanced IRB approach, where banks calculate their capital requirements basing on their own models, validated by the supervision authority, including PD and LGD probabilities.

The main advantages introduced by the new capital agreement are:

- Take intro account the specificity of each credit institution and the risk profile it presents;
- Leads to the development of the rating agencies market;
- Ensures the diversification of the models referring to risk evaluation and the determination of the capital requirements in the context of the evolution from a simplified approach to advanced approaches;
- Implies the formation of human resources in order to due efficiently the procedures of evaluating rating agencies, the unfolding of the supervision process according to the requirements of the second Pillar and validation of the internal models of the credit institution;
- Stimulate the market transparency and discipline.

The main advantage of the new prudential requirements is that they imply the allocation of additional financial and human resources, cost that, on intermediary term, and will be compensated by the decrease of capital requirements.

2. Standard approach

In the standard approach, the percents are given according to the type of credited state/institution and according to their rating.

The most important categories of debtors are:

- States, including central banks;
- Local authorities;
- Multilateral development banks;
- Banks;
- Corporations.

Debtor	**Capital requirements**					
	AAA la AA-	**A+ la A-**	**BBB+ la BBB-**	**BB+ la B-**	**Sub B-**	**Fără rating**
States	0%	20%	50%	100%	150%	100%
Banks Option 1 (a)	20%	50%	100%	100%	150%	100%
Option 2 (b), (c)	20% (20%)	50% (20%)	50% (20%)	100% (50%)	150% (150%)	50% (20%)

				BB+ la BB-	Sub BB-	
Corporations	20%	50%	100%	150%	150%	100%

Table 1 - The Rating System

a) percents are based on the rating of the state where banks have their headquarters
b) prevents are determined according to the rating of the bank;
c) Between brackets there are indicated the percents for short term (less then 3 months) credits.

In order to expose the retail credit (considered as such by the supervision authority), the risk percent is 75%. According to Basel II, on order to be classified as retail, the exposal has to meet the following conditions:

- to be over a individual entity or small business;
- to be generated by a certain bank product, for example credit cards or consumption credit;
- should not be over 0.2% from the retail portfolio acknowledged as such by the supervision authority;
- should not be over 1 million euro for any counterparty;
- these principles have been included in REF 14/2006

For the exposal on mortgage credits, capital requirement is 35%, substantially lower then 50% of Basel I.

The standard approach is largely based on the external ratings given by rating agencies (external credit assessment institutions, ECAI), acknowledged by national supervision institutions.

The eligibility criteria for rating assessment companies are:

- Objectivity: The methodology for rating determining has to be rigorous, systematic and validated on historical experience. Moreover, ratings have to be permanently re-evaluated and to answer to the changes of the financial standing of the debtor. Before being recognized by the supervisor, the methodology of determining the rating for every market segment, including their testing, has to be applied for at least 1 year, preferably 3 years.
- Independence: The external agency of rating should be independent and not subjected to political or economic pressure that might influence rating. The process of determining the rating should be free of the constraints that might appear in circumstances in which the composition of the administration council or of the shareholders' structure may be accused of creating conflicts of interests.
- Disclosure/ international access: Individual rating should be available both to national and international users. Moreover, the general methodology of rating assessment should be publicly available.
- Disclosure: The rating institution should make available the following information: the methodologies of rating assessment, including the definition of PD, current ratios of PD for each rating category and the probabilities of transition from one rating category to another.
- Resources: The rating institution should have enough resources for giving high quality ratings. These resources should enable the constant contact with the superior and operational levels of the units the rating of which is evaluated, in order to add value to the given rating. The evaluations should be based on methodologies that combine quantitative and qualitative approaches.
- Credibility: To a certain extent, credibility is derived from the above criteria. Moreover, the dependence of the independent users (investors, insurance societies, trade partners) of the ratings provided represents a proof of the credit institutions' credibility. Credibility also is influenced by the existence of internal procedures preventing the inadequate use of confidential data.

Basel II acknowledges credit risk reduction techniques through collateralization, collaterals and credit risk derivatives.

As far as the collateral is concerned, there are allowed two modalities of approach. The simplest approach is similar to Basel I approach, according to which the credit risk percent is replaced with the collateral's risk percent, which can not be smaller then 20%. The other, more advanced, approach, for protecting the bank against the volatility of the collateral's price, is based on the adjustment of the collateral's market price by applying haircuts, either provided by supervisor (basing on quantitative and/or qualitative criteria, or internally calculated. Then, the adjusted market value of the collateral is deducted from the gross value of the credit, thus obtaining the adjusted exposal, and then multiplied by the corresponding risk percent.

Thus, for a collateralized transaction, the exposal after risk mitigation procedure is calculated as follows:

$$E^{*} = \max\{0, [E \cdot (1 + He) - C \cdot (1 - Hc - Hfx)]\}$$

where:

E^{*} is the value of the exposal after risk mitigation procedure;

E – current value of the exposal;

He – the *haircut* applied to the respective exposal;

C – current value of received collateral;

Hc – the *haircut* applied the respective collateral;

Hfx – the *haircut* applied for *currency mismatch* due to the expressed in different circulating mediums of the exposal and the collateral.

When the collateral is formed from a basket of assets, the haircut applied the the asset basket is $H = \sum_{i} a_i H_i$, where a_i represents the percent of the asset (measured in circulating mediums) in the basket and H_i represents the haircut applied to the respective asset (Regulation of BNR no 19/2006).

The acceptable collateral according to both approaches represents:

- Money or deposits;
- Financial securities with at least BB- rating issued by the government or public authorities;
- Financial securities issued with corporation of at least BBB- rating;
- Shares or bonds belonging to a principal index;
- Gold.

Moreover, the advanced approach accepts shares that do not belong to a principal index, but are tranzactioned on a principal market, bonds without rating issued by bank institutions, collective and mutual funds investment securities.

In order to use these types of collateral, a bank has to meet standards referring to:

- the legal certainty of the documents used;
- the requirement that the assets used for risk mitigation should have a reduced correlation with the credits the risk of which is reduced by them;
- the solidity of the management policies of the collateral.

The proposals referring to warrants and balance sheet netting enlarge the area of eligible warrants or of suppliers of derived contracts on credit risk, through the acknowledgement of the protection for credit risk provided by the government or other banks with lower risk percentage then the debtor's and other units with A- or better rating. This latter category included the protection provided by the mother-company, subsidiaries or affiliates of the debtor, when they have a lower risk percentage then the debtor.

As for the collateral, in the case of the compensation there are determined haircuts. Thus, the exposal obtained after the use of a master netting agreement is:

$$E^{*} = \max\{0, [(\sum(E) - \sum(C)) + \sum(Es + Hs) + \sum(Efx \cdot Hfx)]\}$$

where

E^* is the value of the exposal after risk mitigation procedure;

E – current value of the exposal;

He – the *haircut* applied to the respective exposal;

C –value of received collateral;

Es – absolute value of the net position in a financial security;

Hs – *haircut* applied *Es*;

Efx – absolute value of the net position in a circulating medium different from the *settlement currency*;

Hfx – *haircut* applied for reducing *currency mismatch*.

As an alternative to the standard approach and the estimation of own percentages for the collateral (advanced approach), banks may use value-at-risk (VaR) models for reflecting the volatility of the exposal and the collateral for the *repo* contracts covered by netting contracts.

The use of VaR models is allowed only for the banks with internal models of market risk acknowledged by the supervision authority according to the Market Risk Amendment. Those banks that did not receive this authorization may request separately (from Market Risk Amendment) the supervision authority to acknowledge the above models of market risk for *repo* transactions. These models will be authorized only if the bank is able to prove the quality of the model used though data referring to the testing of its results for a period of time of at least 1 year.[232]

In this context, the exposal for the banks using internal models of market risk is:

$$E^* = \max \{0, [(\sum(E) - \sum(C)) + \text{multiplicator} \times \text{results VaR}]\}$$

In the calculation of capital requirements, banks will use the result of VaR model (VaR value) corresponding to the previous working day.

As far as the derived contracts and guarantess are concerned, the operational requirements to be completed are:

- they have to be a direct receivable over the protection seller and have to refer to the specific exposal (or the group of exposals) , so that the protection should be clearly defined and solid;
- the contract should be irrevocable; the contract should have no clause stating that the protection seller may, unilateraly, renounce the ensuring of credit risk protection or to increase the cost of protection in the case in which the quality of the credit deteriorates;
- the contract should be unconstrained;
- the contract should have no clause that would allow the protection seller to delay the payment of damages in the case of the credit event.

If protection is in another circulating medium, its value should be reduced by applying a haircut:

$$G_A = G \cdot (1 - H_{FX}),$$

where:

G – nominal value of credit risk protection;

H_{FX} – *haircut* applied;

G_A – effective value of collateral.

In the case in which there are maturity differences between the instrument providing credit risk protection and the credit instrument, the value of the credit risk protection will be adjusted as follows:

$$\mathbf{Pa = P \times \frac{t - 0.25}{T - 0.25}},$$

where:

Pa = value of credit risk protection adjusted for maturity differences;

[232] The supervision institution rates these models according to the errors generted in the green, yellow and red area and, according to the area to which the model belongs, it gives a multiplier for VaR value.

P = value of credit risk protection adjusted for any *haircut*s;

t = min (T, residual maturity of protection contract) expressed in years;

T = min (5, residual maturity of credit risk exposal) expressed in years.

3. Internal rating approach

This method anables banks to determine their capital requirements for different exposals, using their own estimations for a part or all the components of risk. They include:

- the probability of default;
- loss suffered by the bank (as percentage from the value of the exposal) in the case of loss given default;
- exposal in the moment of exposure to default, EAD;
- effective maturity of the credit instrument, M.

The use of an own methodology in estimating these credit risk components is the object of the supervision authority's approval and, in certain circumstances, banks will have to use, for one or several risk components, values provided by the supervision authority.

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THE IMPACT OF EUROPEAN INTEGRATION ON THE PAYMENT SYSTEM

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The introduction of euro in 2002 led to the creation of a single "domestic" market for cash retail payments in euro. In order to create a single market for cashless payments as well, the European banking community, ahead by European Council Payments, has launched the Single European Payments Area project (SEPA) in 2002. The project designed new payment schemes for credit transfer and direct debit, as well as a card payments framework. SEPA credit transfer scheme was officially launched on 28 January 2008. The whole project is expected to be implemented by the end of 2010. In this paper we refer to the necessity of introduction of this ambitious project, to the essential features of its components and to its overall economic impact. We also discus the challenges of Romanian payment system generated by the implementation of SEPA.

Keywords: payment system, Single European Payments Area, Romanian payment system

Introduction

Over the last two decades payment and settlement system have gained an increasing importance in the most countries as a result of a growth in the volume and the value of transactions resulted from money and foreign exchange markets, in particular, and from financial markets in general.

Generally, a payments system is made of three major components:

- RTGS system settles large-value payments on one to one basis.
- Clearing House settles low-value payments through clearing system on net basis.
- Securities settlement system – settles transaction with securities.

Given the fact that payment system represents the main channel through which central bank implements monetary policy, it has a vital importance to the economy, especially in what concerns well functioning of financial system and assurance of financial stability.

1. Payment System in Euro zone

Since the payment system plays a vital role both in terms of financial stability and facilitation of transactions among customers, European Central Bank and the Eurosystem give an important attention to the smooth functioning of the payment system in the euro area.

1.1. Components of Payment System in Euro zone

The payments in euro area are settled through the following components:

- TARGET (Trans-European Automated Real-time Gross settlement Express Transfer system) settles large-value euro payments. It was created by interconnecting national RTGS systems and the ECB payment mechanism in January 1999. Today TARGET is the largest payment system in the world (Godeffroy J. M., p.1).
- The Correspondent Central Banking Model allows Eurosystem counterparties to use their eligible marketable assets issued in other euro area countries as collateral in order to get a credit from their home central bank.

- EBA (Euro Banking Association) Clearing is a private provider of both high-value and low-value clearing and settlement services to banking community in the European Union through three systems: EURO 1, STEP 1 and STEP 2 (the only retail payment system).

1.2. Payment instruments in euro area

The most used cashless payment instruments within euro area are credit transfer, direct debit and cards (www.ecb.int).

Credit transfer is a payment instruction initiated by the payer, being sent to the payer's bank, which moves the funds to the beneficiary's bank, possibly through some intermediaries. Credit transfers are the most used instrument, representing around one-third of cashless payments.

Direct debit is a payment initiated by the payee through its bank, after the agreement between the payee and the payer. Direct debits are used both for returning payments with a pre-authorised agreement and for one-off payments where the payer authorises the individual payments. The payments through direct debits represent around one-quarter for all cashless euro payments.

Cards are issued by a credit institutions or card company. They can be debit cards or credit cards. Debit card allows the cardholder to charge purchases directly and individually to an account. Credit card allows the cardholder to make purchases within a certain credit limit. Card payments represent less than one-third of cashless payments.

2. SEPA – Single European Payments Area

2.1. Creating of SEPA

In spite of the introduction of euro in 2002, the payment systems of member countries adopters of single currency were not equipped to handle it as differences between national and cross-border payments continue to exist. Since then a "domestic" market for cash retail payments in euro was created, but not for cashless. Although large-value payments, procedures, instruments and services have been harmonized until today, this performance was not achieved in the case of retail payments. To pass these deficiencies, the European Payment Council (EPC), the decision-making and coordination body of the European banking industry in the domain of payment, launched the SEPA project in 2002. It represents a programme which aims to create a single domestic payments market in euro, where, the costumers could make cashless payments in euro zone as easily, efficiently and safely as in their domestic countries, from a single account anywhere in the euro zone using a single set of payments instruments (Schmiedel H., p. 5).

European banking community is now implementing common standards and procedures for credit transfers, direct debits and payment cards to eliminate the differences between domestic and cross-border payments in euro. Creation of SEPA between 2008 and 2010 may be compared to the transition process from national currency to a single common currency (Schaefer G. K., p. 3).

SEPA is implementing in three stages (ECB 2006, p.14):

1. The design stage began in 2004, engaging the plan of the new credit transfer and direct debit scheme and the framework for cards, clearing and settlement infrastructure.
2. The implementation stage last between the mid-2006 and end-2007, consisting in preparation for the adoption of the new SEPA instruments, standards and infrastructure.
3. The migration stage started in January 2008, being characterised by the coexistence of the national payment schemes with the new SEPA schemes.

2.2. Components of SEPA

SEPA takes into consideration the following aspect (ECB 2006, p.19-26):

1. SEPA instruments

SEPA introduced two new payment schemes for credit transfer and direct debit as well as a card payments framework. These instruments will gradually replace the current national instruments.

a) SEPA credit transfer is an interbank payment scheme which defines a universal set of regulations and procedures for credit transfer denominated in euro. In this scheme any customer can be reached. The whole amount is credited to the payee's account, without a limit on the value of the payment. The duration of settlement is maxim three business days.

b) SEPA direct debit is an interbank payment scheme which defines a universal set of regulations and procedures for direct debits denominated in euro. Under the SEPA there are two different models for direct debits: 1) debtor gives the mandate directly to the creditor and 2) debtor gives the mandate directly to its bank. In this scheme direct debits can be made to any receiver. The duration of settlement is maxim five business days for the first payment and two business days for returning payments. SEPA also develops a business-to-business direct debit scheme.

c) SEPA card framework sets out a set of high-level principles regarding of card payments, developed by EPC. Under this framework cardholders will be able to pay with a single card all over the euro area, being limited only by brand acceptance by merchants. Card payments will be made in a common and reliable way. Payment card processors can complete with each other and provide their services within euro zone, building a more competitive, consistent and cost-efficient card market.

2. SEPA infrastructures

The SEPA clearing and settlement framework refers to the principles according which infrastructure providers will sustain the SEPA instrument schemes. This framework also ensures the separation of scheme and structure. SEPA aims to build an infrastructure which allows all euro payments to be made, received, and settled directly or indirectly and to assure full transparency in terms of infrastructure providers' services and prices.

3. Standardization

In order to permit automated processing of all payments denominated in euro, the EPC has adopted a common approach of standards regarding business requirements, logical data elements and payment messages. These standards are obligatory in the bank-to-bank field and suggested in the customer-to-bank field.

4. Legal framework

The legal framework for SEPA instruments was set up taking into account three main issues:

- The right to provide payment services to the public
- Transparency and information requirements
- The rights and obligations of users and providers of payment services.

2.3. The impact of SEPA

The SEPA project is comparable to the switch to the euro from the point of view of its aspiration, dimension and complexity. Thus it represents the rational main further step towards faster European integration. The implementation of SEPA will get several positive economic effects and opportunities, but also challenges (Schmiedel H., p. 5):

- Costumers, both citizens and companies will benefit by the ease, safety and simplification of making payments in euro using a single bank account. Also, SEPA will stimulate the competition among banks in order to provide innovative services and new, added value products to their costumers.
- Within SEPA, the payment cards will became the favourite instrument, replacing the cheques and cash payments. The costumers will be able to use a single card for all euro payments, which will led to an increase in usage of cards. Moreover, the increasing competition among acquirers and card scheme should drive down costs and fees.
- The overall impact of SEPA on banking community differs depending on its stages. Over time the benefits and challenges of SEPA are influenced by two contradictory effects: first, the increasing in banking industry competition due to the elimination of the barriers across national countries and, second, the assurance of cost savings in payment processing and growth of business opportunities.

In the short term, the coexistence of SEPA and national retail payment schemes is supposed to generate higher cost and a limited impact on the banks' income. The industry and consultancy studies focused on the impact of SEPA show that the initial investment costs of banks at European aggregate average level are range between 5.2 bullion euro and 7.7 bullion of euro, as it is presented in table below (Schmiedel H., p. 9).

Study	Estimated SEPA investments in EUR billion	
	Low	High
Accenture/PSE Consulting (2006)	3	>8
Boston Consulting Group (2006)	0.5	5
Eurogroup/FBF (2007)	9.1	12
Iflex-solutions/Financial Insights (2006)	5.4	5.4
TowerGroup (2005)	8	8
Average	5.2	>7.7

Table 1 Overview of selected SEPA impact studies

In the longer run, when SEPA schemes will replace national schemes, the banks' costs are expected to diminish due to automation, possible economies of scale and scope and innovations (e.g. electronic invoicing). The banks' income will also be influenced by the increasing of competition. Furthermore, the banks' approach will have a significantly impact on costs and incomes. Banks that introduce supplementary automated services will be able to produce new business opportunities (Schmiedel H., p. 20).

The cost of the new system could be significantly diminished by extending the implementation stage because SEPA could be better fit into the technological innovation cycles of national payment systems. Thus, SEPA will have the possibility to become a welfare enhancing project, through the cost reduction for cross-border transactions and higher efficiency due to the increased cross-border competition in banking industry (Schaefer G. K., p. 25).

2.4. Implementation of SEPA

SEPA includes all the member countries of euro zone, together with the other members of European Union, and Island, Liechtenstein, Norway and Switzerland.

On 28 January 2008 the European banking community formally launched SEPA credit transfer. This represented the first step in a migration process during which costumers will move from existing national electronic payment systems to the new SEPA instruments. During the migration period customers will be able to use SEPA schemes parallel with the national instruments. Since the initial points are different across euro zone, most of the migration work will take place at the national level.

The next important step will be the introduction of SEPA direct debit by the end of 2009, whose implementation was delayed for juridical and technical reasons. This scheme will require to be improved by further options in order to offer appropriate solutions for diverse consumer requests.

This will be followed by implementation of SEPA card framework, which came into effect on 1 January. This will generate wide changes on European card markets. The objective of SEPA project with regard to card is to support the expansion of this instrument from both supply (banks) and demand (cardholders, merchants) points of view, with no difference between national and cross-border card payments. A new European card scheme is expected to emerge, harmonizing card payments in euro area (Tumpel-Gugerell G., p.2).

By the end of 2010 all infrastructures should be able to process SEPA payment instruments and public administrations, companies and citizens will use exclusively the SEPA instruments.

3. Romanian Payment System

3.1. Introduction of Electronic Payment System

Romania's joining of European Union required the implementation of an electronic payment system, similar with the systems used by the member countries. In this purpose, a large project was lunched in 2001, co-financed by the EU (through PHARE) funds in amount of EUR 8.04 million and by domestic banking system (through TRANSFOND) in amount of EUR 8.4 million (NBR, Annual Report 2005, p. 63). The implementation of the new Electronic Payment System (EPS) was the widest project coordinated by the National Bank of Romania (NBR). The EPS is compatible with the payment systems in the EU regarding the functionality and conformity with international standards and practices in the field. The EPS, gradually implemented in 2005, is managed by the NBR and services related to technical operation are provided by TRANSFOND (National Society for Funds Transfer and Settlement), which was set up in 2001, being a joint-stock company, held by NBR (33.3%) and 25 credit institutions (66.67%).

3.2. Components of Electronic Payment System

Romanian EPS comprises three components (BNR, Annual Report 2005, p. 65-73):

1) ReGIS system (the Romanian electronic Gross Interbank Settlement system)

ReGIS, launched on 8 April 2005, represents the real-time gross settlement system, ensuring the settlement of large-value (above 50,000 RON) and urgent payments in domestic currency realised by credit institutions, on its own behalf and account or on customers' account as well as of payments in domestic currency arising directly from or made for the settlement of net positions initiated by the net settlement systems and the settlement of operations performed with financial instruments. ReGIS ensures the connection to the TARGET.

2) SENT system (the System for Electronic Net Settlement run by TRANSFOND)

SENT, launched on 13 May 2005, represents the automated clearing house, ensuring the clearing of low-value payments (for instance, credit transfer and direct debit smaller than 50,000 RON) among credit institutions and between them and State Treasury and the computation and transmission of multilateral net positions of the participants for final settlement in ReGIS. Presently, the clearing sessions take place three times on day. The clearing of order payments accepted by SENT requires the insurance by collateral under the form of funds and/or government securities deposited in the ReGIS or SaFIR systems.

3) SaFIR system (Settlement and Financial Instruments Registration)

SaFIR, launched on 3 October 2005, represents the depository and settlement system of operations with government securities and certificates of deposit issued by NBR. SaFIR is a real-time gross settlement system, which organizes and manages the registration and transfer of property rights on these financial instruments, and settles the transactions related to them.

In the architecture of the Romanian payment system there still functions a system of paper-base clearing of payments related to debit payment instruments (cheques, bills of exchange and promissory notes), which will be replaced in the future by an electronic system operates through SENT. EPS also includes a back-up and recovery system, whose aim is to assure the permanent operation of the payment system in the situation of unforeseen events.

3.3. Impact of SEPA on the Romanian payment system

Conclusions

The adoption of euro as single European currency will be finished only when the SEPA will entirely become a reality, allowing the customers to make cashless payments across euro area, using a single bank account and a single set of instruments, as easily, efficiently and safety as in their national payment systems today. The implementation of SEPA will get several economic benefits and opportunities for customers and merchants, but also challenges. From the view of banks, initial stages of SEPA requires substantial changes and the positive effects can appear mainly for those banks that launch new technological products and provide innovative services. The implementation of SEPA in Romania needs for the support of the regulating local authorities and also for massive investments in the banking system.

Fifteen Romanian banks have already joined SEPA and have engaged to respect the SEPA standards as far as credit transfer operations in Euro are concerned. Other Romanian financial institutions must fulfil the adhering process by the end of December 2010.

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LABOUR FORCE AN IMPORTANT FACTOR IN A BANK SYSTEM

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This work belongs to a more ample paper: "Evolutions and tendencies of the human resources in the Romanian banking system after 1990" and presents the results of the first stage of the research: documentary analyse.

Introduction

Human resource is complex, it can't be easily measured and to be efficient it requires, from the organization, a permanent supporting and developing effort. It also has:

- an active role within the framework of the economic process;
- it communicates with the medium where it works;
- it offers an unlimited potential profit.

Analyses

The manpower of the banking system is a priceless active, it has a very important role in a bank's success, performance and competitiveness. The banking system manpower is very important in the promotion the products and of the services of the bank where she/he works. Among the indicators aggregated by the performance the most important are:

- the clients' satisfaction;
- the profit
- the efficiency
- the staff turnover

The real profit growth is the most important factor which determines the bank's share increase. The real profit development is realized only through a lasting increase, increase which is mainly influenced by the growth of the loyal clients base. Loyal clients may constitute an important, oral and unwarranted selling force. But to increase the number of the loyal and contented clients the banks need employees who involve themselves[233]. The employees who involve in their activity influence the profit either indirectly through the productivity increase or directly through turnover decrease. Each bank has to assure itself that its staff is in good relation with the clients, because the success depends on the hired staff. Each employee of the bank interacts both with inner clients (colleagues, superiors) and with external clients[234], on the employee's attitude and behavior also depends the image and the reputation of the bank. There is a strong connection between the quality of the services offered to the colleagues and the quality of services offered to the clients. The way in which colleagues help one another to solve different problems makes an impression on the offered services. On the service quality received by the inner clients depends the service quality extended to the external clients. There is a proportional report between the number of the services used by the client and the productivity of the bank.

A study realized by BNR underlines that one of the most important competitive advantage of a bank is represented by the qualified staff. The competent employees, who like what they do, who feel good in the staff they work with, tend to be more productive, try to know better their clients and their clients' desires. The benefits resulted from the clients reward represents the key to the drawing of the new clients.

In this moment the banking market is concentrated around five banks, which hold more than 60% of the market share[235]. The Romanian capital of banks has significantly decreased (52,2% in 1998 in regard to 6%

[233] Marcus Buckingham, Curt Coffman-Manager against the stream-Editura Allfa 2007
[234] Iuliana Cetină, Emanuel Odobescu, Banking Marketing Strategies, Editura Economică, 2007
[235]Yearly Reports BNR

in 2006), while the foreigner grew from 24,3% in 1998 to 54,7% in 2006). Last year, the banks from Romania accomplished a cumulated net profit of 2,74 billions lei, more with 24,5% comparative to the result obtained in 2006 according to the information reported by the credit institution to BNR. Over 50% of the net profit realized by the banking system belongs to BRD – Groupe Societe Generale and to Banca Comerciala Romana (Romanian Commercial Bank).

The net profit for each wage-earner has grown with 10,5%, from 38.000 lei/employee at the end of 2006 to 42.000 lei/employee at the end of the last year, taking into account that the staff from the banking system has been supplemented with 7.565 employees, to 65.655 employees.

Once with the buying-out of the banking system, foreign experienced managers have been named to manage the banking institution from our country, to develop the business according to the new business lines from the modern banking. But the most important leading positions of the banks are occupied by Romanian bankers. That's why it is very important to know how to train that persons from these key positions, what has to be done not to lose them and how to get an important position. It is very useful both for the universities and for the banks from the banking system to know the tendencies of the human resources, the favorite staff qualities in the banking system, the working conditions, how to form those indispensable specialists, how to prevent the human resource migration in order to succeed to keep and to motivate the staff.

The establishment of the correct politics, the determination of the necessary abilities, finding the applicants, the elaboration of some registration forms, the recruitment and the interview of human resource has a very important role in order to have "the right man in the right place" [236].

A bank employees are its most important clients. In our days there is a crisis of human resources in the banking system due to the fact that this field is developing now[237]. At the end of September 2007, in the banking system there were over 62.000 employees, with 17% more than at the end of the same month of the last year. Many banks have announced to extend in 2008. BCR aims, for 2008, to reach to a network of 700 units, form over 550 in the present, and UniCredit Tiriac has planned to open other 70 new branches. Raiffeisen Banks wants to open 250 units until the end of 2008. Volksbank Romania plans to extend its network of branch offices till it gets to 200 units in 2008, from the 135 units estimated for the end of 2007 and to increase at least twice and a half the number of franchises, from the 90 of this kind of agencies at the end of this year[238].

Competent persons are needed in banks, persons who posed the pluralism of knowledge, abilities and behavior necessary for the banking system. Financial-banking or economical studies are not compulsory to hire in a bank as long as you can adapt and as long as you are competent. Concerning the persons with experience, they are coming either through internal promotion or from other banks, the fluctuation in the banking system is on average of 25-30%, as results from the specialty reviews. In the most cases, the lack of specialists from the financial-banking field is recorded in the case of middle and top management positions. If in the administrative field, of entry-level, of human resources or of IT, the vacant positions are easier to cover, there are specialty and technical positions, such as the ones from the operations, sales and the department manager, which are more difficult to cover if there aren't specialized people. A well-known phenomenon in the subsidiaries and the branch offices in the small towns, where relationships between people are warmer, is that the branch office manager goes together with a part of the team and more than that it is possible to go together with the clients. A departure from one bank to another brings to the employee an increase of the wage with 30%, and, if the position needs relocation, the percentage in almost always bigger.

The banks declare different rates of fluctuation of the staff: BT – 12% in 2007, Raiffeisen Bank – 0,7% in 2006, BRD – 3,5% in 2007, RBL – 11% in 2006[239]. The staff fluctuation implies certain costs for the banks such as: direct costs for the staff substitution, costs related to the lost of the key persons in organization, costs related to the lost of the relationship with the clients and of the acquaintances.

To assure the staff, the banks have found many methods in order to attract the possible employees. So, the banks have implied, more and more in the last years, in collaboration with different institutions of higher education in the field, trying to attract, from the university years, the precious persons and the ones with potential. The banks have to identify their staff qualities and then to install them in a position which offers

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[238] http://www.ghiseulbancar.ro/articole/54/8619/Romanian_banks_extended_very_much_in_2007_si.htm
[239] www.wall-street.ro

them the possibility to develop these abilities. The banks have to assure their staff: mentoring programs, carrier management, the company values reconfirmation, training and team building.

Generally, the feeling of affiliation towards the employer is direct proportionally with the satisfaction of the activity which the employee develops and with the reward system offered by the company. But if the banks don't pay too much attention to their employees, if they don't motivate their employees then they risk to lose the best employees, they risk to suffer due to the lack of the staff and to increase the operational risk. Motivation can be made through financial methods:

- direct rewards which include: wages, benefits, prizes, participation to the profit, commissions, the possibility of buying shares from the bank where they work, etc. The remuneration policy of the banks takes into account, besides the wage, performance bonus and other premiums, granted depending on the bank performances (yearly, after the publication of the results for the ended financial year) or depending on the individual performance of an employee (the participation to an important project, the attraction of a strategical client, special results) or, if there is the case, there are decided certain promotions[240].
- indirect rewards are the help offered to the staff during the labour contract, but even afterwards, in certain conditions and can include compulsory legal rewards such as indemnities for holidays, unemployment support; rewards regarding the pension such as inheritance pensions, smart money, additional pensions, etc; different assurances; the charge for the free time, for instance some free days with the occasion of some events in the family; special easements for employees; other indirect rewards such as the deflations to the commissions for operations, discounts for the credits interests and errands, free confectionery products, Christmas parties, different championships, etc.

Non-financial motivation is more and more used:

- merits public recognition;
- respect from their chief;
- promotion conditions.

But the solution isn't the wage increase, the most important factor is the satisfaction at the workplace.

The main reasons which determine the employees to direct to another workplace are[241]:

- the lack of a professional evolution vista;
- the lack of correlation between the results and the wage interest;
- the lack of the results appreciation;
- the appearance of an opportunity in another company;
- the wage interest;
- the relationship with the chief;
- the team atmosphere;
- the work volume is too high.

Proposals for a bank with content employees:

- communication with the employees
- resistance to change diminution
- the creation of a medium perceived as being just
- organizational culture evaluation
- changings observation
- employees reallocation

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CHALLENGES FOR FINANCIAL STABILITY IN THE EUROPEAN UNION

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Abstract: In this study we try to underline the main challenges and perspectives for financial stability and financial surveillance. Our investigations regard the European environment issues. We make some consideration about the advantage and disadvantage of financial integrated supervision in relation with sectorial one. Also, we talk about the controversies concerning the central bank involvement in surveillance process and financial crises management. In the end, we highlight the National Bank of Romania preoccupations for financial stability in the European integration perspective.

Key words: financial stability, European integration, central bank, reform, challenges, perspectives, regulation, financial surveillance

Introduction

The transformations in the economic environment lead to a continuous accommodation in what concerns the assurance of financial stability. A series of actual phenomenon constitutes the main challenges for the public authorities. Among the most important ones, without an hierarchisation, are:

- the development and diversification of financial markets, its actors and products offered, connected with the financial innovation;
- the globalisation and the (European) integration process;
- the inflation menace and the fight against it;
- the universalization versus specialisation in the banking activity, connected with the development of giant multinational financial groups.

The financial innovation has as consequence the development and diversification of financial markets, its actors its products and services offered. This trend is doubled by a contradictory process, of universalization and specialization in the financial – banking activity. In a continuously changing market, the financial institutions must restructure themselves in order to remain competitive.

Financial supervision and financial stability

The number of financial conglomerates in World Top 500 of financial institutions increased from 42% to 60% only between 1995-2000[242]. Such a trend called for a specific response also from the surveillance institutions point of view – the increasing number of national consolidated financial supervision agencies.

The first consolidate financial supervision agency was created in Singapore in 1982 and after that in Norway, in 1986, soon other Northern European Countries adopting this system. The same system was adopted also in other countries, including Australia, Japan or Korea, but from the globally 29 such agencies registered in 2004, more than half were in Europe[243].

As a theoretical issue, the institutional model for financial supervision attracted the attention and generated controversies, generated by the rapid transformations in the contemporary financial systems, the new

[242] De Nicoló, Gianni; Bartholomew, Philip F.; Zaman, Jahanara; Zephirin, M. G. – Bank Consolidation, Internationalization and Conglomeration: Trends and Implications for Financial Risk, IMF Working Paper 03/158, 2003

[243] Čihák, Martin; Podpiera, Richard – Is One Watchdog Better Than Three? International Experience with Integrated Financial Sector Supervision, IMF Working Paper No. 06/57, 2006

challenges (such as globalization, financial innovation, the development of multinational financial groups) and the more severe consequences due to financial contagion.

According to Čihák and Podpiera, the general framework for regulation and supervision in the financial sector is structured as follows: macro-prudential supervision, micro-prudential supervision, consumer protection and policies concerning the competition. In most of the countries, the macro-prudential supervision is realized by the central bank and the problems concerning the competition remain to separate supervision agencies. A consolidated/integrated supervision agency is in charge with the micro-prudential supervision of at least three segments of the financial sector: banking, insurance and capital market.

<table>
<tr><th colspan="2">Type of disfunctionality</th><th>Sistemic instability</th><th>Asymmetric information</th><th>Market disfunctionality</th><th>Anticompetition behaviour</th></tr>
<tr><td colspan="2">Area of regulation</td><td>Macro-prudential supervision / financial stability</td><td>Micro-prudential supervision / individual institutions</td><td>Business supervision / consumer protection</td><td>Competition</td></tr>
<tr><td rowspan="4">Subsector</td><td>Banks</td><td rowspan="4">Central bank, monetary authority</td><td>One</td><td>One</td><td rowspan="4">Separate agency, responsible for aspects concerning the general competition</td></tr>
<tr><td>Insurance companies</td><td>or</td><td>or</td></tr>
<tr><td>Intermediaries on the capital market</td><td>more</td><td>more</td></tr>
<tr><td>Other financial institutions</td><td>agencies</td><td>agencies</td></tr>
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Source: Čihák, Martin; Podpiera, Richard – Is One Watchdog Better Than Three? International Experience with Integrated Financial Sector Supervision, IMF Working Paper No. 06/57, 2006, p. 5

Figure no. 1. The general structure of the framework for regulation and supervision in the financial sector

The consolidated supervision has several *advantages*:

- in the context of financial conglomerates, it is more efficient, being able to evaluate the risk of the financial group for the ensemble;
- the coordination and the exchange of information is more efficient in one institution, comparing with the situation of several agencies, forced to cooperate;
- the competitional neutrality between financial-banking products on different financial sectors in a unitary regulation approach, and also the flexibility and the rapidness in response when appears a new product or financial service (especially on emergent markets) and the possibility to evaluate the general impact, not only at sectorial level;
- the cost reduction, the infrastructure, the staff, the administrative and management structure being common, there are substantial savings, comparing with the functioning on independent agencies. Also, the participants in the financial market register some cost savings as consequence of reporting to a sole institution;
- enhanced responsibility, the guilt for an failure could not be shared or transferred to another institution, responsible for a certain financial sector supervision;
- the transparency, due to a better understanding for the public and financial institutions of the supervision activity realized by a sole institution.

Of course, under some circumstances, the financial (integrated) surveillance has some *disadvantages*:

- if the objectives that must be followed by this institution are not very well established and transmitted to the public, could appear deficiencies in the surveillance activity;
- an possible inflexible and bureaucratic organization of the financial surveillance institution, that could make more difficult an efficient supervision activity;
- the risk of political involvement or group interests' involvement in the supervision activity.

Beside the dilemma financial integrated supervision versus sectorial supervision, there is also the controversy about the involvement of the central bank in the surveillance process. If there is an unanimous opinion about the need for the central bank to be involved in the activity supervision at macro-prudential level, about the need to involve also in supervision at micro level, there are different opinions.

The issue about the most adequate supervision model must be approached connected to each particular situation. Thus, in an economy with a less developed financial market or oriented more toward the financing through banks (a bank-based economy), the model with the supervision activity concentrated at the central bank is appropriate. For the economies with developed and specialized financial markets, where functioning financial conglomerates, the integrated financial supervision seems to be a better solution, when it is settled an independent agency that collaborates with the central bank, which reserves only the role of macro-prudential stability.

European integration, financial integration and financial stability

The liberalisation of financial services supposes also a huge process of deregulation, which sometimes needs new regulations that concern the financial system of the European Union as a whole. Such regulations, with the view to realise a financial harmonisation in the member states, concretised in a series of Directives, with profound impact on the functioning of the European financial markets and the increasing competition.

Willem Duisenberg, ex-president of the European central Bank, considered that the European banking supervision should face two challenges: the internationalization of the financial activity and the geographical split of the jurisdiction on the monetary policy implementation and the activity of the banking supervision[244].

The success of the European financial integration can be insured only through the cooperation of the member states, that must prove flexibility in adapting to the transformations suffered as result of the integration, both on economical-financial and political level[245]. The national central banks must face the challenge of the potential conflict between the implementation of monetary policy as well as insuring the financial stability.

The financial stability is strictly correlated with the evolution of the assets on the market. It is well known that in the case of the financial crisis the price of securities and real estate assets register significant fluctuations and can be the cause of those crisis. The measures of monetary policy target the fight against inflation, having as indicator the evolution of consumer prices.

The evolution of economies in the last few years lead to the conclusion that between the monetary policy measures and the securities prices on the financial market and the real estate assets prices there is a double determination relationship.

Nowadays, taking into account the recent evolutions on the main world financial markets and the contagion phenomenon, the problem of financial stability became a priority worldwide. The sub-prime mortgage crisis in United States showed us the fragility of the international financial system, the possible failures in financial supervision and the important losses that can occur.

Anna Schwartz, exponent of US monetarism, says that "There never would have been a sub-prime mortgage crisis if the Fed had been alert. This is something Alan Greenspan must answer for" and

[244] Duisenberg, Willem – The Future of Banking Supervision and The Integration of Financial Markets, Working Paper presented at the conference organised by Euro Group entitled „Improving integration of financial markets in Europe", Turin, 22 May 2000

[245] Stoica, Ovidiu; Căpraru, Bogdan – Impactul integrării europene asupra supravegherii bancare, volumul Conferinței internaționale "Racordarea sistemului financiar la exigentele integrării europene", Editura ASEM Chişinău, 2004, pp. 37–40

highlights that the central bank is itself the chief cause of the credit bubble, and now seems stunned as the consequences of its own actions engulf the financial system.

In the United Kingdom, the Financial Services Authority admitted failures in its supervision of Northern Rock Bank, but said it should continue to have responsibility for regulating the banking system and it would be overhauling its procedures as a result of the weaknesses identified. The FSA recognized "a lack of adequate oversight and review" in the case of Northern Rock, and few regulators were assigned to monitor the bank, which ran into trouble in September 2007.

The International Monetary Fund said at the beginning of April 2008 that the worldwide losses stemming from the US sub-prime mortgage crisis could hit 945 billion dollars as the impact spreads in the global economy, reevaluating it from about 800 billion dollars (500 billions EUR), the estimations in late February. Only in March 2008, the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin), the German Federal Financial Supervisory Authority estimated the losses from the sub-prime crises worldwide at about 600 billion euros, among them 10% in Germany.

Apparently, the Romanian banking system was not affected by the sub-prime crisis, at least not directly. However, the increasing refinancing costs on the interbank market and doubts about the real price for real estate assets were the first signs of the crisis we conscience.

In the last period we can observe a real preoccupation for National Bank of Romanian (NBR) regarding the evolution of real estate assets prices. Also, our central bank has implemented some measures against the bank and clients large exposure to the loans in foreign currencies.

In December 2006, NBR has adopted new banking regulations, assuring the transposition into the national legislation of the EU Directives. So, Government Emergency Ordinance No. 99/2006 on credit institutions and capital adequacy, which, apart from the transposition in principle of provisions of Directives No. 48/2006 and 49/2006, also revises the provisions specific to various categories of credit institutions (banks, credit co-operatives, savings and loan banks for housing, mortgage loan banks and electronic money institutions). Given the applicable unitary prudential regime, according to the Community legislation, credit institutions and investment firms, this Ordinance addresses, in a separate section, issues related to the enforcement of legal provisions on financial investment companies under the supervision of the National Securities Commission. Also, Government Emergency Ordinance No. 98/2006 on supplementary supervision of credit institutions, insurance and/or reinsurance undertakings, financial investment companies and investment management companies in a financial conglomerate ensures the transposition of Directive No. 2002/87/EC and governs the regulation of supplementary supervision of regulated entities that belong to groups carrying out inter-sectoral financial activities (financial conglomerates), with a view to ensuring financial stability and protection of depositors, the insured parties and investors.

Conclusion

The success of the European financial integration can be insured only through the cooperation of the member states, which must prove flexibility in facing the two challenges: the internationalization of the financial activity and the geographical split of the jurisdiction on the monetary policy implementation and the activity of the banking supervision

In the last years, the national central banks must face the challenge of the potential conflict between the implementation of monetary policy as well as insuring the financial stability. Because between the monetary policy measures and the securities prices on the financial market and the real estate assets prices there is a double determination relationship, we consider that the preoccupation of central banks must be focused much more on these prices and interfere whenever it is necessary.

Also, we think that the issue about the most adequate supervision model must be approached connected to each particular situation. For the moment we consider that regarding Romanian financial system the model with the supervision activity concentrated at the central bank is much appropriate.

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THE ANALYSIS OF THE RISKS AND OF THEIR EFFECTS UPON THE BANKING ACTIVITY

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Abstract: The double role of the banks, independent economically entities, having as objective the maximisation of the profit, in the condition of minimizing the risks, on one hand, and of elements of the banking system, coordinated by the central bank, having as objective the implementing of it's monetary policy, on the other hand, involves a new dimension of the risk, meaning that the policies carried out by the banks in order to achieve their personal object of activity, may be contradictory with the monetary political measures assessed by the central bank, at a certain moment.

KEYWORDS: banking risk, financial decision, solvability, liquidity, crediting risk, the indicators;

1. The banking risks

The appearance of the banking risks is established by the manifestation of a complexity of factors, which are referring to: the general evolution of the economy, changes in the organisation of the bank, financial decisions, the economic and politic conditions. *The general evolution of the economy* induces modifications of the macro-economical indicators with an impact upon the banking activity. Definitely, a high rate of inflation indicates certain economic lack of balance that severely affects the results of the banking activity on a short term and implicitly causes a medium and long term increment to all categories of banking risk. The dependence of the real instalments of the interest by the inflation rate and the implications that the interest is having upon the level of the resources and investments of a bank that's operating in a competing environment, as well as upon the bank profits, induces the existence of a direct proportional relation between the level of the inflation and the level of the banking risks.

The problems in organising a bank is a matter of management, and the organisational solutions solved by the bank's management are close related to the quality of the leaders. An inefficient systematisation is definitely a management error which influences badly the whole ensemble of the bank's activity. In a developing banking system, as it is the one in our country, one of the major deficiencies is the lack of the experienced managers, as well as the operative stuff, generally picked from the non-banking economy. The training of the stuff and the specializing in the peculiar area of the banking activities are the components of an efficient long term bank policy. The risks resulting from the problems related to human resources are attenuated by the realistic policy carried out in this area.

The taking of a financial decision undergoes certain risks, the sources of which are residing in the non-banking and/or banking economical environment, as well as from the inside of the bank, in the last case being involved the human factor. Paraphrasing Albert Camus, the bank managers can't make a decision without the risk of loosing something.

The existing and future *political and economical conditions* of the country have effects upon the service of public duties. The inter-conditioning between the economical and the political generates, on a long term, positive or negative tendencies that leave a certain imprint upon the image of the country in the world. The quantifying of the country risks is performed by taking into account these tendencies, affecting in this way the external banking operations. In a concrete way, the external financing activities, performed through banks or through the credit lines sustained by the foreign banks, through an autonomous bank, are conditioned as far as the interest terms, the securities or the reimbursement conditions are concerned, by the risks evaluated by the financing persons, taking into account, in the first place, the country risk and only then the bank risk – established through the assessment of the patrimony and through the calculation of the indicators for the economic-financial output.

2. Quantification of the banking risks

During the analysis of the banking risks, a special importance is given to their quantification, according to a system of specific indicators, allowing the statistic and dynamic evaluation of the risks, by reporting to the international standards or to the personal historical experience of the bank. The measuring of the risks is directly related to the one of the incomes (because, for obtaining profit, a bank has to overtake certain risks). As a consequence, the risk indicators are more relevant in a general evaluation context of the profitability of the bank and of its compatibility on the market, the final objective of the banking management also consisting in maximising the incomes of the shareholders, adjusted with the influence of risks.

3. The indicators for measuring banking risks

The specialised literature approaches the theme of the indicators for measuring banking risks, proposing different associated variables, usually, to the main risk categories. In the practice of the Romanian banks, there were confirmed, for the quantification of the internal risks, the following traditional indicators:

1. The indicators of the crediting risk;
2. The indicators of the liquidity risk;
3. The indicators of the solvability risk;
4. The indicators of the interest rate risk;
5. The indicators of the currency exchange rate risk.

1. Almost all the banks, at a smaller or higher level, overtake ***the crediting risk***, what supposes the necessity of the attemptive analysis of the way in which the quality of the credits portfolio evolves in time, with a special impact upon the profitability, the adequacy of the capital and upon the general trust in the respective bank. As a consequence, two reference indicators for the estimation of the crediting risks are established according to the percentage of the weak quality which delays or do not allow the accomplishment of the anticipated incomes, respectively:

- the volume of the overdue credits/total credits *100
- the volume of the non-performed credits/total credits *100

Of course, the optimal is represented by the minimal values of the two indicators, tending towards zero, in the first case, and in the second one, the overdue credits, but especially the non-performent ones, blocking the activity and the financial results of the bank. Other indicators of the crediting risks use in the calculus formula of the reserves also the commissions constituted by the banks for covering the eventual losses, such as:

- reserves for credits losses/total credits *100, report expressing synthetically, the managerial expectations concerning the evolution of the quality of the loans portfolio;
- commissions for credits losses/net losses *100, report reflecting the prudence level adopted by the bank in its crediting policy;
- gross profit/commissions for credits losses *100, respectively the cost for covering the crediting risk overtaken by the bank.

The potential measuring indicators of the risk that may signalise in advance the variations of the incomes of the bank are: the geographical concentration and on economical sectors of credits, the accelerated growth rhythm of the volume of credits, the increased profitableness of certain categories of credits.

2. Because of the informational limits of the cash-flow system, the banking analysts use a series of indicators for measuring ***the liquidity.*** Obviously, the more cash or banking assets the bank disposes, the bitterer its ability to face the requests for withdrawing the deposits, as well as the eventual delays in reimbursing the credits. The commercial banks normally keep between 20 and 30% from deposits in the form of liquid funds. The main indicators calculated by the treasury and analysed for assessing the liquidity are:

- global liquidity reflecting the possibility of the patrimonial active elements to be transformed on short term in liquidities, for satisfying the exigible payment obligations;

- the immediate liquidity (treasury), reflecting the possibility of the patrimonial elements of the treasury (cash, account current of BNR) to face the short term debts;
- the liquidity in accordance with the total of the deposits, reflecting the possibility of the patrimonial active elements to face the debts representing the total of the deposits and of the loans.

The treasury also establishes the exposure of the bank in accordance with the current deposits and total deposits (respectively the report between these ones), expressing the evolution tendency of the deposits on term, in comparison with the ones of the current availabilities with influence upon the stability of the resources and the level of costs.

Other indicators calculated for estimating the liquidity risks are:

- The position of the liquidity, indicator derived from the practice of the treasury management, calculated on days, weeks and months, and the optimisation of which consists in the balancing of the liquid assets with the immediate passives. In case of a negative position, the liquid assets are insufficient for fully paying the obligations, the bank having to appeal to urgent financing sources, such as: loans on interbanking market, loans from the central bank or the liquidation of certain portfolio assets before term. If the position of the liquidity is positive, the exceeding of liquidity (over the admissible limit) is placed on short term in the deposits on the interbanking market.
- The net passives, respectively the difference between assets and passives, classified in accordance with the due term, indicator calculated for signalising the period for the maximal need of liquidity. The simple net passives (successive) are established on each period, as a difference between the assets and the passives with the same deadline. The cumulated net passives are established as difference between the cumulated passives and assets, corresponding to each period of time;
- The liquidity parameter, representing the report between the sum of the passives and the sum of the assets, both pondered with the average number of days or with the current number of the respective due term group. If the liquidity parameter is:

=1, then, the bank does not have to make deadline transformation;

< 1, the bank makes the transformation from short time passives in long time assets, in the conditions of an increase curve of the interest;

>1, the bank transforms the long time passives in short time assets, resulting the liquidity risk.

- The liquidity rate expresses the evolution of the indebting degree of the bank towards the monetary market. This is calculated periodically, in accordance with the due term of the loan operations, in the view of the formula: new contracted loans/overdue loans in the same period *100. A supra-unitary rate indicates the decrease of the liquidity because of the increase of the indebting degree, the relation being inversed in case of a sub-unitary rate;
- The report total credits/total deposits reflects the proportion between the resources attracted from the depositors, loaned to other clients. The biggest part of the credits is liquid.

The traditional measures of the liquidity risk generally tend to concentrate upon the liquidity of the assets in the balance sheets. In this context, we consider that it would be useful the introduction in practice of the indicators more directed towards the relationing of the actual flows or cash potential with the needs. For example, the weight of the volatile resources may suggest the liquidity needs of the bank and the percentage used by this one from its crediting reserves.

3. The adequacy of the capital – ***the solvability*** – permanently constituted an essential preoccupation of the banking management and of the regulations in the profile, because of its signification concerning the solidity of the bank and the safety of the deposits. More than that, the adequacy of the capital has also an important competitive dimension, the banks being capitalised, being more attractive for the resources, either from deposits, of from loans, in favourable conditions.

4. ***The risk of the interest rate*** is measured, in a traditional way, either through report between the assets and the passives sensible to interest, or through the difference between these ones. One of the problems raised by such a practice refers to the difficulty in selecting the due term to be used as a criterion for sensibility, the preoccupation that the reinvestment of the modification of the rates may rapidly and quantifiably influence the sensibility to interest and the failure in appreciating the value sensibility to the modification of the rates. The more advanced indicators of the interest rate risk include the measuring of the gap, on different due terms, the dynamic measuring of the gap according to certain reinvestment estimations and rates, the measuring of the duration for the assets of the bank, the passives and the elements not included in the balance sheets.

- The risk of the interest rate, established as a report between the productive assets and the interest carrying passives (the standard level being 1);
- The absolute difference of the banking interest expressed through the net incomes between the interests reflects the ability of the bank to cover the expenses with the interest benefited at the deposits, certified by the deposit etc from the incomes obtained by cashing in the interests at the afforded credits. The interest difference has to established in a way in which it may assure the sustaining of the banking duty (the difference between other banking expenses and other banking incomes), as well as the obtaining of a satisfying profit.
- The gross percentage difference of the banking interest, resulting from the reporting of the absolute difference to the productive assets *100. Correlated with the level of the active/passive interests, practiced by the bank, but also with the volume accomplished by credits/deposits. A standard level of this indicator is comprised in the interval 3-10%.
- The net percentage difference of the banking interest is calculated as a report between the average level of the active interest rate and the average level of the passive interest rate *100.

The management of the financial risks affords a special attention to the interest rate risks, related with the currency exchange one, on short term, when there are parity conditions. In practice, the banks use simulations for analysing their exposure to the interest rate risks, determining the impact of certain modifications in the interest rates on different categories of due terms, upon the profitability and the market value.

5. *the currency risk* is framed by the specialists in the category of the market risks, being established by the variations of the currency exchange rates, the deficits of the payment balances, the liquidities penury on an international plan. This risk is amplified for each participant to the development of an external payment transaction. The measurement of this type of risk is accomplished according to the position of the commercial banks, which establish an operation ceiling, in accordance with their own standing. The bank with debts upon its payment engagements, in a certain type of currency, takes a long position if there is a high probability for that currency to enter an appreciation process. On the contrary, the bank takes a short position, because of the economical context in which they act, the Romanian banks prefer the long positions, irrespectively of the currency exchange rate.

The indicators of the currency risk calculated by the commercial banks are:

- *the individual currency position* is established on each currency that is going to be administered;
- *the global currency position,* representing the net balance of the debts in estimates in comparison with the passives in estimates, both transformed in the reference currency for being compared; this indicator offers a general image upon the currency exposure of the bank.

The indicators used for the quantification of the different categories of risks generally respond to certain informational needs in the analysis and management process of the banking risks.

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THE HIGHER CREDIT RYTHM REPRESENTS: FINANCIAL DEVELOPMENT OR ANXIETY REASONS ?

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Abstract: The present paper analyses, the causes of nongovernmental credit rapid expansion in Romania, to quantify its implications over financial macroeconomic stability and to identify the solutions of which the authorities dispose, for the counteraction of negative effects concerning this phenomenon.

Financial transitioning is based mainly on the financial deepening and is well conducted with a priority in the moment of refueling the turbulences on the extern markets.

Key words: rapid credit growth, financial and macroeconomic stability, credit risk, prudential supervisory

Introduction

Through the past years, the Eastern and Central European countries, respectively Romania, have registered a rapid growth of the nongovernmental credit. The credit rapid expansion, determined serious preoccupations regarding the analysis of the causes and effects related to this event especially when there have been pointed out financial turbulences on the extern markets..

Related to the countries from the ex-communism sector, the most important component of the financial market is represented by the banking sector, which assures the financial sources for the economy, mainly after the elimination of restrictions on capital accounts[246].

Numerous serious and trustworthy working papers[247] warn us that a boom credit may conduct to major macroeconomic unbalances and to worst situations in the banking sector, also to macroeconomic and financial crises.

Thus, the authorities must maintain an equilibrium between the macroeconomic stability and the financial one and the credit expansion . If this evolution is determined by a financial development or if it represents a dangerous expansion for the economy.

In the first situation, the growth of the credit cannot affect, the macroeconomic evolutions being mostly compensated through the growth for currency request. The credit expansion is mainly determined by the growth for credit request, which happens as a result of the optimistic anticipations regarding the income dynamic and taking into consideration the process of integration in the Euro – zone.

Also, the growth of the credit offers is determined by the presence on the Romanian banking market and on the Central and Eastern European banking sector of foreign banks and institutions, which are interested in accomplishing important market ratings by promoting attractive packages.

Incoming capitals have big advantages for the banking sector. The presence of this foreign operators on the banking market, determines a more pleasant and stable financial environment, a bettering of the corporate governance and for the capacity of managening the risks.

It can be explained that the credit expansion partially represents an amplification of the process of financial intermediation, based on the convergence process of catching up, which exists between the ex-communist countries and the western countries, related to the level of development of the financial superstructures.[248]

However, the credit growth has numerous negative effects which can affect the normal functioning of the economy. It is reasonable to consider, that the credit rapid expansion can outcome the bank's capacity to

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[246] The banks own 85 percent of all the financial actives, according to Backe, Egert and Zumer (2006)

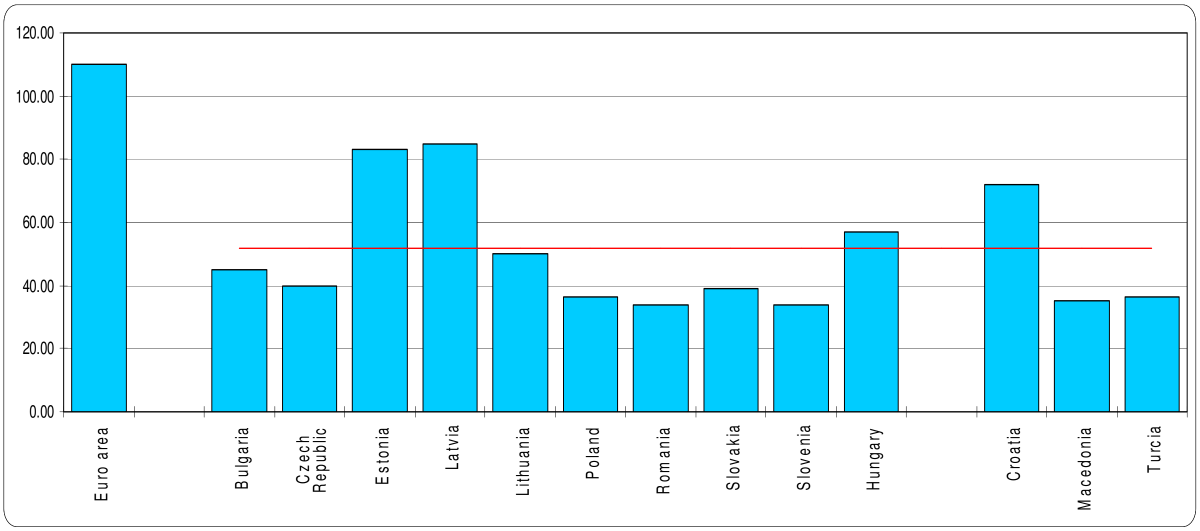
[247] Kaminsky, G, Saul Lizondo and Carmen Reinhart, "*Leading Indicators of Currency Criss*", IMF, Staff Paper vol.45, No.1, Neagu F, A.Mărgărit, M. Copaciu, I. Răcaru, R.Mircea, A. Andrassy, *Non government credit in Romania: perspectives and implications,* Study Books NBR, No.15, 2006

[248] *Assessing and Managing Rapid Credit Growth and the Role of Supervisory and Prudential Policies*, IMF Working Paper 05/151/2005, p.10

evaluate the risks, which can lead to a growth in information asymmetry, resulting a higher level of repayment. All in all, in this zone, the model which banks use to make business hasn't developed from the basic type "initiate and hold" in the balance sheet, to a more sophisticated type, "initiate and distribute", outside the balance sheet, and the region hasn't been confronted with the problem of "frenetic security".

The Evolution of nongovernmental credit

The higher credit rhythm has been determined, mainly by the reforming process in the banking sector, which is in a continuous competition, by the bettering of the macroeconomic frame and by request growth in total dischargement of capital account. This was a condition for joining the EU and also for maintaining the interest differences positive. However, the financial intermediation degree in most of the countries from Central Eastern Europe, compared to the countries in the Euro Zone, has a very low level, under 50%, as it is displayed in figure 1:



Source: FMI – IFS, BNR

Figure 1 The weight of nongovernmental credit in GDP

At macroeconomic level, the growth of rapid expansion of the credit, stimulates the aggregate request, which generates inflationist pressures which also contribute to the extern unbalances. These extern unbalances have been accentuated in the Baltic states, Bulgaria and Romania and also in countries which have registered the most rapid credit growth in the past 5 years.

The rapid credit growth in countries from Central and Eastern Europe may be justified by the initial low levels of financial intermediation**.**

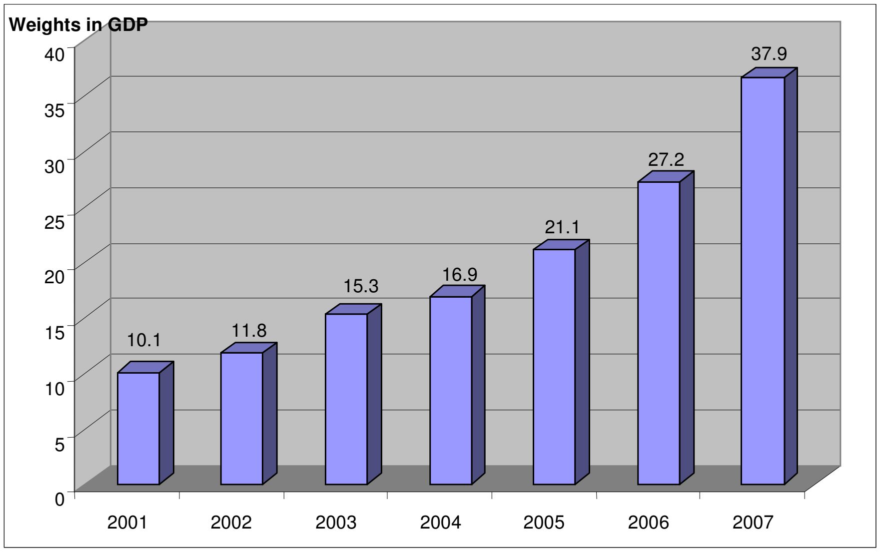
The economic literature confirms the fact that the alert credit expansion shows alarming signals regarding the appearance of financial riots, but without outlining a real depression. So, the standard limit of growth warming and also the annual growth of financial intermediation rhythm with five GDP points on a five year plan (Dominique – Kunt and Detragiache, 1997) represents the possibility for a potential financial crisis. This limits have been outcome at the Baltic levels of the countries: Slovenia, Bulgaria and Croatia.

Thus, the structure of credit dynamic presents supplementary risks related to financial stability, besides the risks that devolve from the normal credit expansion. Consequently, the household credit growth has outcome the investment credit growth in this region. This shows that the risks are prevalent associated, to the population segment, which presents a high rate of obligement.

Another aspect is based on the high rate of obligement for the foreign currency credit, which comes from the real and nominal tendencies of appreciations, and from the available funds in foreign currency because of the capital, incomings. All those could lead to the appearance of currency risk, also keeping in mind the depth of extern unbalances.

Financial intermediation has grown substantially through the last years, in Romania has reached 37,9% of GDP in 2007, getting really close to the Poland's level, taking into consideration the conditions of national currency depreciations and the maintenance of a high inflation.

The weight of population credits has reached the same level with credit granted to no financial firms.



Source: NBR; ISN

Figure 2 –Financial intermediation in Romania

Rapid expansion, in Romania, was determined by numerous factors:

1. Better business conditions, the economy entered the upward faze of economic cycle, the consuming proclivity has grown and also the population's residential investments;
2. The banking system was reshaped and sold to investitors, bettering the corporative governance, generating a cruel competition between the credit institutions;
3. Positive anticipations regarding the evolution of incomes and business cycle.

If the credit level has an upward rhythm, the Romanian's savings are at the lowest level in Europe (20%), this fact is backed by the low weight of savings in GDP (14%). Until the end of 2007 there had been a really low level of interest from the Romanian banking system in attracting the population's savings, because these were mostly financed from the exterior only in 2008 this offered to the population better efficiencies , up to the level 10,5% (April).

The analysis of credit growth

The economic literature[249] presents many causes for the appearance of expansion phenomenon:

a) the process of economic growth, which most of the time requires a rapid credit growth and also a development of the financial deepening;
b) the faze of investment growth and firm's production expanses, using bank loans with the "accelerator" concept;
c) financial liberalizations which means inadequate reactions from the market participants and also the manifestation of some risks. The change of attitude, meaning anticipating the future, becomes pessimistic, the prices for pledged goods and financial assets decrease, in this way the debtors are in impossibility of payment for the loans and the respective interest;
d) the reduction for financing requests regarding the public sector, determined by consolidation of the fiscal position;
e) the implementation of a macroeconomic stabilization program through fixing the exchange rate, in the case of emerge ting countries with a fixed currency rate;
f) the liberalization of capital account determines ready money excess.

249 *Are Credit Booms in Emerging Markets a Concern?,* World Economic Outlook, Chapter IV, IMF, 2004

It is really hard to make a clear distinction between the cases of healthy financial development and those of dangerous credit expansion.

In this sense, there have been used more methods of credit growth level determination with relative results, in practice. In this way, the studies' results[250] conducted at The National Bank of Romania level related to, the credit dynamic and also to the associated risks conclude in Romania's case, that the credit portfolio is of good quality and on a short term prognosis there haven't been identified risk factors that can affect the portfolio. But there is a slight increasing tendency of growth for credit risk, if the credit activity maintains very high. These tendencies need a constant information monitoring activity. This activity refers to the credit[251] volumes and structures on specific debtor types, on economy sectors, the crediting conditions, the bank's exposure risks, the prudential measurements that these use the national currency exposure level or foreign currency. This process also needs some special macroeconomic data: the inflation rate, the economic growth, the real account, difference, the unemployment rate, the resistance level at some vulnerability tests and also some quality information, the level of national legal frame harmonisation with the international standards, the level of financial system trust.

The mentioned studies show, that a rapid foreign currency credit growth in the population segment, especially those for household use, may have some negative effects on macroeconomic stability, because this determines the growth of the aggregate request compared to production resulting, the increase of inflation, the current account deficit and also the depreciation of the national currency.

The inappropriate evolution, on a long term period regarding the payment balance in Romania's case (in 2007, the extern deficit represented 14% of GDD), has increased the national currency exchange rate vulnerability, taking into consideration that our country, needs extern investments to finance the extern deficit.

Temperation measurements for credit dynamic

The higher credit rhythm determines the authorities to conduct monetary policy measurements and prudential measurements to stop a potential expansionist credit process and for stimulating the financial development.

Monetary policy measurements

At the decisive moment regarding a monetary and prudential adequate policy, the authorities will take into consideration the macroeconomic and structural factors, respectively the existence of macroeconomic unbalances, the solidity and the financial system structure, the financial debtors situation and the quality of the prudential supervision process.

Regarding the Central and Eastern European Countries, where the liberalisation of the capital movements is almost complete, appear some difficulties using the monetary policy measurements.

The increase of interest rate conducted to discourage the credit process, determines incoming important capitals, which[252] lead to the increase of monetary flow.

Consequently applying combinations of monetary policy instruments and of currency exchange rates (management floating) lead to the excessive increase of foreign currency credit. This determined NBR to change to a more flexible exchange rate, in this way they would stop the mentioned effects.

In the process of curbing the credit expansion, the authorities have adapted administrative measurements also. Thus in many ways, NBR increased the minimum reserves, for the passives in lei and also for those in foreign currency[253].

Prudential supervisory measurements

The prudential supervision of the banking system represents a complex process which is being realised from the authorisation, through the closing of that activity.

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[250] *Financial stability report*, 2006, NBR, p. 108-114

[251] Cerna Silviu, *The rapid credit growth: dangers or solutions*, Rev. Oeconomica, No. 3/2006

[252] According to the NBR report dated 26 March 2008, the interest rate for monetary policy was 9,5%

[253] Now, Romania has the highest level of interest rate for foreign currency deposits 40% and for lei it is of 20%.

The prudential supervision measurements are necessary in the case of credit expansion, and mostly when the financial stability is in dangerous or when it is necessary to harmonise the national laws with the international ones.

In this way NBR adopted a series of normative legislative papers to temperate the increasing record rhythm of 74% for the foreign currency[254] credit.

At the present, NBR and also the other banks are preoccupied with the implementation of the European request regarding the New Capital Agreement, which will have as a result the strengthening of the risk management capacity and to assure financial stability. Simultaneously the laws adopted at the beginning of 2006, permitted NBR to exert the supervisory process upon the financial nonbanking intermediaries, regarding the suitable capitals.

Conclusions

The high increasing credit rhythm, in Romania's case, can be explained partially through the process of "financial deepening", and also by the amplification of financial intermediation process, justified by the very low initial levels.

The authorities must fallow the maintaining of equilibrium between the macroeconomic stability and the credit expansion, which can become very dangerous. In this way it is necessary to improve the supervisory systems.

The measurements ordered by the monetary authority will not have the wished results, if it won't have the necessary support from the fiscal authority.

To maintain the turbulences on the extern financial markets claims for a reevaluation of the entire regulations frame, so in this way the risks from financial innovation can be supervised.

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[254] The adoption of prudential measurements at 26 March 2008 by increasing the foreign currency deposits destinated to the debtors exposed to currency risk.

PARTICULARITIES OF THE ROMANIAN BANKING SYSTEM IN THE EUROPEAN BANKING SYSTEM

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Rezumat: the integration in the European Union does not involve only the economical sector, even if it is the most important, but also a redressing of the other components of the social life, assured by the constant increase of the GIP, of the stopping of the inflation and the reduction of the depreciation of the national currency.

Romania must have a solid bank system, whose action directions must direct to the finalisation of the privatisation process, the harmonisation of the national legislation with the communitarian legislation, the institution of some prudential regulation adequate to the economic environment and the selection of the most dynamic orientation on the market in the competition domain.

Key words: rating system, bank capital regulation, Operational risk; Basel II; capital requirement.

The process of integration of the Romanian bank system in the European bank system began quite late comparatively to the other candidate countries, given the presence in the Romanian landscape of some important banks in the European Union, such as ING Barings and ABN Amro and continued with the privatisation of BRD, the Bancpost and Bank Agricola privatisation, to these summing the apparition of some important banks of the region in the Romanian bank system.

An important premises of the integration in the Romanian bank system of the European Union is represented by the intensification of the economical activities with European partners, remarking thus an increase in the volume of the exports and imports with European partners, the increase of the weight in the exterior commerce of Romania and the economical flux to and from the European Union and the increase of the level and the weight of the European capital subscribed to the Romanian society, including the bank sector.

It is observed a consolidation of the position of the banks with foreign capital, which become majority in the Romanian bank system from the point of view of the activity volume and the social capital.

	Number of banks	
	30.09.2006	30.09.2007
1. Banks with integral or majority state capital	2	2
2. banks with majority private capital (including Creditcoop and the branches of the foreign banks)	36	39
Total 1+2 (of which:)	38	41
Banks with majority autochthonous capital	8	6*
Banks with majority foreign capital, of which: - branches of the foreign banks	30 6	35** 9***

The bank system structure

* **the Romanian Commercial Bank** and **Romexterra Bank** passed from the majority autochthonous capital to the majority foreign capital

** **the Romanian Commercial Bank** and **Romexterra Bank.**

The authorisation of the **Bank of Cyprus** branch from December 2006 and the enter in the 3rd trimester 2007 of the two branches **LA CAIXA** and **Fortis Bank**, based upon the notification, through the application of the principle of the unique European passport.

The fusion in June 2007 between **HVB Țiriac** and **UniCredit**, compensate numerically, with the authorisation of the Portuguese bank **Millennium Bank** in September 2007.

*** **Bank of Cyprus**, **LA CAIXA** and **Fortis Bank**

Source: The National Bank of Romania

The participations to the foreign capital in accordance to the origin country is reflected in the next table:

September 2007

	The participations of the foreign capital	
	% total foreign capital	% total capital
Austria	29,6	22,3
Greece	29,3	22,1
Holland	10,0	7,5
Italy	5,3	4,0
France	5,1	3,8
Hungaria	6,6	4,9
Germany	1,7	1,2
Cyprus	2,1	1,6
Portugal	1,7	1,3
Total E.U.	91,4	68,7
USA	1,8	1,4
Other countries	4,9	3,9
BERD	1,9	1,4
TOTAL	100,0	75,4

The participations of the foreign capital in accordance to the origin country

Source: The National Bank of Romania

As for the bank system, the European integration process supposed the harmonisation of the autochthonous legislation with the requirements of the European Union and the adopting of some institutional measures which aim for the enforcement of the administrative capacity of the national Bank of Romania of supervision and modernisation of the payments system, their realisation pursuing the increase of the competitiveness and the stability of the bank sector and of the capacity of the bank to assure an efficient financial intermediation.

The enforcement of the supervision capacity represents one of the major preoccupations of the National Bank of Romania, through which we pursue the increase of the competitiveness, of the stability and the credibility of the bank sectors, and also of the capacity of the banks to assure an efficient financial intermediation.

The transition to the supervision based upon risks represented a necessity of the process of monitoring of the bank system, focusing on the alignment of the best international practices in the field for the identification and the compensation of these risks.

At the level of the bank sector, the main challenge is represented by the implementation of the Basel II agreement, which allows a better evaluation of the risks exposure, introducing the operational risk and the market risk, the risk exposures being evaluated according to some methods based on historical observations.

The new capital agreement gave the credit institutions a much larger flexibility in the risks administration.

Many banks did not wish to apply for 2007 the stipulations of the Basel II Accord, but from 2008 we will preponderantly pass to the standard approach. Some of the autochthonous banks, especially those which belong to some European bank groups, expressed their intention to pass as fast as possible even to the internal models regarding the determination of the capital requirements, fact motivated by the need of the Unitarian approach of the risks at the level of the entire group they belong to.

Basel II started however to be practiced in many countries of the world, including in the E.U. from the end of 2006. "The migration from Basel I to Basel II represents the most important event in the history of the bank supervision", declared the NBR Governor Mugur Isărescu.

The implementation of these requirements supposes increased efforts both from the Central Bank, and also from the credit institutions, which must allocate increased resources in this regard. To a certain extent, the demarche is made easier in Romania by the fact that almost the entire banks systems is held by banks from the Occident, which have already passed this test and, hence, they will be able to facilitate the transition of the subsidiaries to the new capital requirements. And in certain cases the mother-banks will be able to supply even their own internal methods of risks evaluation.

The new capital accord is based on three pillars: minimum capital requirements, the bank supervision and transparency.

As for the first pillar, next the banks must reach a solvability rate greater than 8%. This indicator is calculated as report between the own capital of the credit institution and the taken risk. What changed drastically is the way the banks administrate the risk. If before the financial institutions considered only the credit risk and the market risk, from now on they will have to quantify the operational risk too. Beside this aspect, the way the first two risks are evaluated changed fundamentally.

The credit risk is evaluated through some fix weights, established for the main loans categories. In exchange, Basel II will give the banks the possibility to choose between one of the three available variants: the standard-method, the internal basic models and the advanced models.

The standard-method is the simplest one and it is similar to the one used by banks, with the specification that the weights are stable and much better detailed. A special attention is paid to the loans for the population which receive smaller risk weights. The same treatment could be extended at the level of IMMs also if certain requirements are respected.

The method of the internal models reflects the best the innovative aspect of the new capital accord, being available in two versions: a basic one and an advanced one. The internal models are differentiated from the standard method through the fact that the weights through which they evaluate the risk of each asset are no longer the same for the entire bank sector, but they are individually established, by each institution on its own. The advantage is, in this case, that the risk is evaluated much more correctly and the overdimensioning situations of the capital requirements are eliminated. Thus, the banks should constitute fewer reserves, so hat they will have more money for the crediting.

In order to analyse these methods, however, the banks must fulfil certain criteria, through which they can prove to the supervision authority that their own evaluations are correct and complete. Also, the supervision activity is based upon new principles, which underline the necessity that the banks evaluate by themselves the necessary of capital in report to the assumed risk. In exchange, the role of the supervision authorities is to analyse and take the necessary measures in report to these individual evaluations. The analysis of the Central bank will force this way the credit institutions to develop more solid methods of risks evaluation. In the context of the unique market, the application of the new accord will stimulate the cooperation between the supervision authorities from different state members, in the case of the monitoring of the international groups.

Through the promoted policy, N.B.R. created a sector made of more and more powerful banks capable to assure a financial intermediation on efficiency criteria, where the private bank segment becomes preponderant.

The risk exposure of the bank system can be pointed out also through the evolution of the main financial and bank prudence indicators, presented in table no. 3.

Indicators	Dec. 2006	Dec. 2007
Capital risk		

The solvability rate (> 12%) Own capital rate (own capital / total active)	18,1 8,6	12,7 6,8
The credit risk Due and doubtful credits (net value) / total credits (net value) Due and doubtful debts (net value)/Total active (net value) Due and doubtful debts (net value) / own capital (from the prudential reporting of the own funds) Credit risk rate* General risk rate	 0,2 0,1 2,8 53,0	 0,2 0,2 4,0 57,0
C. The liquidity risk The Liquidity indicator (actual liquidity/necessary liquidity)	 2,3	 2,1
D. Profitability ROA (Net profit /Total active) ROE (Net profit /Own capitals)	 1,3 10,2	 1,1 10,4

The evolution of the bank prudence indicators

* unadjusted exposure, afferent to the credits and the interests classified in the doubtful and loss categories/ Total credits and classified interests, exclusively elements outside the balance sheet

Source: the National Bank of Romania "Monthly Bulletin" December 2007

According to the criteria established by N.B.R. within the bank *rating* system, in December 2007, noticeable modifications were produced at the level of the assets held by the banks classified in rating 2 and 3. the weight of the balance assets of the banks contained in rating 3 increase 11,5 percents as compared to the same period of the previous year, disfavoring the *rating* 2 ones, whose weight reduced by 11,9 percents. As in the previous periods, the requirements imposed by the maximum *rating* were fulfilled by none of the existing credit institutions. By analyzing the evolution of the main prudentiality indicators during 2007, the weight of the due and doubtful credits remained unchanged, while their weight in total active increased by 0,1 percents as compared to December 2006. The weight of the due and doubtful debts in the own capital registered an increase by 1,1 percents, up to the level of 2,6 %. The rate of the credit risk increased by 1,2 percents (up to 4%), while the general risk rate increased by 4 percents (up to 57%). As for the profitability indicators, the ROA level diminished by 0,2 percents (reaching 1,1%), and the ROE one increased by 0,2 percents (up to 10,4%). The integration of the Romanian bank sector in the E.U, will generate an increased competition among the different credit institutions, which will lead to the increase of these institutions' efficiency, to the diminishing of the costs and their intermediation margins, to the diversification of the financial instruments supply, to the reduction of the financial risks, to the intensification of the bank intermediation process.

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THE REFORM OF THE NATIONAL BANK OF ROMANIA AFTER ACCESSION TO THE EU: CHALLENGES AND PERSPECTIVES

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Abstract: In January 2007, Romania became a member of the European Union and the National Bank of Romania a member of The European System of Central Banks (ESCB). This event was a confirmation of the success of Romanian reforms, but, at the same time, it was the beginning of a new stage in the process of accomplishing the nominal and real convergence conditions, set in the Maastricht Treaty. In this study we have explored some considerations about the NBR's reform performances before and after the EU accession and, also, we have discussed about the main challenges and perspectives for the Romanian central bank in the new economic environment imposed by the integration process.

Key words: European integration, central bank, reform, challenges, perspectives

Introduction

In this study we have tried to highlight the main challenges that the National Bank of Romania (NBR) would have to overcome in the EU integration process. In January 2007, Romania became a member of the European Union along with Bulgaria. In this context, the NBR has to continue its reforms and work towards accomplishing the nominal and real convergence conditions, in the perspectives of the Euro adoption.

For the beginning we will explore some consideration about the NBR's reform performances before and after EU accession. In this direction, we will calculate the Grili, Masciandaro and Tabellini - GMT (1991) central bank independence index and the coefficent of correlation between interest rates and inflation in the Romanian economy. Also, we will analyze the level of nominal and real convergence indicators accomplished in the last two years, emphasizing the NBR's contributions. After that, we will talk about the challenges and perspectives for the Romanian central bank in the near future.

Central banking in Romania before accession to EU

The perspective of accession of our country to European Union was a very influent factor regarding structural reforms of the Romanian economy and banking system. In this context, the National bank of Romania has had a very important role in the process of nominal and real convergence imposed by the new economic environment conditions.

The efforts of the National Bank of Romania to adjust to the European integration conditions were in the same direction with the transition to a market economy. The economic development got to a point were it was a real benefit for the accession process, and, at the same time, those reforms imposed by the EU accession process were a very welcomed stimulant for achieving a high degree of functionality for the Romanian economy.

In line with the objectives of European Union accession of Romania, the adjustment of the National Bank of Romania's policies to integration requirements has been related to the following aspects: harmonization of banking legislation; adoption of a proper monetary regime for achieving price stability as mentioned by the Maastricht Treaty convergence conditions; restructuring of the national banking system in the direction of strengthening financial stability; coordination of monetary policies with fiscal ones; modernization of national payment settlement system; participation of NBR to negotiations of the European acquis' chapters.

The National Bank of Romania's role after the accession to EU: challenges and perspectives

As a predictable scenario[255] of the Euro adoption and accommodation to the single monetary policy, we could consider the following stages (some of them have been already achieved): adoption of Euro as a reference currency (3rd of March 2003); liberalization of the capital account (April 2005); denomination of the national currency (1st of July 2005); implementation of inflation targeting regime (July 2005); introduction of M3 monetary aggregate (January 2007); entrance in ERM II for at least two years before the Euro adoption.

In the perspectives of this reform continuance, the main objectives and transformation of our central bank consider the following: participation of NBR in the ECB/Eurosystem; improvement of surveillance of the Romanian banking system; implementation of Basel II principles; elaboration and implementation of the convergence program; an adequate monetary policy conducted in accordance with the fundamental objective of price stability; coordination of banking regulations with the acquis of the European Union.

On January 1st, 2007 the National Bank of Romania became a member of the Eurosystem/ESCB and the Governor became a member of the ECB General Council. Since this moment, NBR has been fully represented in all working structures of The European System of Central Banks (General Council, dedicated committees, working groups), participating in the decision process regarding regulation in European Union, which implies four working tiers (Lamfallussy procedure). The main benefits of this process include the faster pace of decision-making due to the delegation of powers regarding technical regulations to dedicated Committees and the possibility to achieve, over time, convergence in the field of supervisory practices at the level of competent authorities in the EU[256].

In the next years, the NBR has to accomplish the convergence criteria for adopting the Euro. Hence, it has to elaborate and implement a coherent convergence program that addresses the starting point and the time spent (maximum 2 years) in ERM II. There can be two big problems: early entry might extend the stay in ERM II and, also, late entry might weaken the rationale for fast-paced reform. Officials estimate the entrance in ERM II for 2012 and the effective entrance in the Euro zone for 2014.

Before entering the ERM II, Romania has to fulfill nominal convergence criteria and be successful in real convergence. Thus, the NBR has to consolidate a low inflation trend, establish the domestic market for long-term capital and interest rate convergence, and accomplish a sustainable exchange rate. Also, it must be continuing the structural reforms[257].

Here are Romania's economic performances in the perspective of nominal and real convergence.

Nominal Convergence Indicators	***Maastricht Criteria***	***Romania***	
		2006	***2007***
Inflation rate *(percent, annual average)*	*<1.5 pp above the three best performing Member States* ***2.8 percent*****	***6,56***	***4,84***
Long- term interest rates *(percent, per annum)*	*<2 pp above the three best performing Member States* ***6.2 percent*****	***…***	***6,7[2]***
Exchange rate (vs. euro) *(maximum percentage change vs. 2- year average*)*	*+ / -15 percent*	***+6,4 /-9,1***	***+11,0/-6,4***
General government deficit	*below 3 percent*	***-1.9[1]***	***-3.2[1]***

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[256] Raportul anual al BNR 2006, cap II, p. 62

[257] Isărescu, Mugur – România – Trecerea la euro, Forumul Financiar Sud-Est European, Bucureşti, 17 mai 2007, www.bnr.ro

Nominal Convergence Indicators	***Maastricht Criteria***	***Romania***	
		2006	***2007***
(percent of GDP)			(-2.8 according to IMF's methodology)
Government debt *(percent of GDP)*	*below 60 percent*	***12.4***[1]	***12.6***
Real Convergence Indicators (GDP/ capita) 2006	***EUR***	*4498*	-
	PPS***	*8800*	-

1) According to ESA95 methodology

2) 10th September 2007

*) For the period 2005-2006 and Oct. 2005-Sept. 2007

**) According to ECB's Report of convergence - December 2006

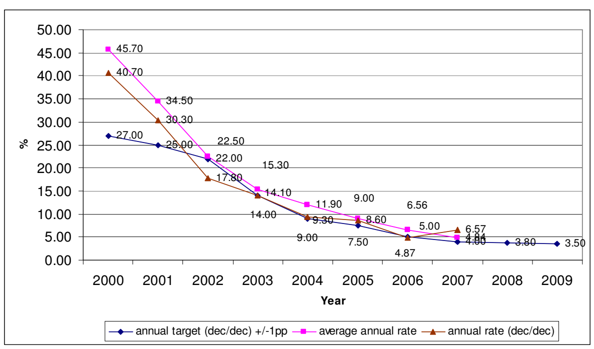
***) Purchasing Power Standards

Source: www.bnr.ro

Table no. 1. Real and nominal convergence indicators for Romania in 2006-2007

As we can see, the nominal criteria are still partially achieved, with monetary criteria being the weakest. So far, the National Bank of Romania has achieved high performances regarding the levels of inflation. Beginning year 2000, inflation rates have been dropping sustainable from 45,7%, and, since 2004, the levels of inflation rate have achieved one digit value. Even if in 2007 the annual rate has increased, the average annual rate has dropped 1,72%, confirming a deflationist trend.

Although the National Bank of Romania has achieved good levels of inflation rates in the last years, the gap between the European levels of inflation and the Romanian ones are still large. Only in the perspective of the year 2009 Romania has programmed an inflation rate target comparable with inflation rates in occidental European countries.



Source: www.bnr.ro

Figure no. 1. The evolution of inflation rates in 2000-2008

Calculating the correlation coefficient between monthly inflation rates and the main interest rates for different periods of time, we can observe a higher correlation, as we move toward year 2007, the year of our accession to EU (it gets positive value, closer to 1). This situation denotes a good functionality of interest rates formation mechanism, confirming the efficiency of the interest rate as a monetary policy instrument in the context of Romanian disinflation.

average active interest rates for non-bank clients – monthly inflation rates	
Jan 1994 – Dec 2006	0<0,5396<1
Jan 1998 – Dec 2006	0<0,7632<1

Jan 2000 – Dec 2006	0<0,7790<1
reference interest rate – monthly inflation rates	
Jan 1998 – Dec 2006	0<0,6938<1
Jan 2000 – Dec 2006	0<0,7170<1
Jan 2000 – Jul 2007	0<0,7412<1
average passive interest rates for non-bank clients – monthly inflation rates	
Jan 1994 – Dec 1999	0<0,4804<1
Jan 1994 – Dec 2006	0<0,6038<1
Jan 1998 – Dec 2006	0<0,7673<1
Jan 2000 – Dec 2006	0<0,7782<1

Table no. 2. The correlation coefficient between monthly inflation rates and the main interest rates of economy for different periods of time

The monetary policy strategy of inflation targeting will be kept until the ERM II entrance, because cohabitation between inflation targeting and an explicit exchange rate target is not appropriate. For the moment, it is the best choice that can be made in order to gradually achieve nominal and real convergence, in accordance with the fundamental objective of price stability. Also, the NBR would have to implement a performing communication strategy with the public, in order to be transparent and proactive.

Since January 1st, 2007, the NBR has reconsidered the structure of monetary aggregates in compliance with the ECB methodology and classification of financial instruments by institutional sector according to ESA 95. This change gave rise to influences between monetary aggregate components and between their counterparts. We can observe that the definition of M2 mirrors the interest in analyzing and monitoring a monetary aggregate which, apart from cash, includes *highly liquid* deposits as well.

Another important change in the monetary aggregates' structure is the introduction of M3 - broad monetary aggregate, which comprises *M2* plus marketable instruments issued by monetary and financial institutions. Money market instruments, in particular *money market fund shares and units* and *borrowings from repurchase agreements*, are included in this monetary aggregate (their highly-liquid nature makes these instruments be substitutes for deposits).

Calculating the degree of the National Bank of Romania's independence with Grili, Masciandaro and Tabellini – GMT (1991) central bank autonomy index on December 2007 we have obtained a score of 12 out of a maximum score of 15. This score suggests good central bank independence degree for NBR.

Political independence

No	Criteria	Scor	Value	Details
1	Governor not appointed by government	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 33, alin 3
2	Governor appointed for more than five years	1 – yes 0 – no	0	Statute of NBR, Law no. 321/2004, Art. 33, alin 4 (no more than five years)
3	Board not appointed by government	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 33, alin 3
4	Board appointed for more than five years.	1 – yes 0 – no	0	Statute of NBR, Law no. 321/2004, Art. 33, alin 4 (no more than five years)
5	Government representatives not required to participate in board	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 33, alin 10,

				art. 34, alin. 1
6	Government's approval not required for formulation of monetary policy.	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 33, alin. 1 lit a) – hotărâri ale CA
7	There is a charter (or legal, or even constitutional) requirement that CB pursue monetary stability as one of its primary objectives;	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 2. alin 1
8	There are legal provisions strengthening CB's position in the event of conflict with government	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 3, alin 1
	Total		6	
Economic independence				
9	Direct credit not automatically extended;	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 7, alin 2
10	Direct credit provided at market rates	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 7, alin 2
11	Direct credit is explicitly temporary;	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 19, alin 1
12	CB does not participate in primary market for public debt securities.	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 7, alin 2
13	Direct credit subject to limitations on amount;	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 7, alin 2
14	Discount rate set autonomously by CB;	1 – yes 0 – no	1	Statute of NBR, Law no. 321/2004, Art. 20
15	Banking supervision not assigned to CB	1 – yes 0 – no	0	Statute of NBR, Law no. 321/2004, Art. 2, alin 2, lit b), Chapter V
	Total		6	
The overall "economic autonomy" index (Political independence+ Economic independence)			12	

Table no. 3. Grili, Masciandaro and Tabellini index – GMT (1991) calculated for NBR, December 2007

Regarding the real convergence, indicators reveal a great gap between Romanian values and EU15 ones, even when compared to some central and eastern European countries. Thus, in 2006 the Romanian level of GDP per number of inhabitants in PPS represented 33,5% of the EU15 average, 47,3% of the Czech Republic one, 57,5% of the Hungarian one, and 70,9% of the Polish one. Even so, the Romanian economy has developed very rapidly – in 1999, the starting year of negotiations with EU, the level of GDP per number of inhabitants in PPS was 23,2% of EU15 average, at that time.

Starting since the late of year 2006, the NBR has adopted some regulations regarding the harmonization of Romanian financial-banking legislation with the European one, as an action of adaptation to the new conditions of the European economic environment. In this direction, in January 2008, the Single European Payment Area (SEPA) came into force in the entire EU, and in Romania, as well. This is an important measure of modernizing our payment settlement system and connecting with the ones in other European countries. That has implied an adaptation of the banking infrastructure to the new conditions and better payments services for clients.

In this context, we think that the main challenges and preoccupations for the NBR in the next years will be the following: threats of capital movements that can influence currency evolutions; maintaining of a deflationist trend and achieving inflation targets; a growth in balance of payments deficits; winning the market-maker position for the banking system; the contagious effects of the American subprime credit crunch; wages pressure; a quick harmonization of our financial-banking legislation with the future Directives of EU; a growing competition in the banking system due to the single market passport and an increase of the capacity of the central bank in banking and payment settlements supervision; greater central bank independence; efforts for rising the NBR's communication strategies' efficiency.

Conclusions

The European economic environment will have a major influence on the National Bank of Romania's institutional reform. At the same time, the NBR will still be one of the most active institutions in the restructuring of our economy in the perspective of European integration. Its main objectives will be focused on its contribution in achieving nominal and real convergence and adoption of the Euro at the right time. In this direction, the NBR will be confronted with many challenges and thus it must adopt the proper policies for every situation.

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JOB SATISFACTION

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We live in a highly competitive world, were the success of any organization depends on its human resource. In this way banks are no exceptions. A hard working, loyal, happy employee is no doubt a genuine asset of any organization, including banks. It is important to manage human resource effectively and find out whether its employees are satisfied and so they will be committed in their work, projecting a positive image of the organization, and determining its performance.

Keywords: job, banks, satisfaction

The concept of job satisfaction, though of considerably recent origin, is closely linked to motivation in the workplace and is a causal factor in improved performance in the workplace. These issues are again linked to job characteristics, which primarily describe the inherent features of a job, which can again motivate or de-motivate workers.

The worth of employees in the running of organizations has been analyzed and debated by management experts, sociologists and psychologists in depth and detail. A number of theories, most of them the result of painstaking and detailed research, are in use to explain human psychology in the workplace, the stressors and de stressors of a working environment, and the reasons behind employee performance, or for that matter, the lack of it.

For all practical purposes, employee satisfaction is essential for corporate success and all famous leaders of corporate enterprise apparently were also exceptional leaders of men. Low attribute rates in companies is an indication of stable and employee friendly HR policy and a barometer of corporate well being. The onset of higher employee turnover brings with it indications of difficult times ahead and is considered as a serious competitive disadvantage by business and financial analysts.

The issue of job characteristics and employee satisfaction has been looked at from a number of perspectives. One view, which is followed by many, is the importance of money. A number of employers feel that in today's multiple opportunity, flexi choice, work from home environment, money is the basic reason for a person to take up a job, furthermore that people work only for money. Companies that pay more usually get the most applications be it at college graduation time for new entrants to the work force, or later on for mid career shifts for middle and senior people.

There are again many management experts and HRD specialists who feel that the theory of money being the only real choice in an employment choice in a free market situation has many serious limitations and indeed is deeply flawed. These experts feel that while money is an important factor in the contemplation of an employment decision there are a number of other factors, which also influence such choices.

The truth is far more complex and while the cynical continue to believe in the overwhelming supremacy of money, in its power to buy happiness and satisfaction, be it in personal life or the workplace, a number of management thinkers, social scientists and corporate managers feel otherwise, advocating and using distinctly different HR philosophies and policies.

These include the understanding of need hierarchies like Abraham Maslow's theory of needs and Clayton Alderfer's ERG theory of motivation, the thinking of Herzeberger and McClelland and the various theories of goal setting and motivational processes. A number of organizations base their HR practices upon an understanding of these various theories and their adaptation to the business environment. Another variable which has come to occupy a permanent factor in HR policy making is employee reaction to the comparatively new practice of having to spend a significant part of working time in front of laptops and computer screens, be it any job profile, such is the pervasiveness of information technology in all areas of corporate life.

It is an undeniable fact that the future of business enterprise depends upon the satisfaction level of its workforce. Dissatisfied workforces cause immediate problems only to their particular businesses.

However, if these problems are left inadequately attended they have a tendency to spiral out including other businesses, industries and regions harming relationships, productivity, profits and finally also the creation of national wealth.

Employee satisfaction is thought to be one of the primary requirements of a well run organization and considered an imperative by all corporate managements. The last five years of globalisation, the rise of the Chinese economy as the world's cheapest manufacturing destination, the gradual pervasiveness of the internet and the emergence of outsourcing on a global scale have shaken up years of corporate practices in both manufacturing and service sectors of the economy.

The challenges faced by HR departments have accordingly increased manifold as businesses try to adjust and to and use the new economic realities to their advantage. In the UK the shift from manufacturing to service has resulted in the a huge change in the nature of skills required and available and the country has made rapid progress to becoming a high end service economy, home to top class skills in many service areas, notably finance, investments and banking. The shift in the nature of jobs has also led to a change in job characteristics and in the functional tools used for carrying out jobs. The various characteristics of particular jobs play a major role in providing job satisfaction to the worker. It has always been accepted that job satisfaction leads to the generation of company loyalty and lower satisfaction levels lead to attrition and higher turnover.

It can thus well be that job satisfaction levels could be an area where improvement of conditions could result in benefits for the national economy.

The following issues are thus significant in definition of the problem:

- Organisational growth needs an exposition of dissatisfiers in the workplace
- Placement of right personnel in appropriate positions is necessary for optimising performance
- Dissatisfied employees are unlikely to perform well at their jobs
- Communication between management and employees, articulation of job characteristics that improve motivation and implementation of measures to introduce necessary job characteristics will help in increasing employee performance

The appropriate way to conduct this specific research assignment would be to start with the framing of a set of research questions that would determine the general direction of this research effort. The research questions are now defined as follows.

- Do job characteristics have any bearing on the job satisfaction levels experienced by workers?
- Does job satisfaction result in better corporate performance?
- What are the reasons that result in job satisfaction in the corporate workplace?
- What could be the stressors and de-motivators, both external and internal which, when perceived as job characteristics could lead to lower levels of job satisfaction?
- What could be possible motivators that could result in increased levels of job satisfaction?
- Has the ubiquitous and ever increasing presence of IT and the internet changed the job characteristics and the levels of job satisfaction in the workplace?
- Is harassment in the workplace a cause of dissatisfaction and demotivation?
- Have recent international developments in business and economics affected levels of job satisfaction in the UK?
- Is the situation regarding satisfaction at the workplace worrying in the national context?

Job satisfaction is an extensive subject and detailed work has been carried out in the area.

Job satisfaction, its causal factors and its effect upon organisational health are all part of the various factors under study for this assignment. Job satisfaction for an individual can be influenced by a number of factors that include first the job itself, the salary, the promotion policy of the company, the attitudes of the co workers, the physical and mental stress levels involved, the working conditions, the interest and challenge levels. These various factors are just indicative of the many factors that contribute or take away from job satisfaction. Sometimes, even changing the colour of the furniture fabric can lead to higher levels of job satisfaction. While job satisfaction is not quite the same as motivation the two are closely linked and many times motivating actions also increase satisfaction levels. Most organisations periodically measure job satisfaction among employees through mainly quantitative techniques using rating scales.

We view job satisfaction as emerging from a variety of factors, including characteristics of the organizational environment, specific features of the job, and the personal characteristics of the worker. Higher job satisfaction has been linked with employees who are able to exercise autonomy and with those who have a higher level of job involvement Women have been found to report significantly higher job satisfaction than men although this gender gap appears to be narrowing . Some researchers have noted that older workers tend to have a higher level of job satisfaction, although a number of studies have shown that the age variable might be more a proxy for experience . Older workers also tend to be situated in higher-level positions, which might be more fulfilling than the less exciting entry-level positions of those just entering the work The researcher intends to commence the literature review of the subject issue with a discussion on current thinking on motivation and job satisfaction and then move to allied topics like the use of IT in work places, the problems associated with bullying in the workplace and how tweaking of job characteristics can increase motivation in the workplace, in order to get a firmer handle on the many perplexing variables.

Working in the banking system is not easy but it can bring you enormous satisfaction if you commit yourself to what you do, if you are responsible and hard working.

In the banking system job satisfaction is linked to jobs requirements:

- Bank experience or customer care experience would be a plus
- Enthusiastic person, always willing to help and solve customer's issues
- Problem solving and attention to details
- Fast learner
- Very good communication skills and listening skills
- Selling skills
- Team player, adaptability, ability to work under pressure
- Good knowledge of English is a must, especially verbal and computer skills

And responsibilities:

- Providing information to potential individual consumer and corporate customers regarding product and service features, pricing, delivery, contractual conditions. The employee develops qualified leads by selling the company image; he/she encourages individuals to visit a branch or contacts the company sales executive about the potential customer.
- Providing immediate information to the queries raised by bank customers on: account balance, statements of account, products' procedures;
- Phone Banking Representative is responsible to smoothly transfer of service to the Account Administration department, in case of queries that need further investigations and/or special attention. Phone banking Representative must ensure that all service requests (received by prior established channels) are properly handled and solved within the time lines agreed.
- Processes customer complaints in a courteous and professional manner in order to resolve any issues within his/her control. Knowledge of the relevant information and facts and an understanding of the issues are required by the employee to deal with the complaint promptly and within established guidelines. More complex complaints are passed on to Customer Service Unit Officer.
- Working with customers who wish to terminate their contract with the company. This requires the employee to understand the customer's position and develop ways to retain the customer's account and interest in the company. This reactive form of selling requires the employee to compare competitive products, services, and prices and to appeal to the customer's original reasons for wanting a bank product.
- Keeping track of the reasons for which customer interacted with him. This information is necessary to increase customer satisfaction by better understanding each customer’s needs in future interactions, by customizing approach to each customer, and by identifying general or

specific reasons for customers' requests and complaints. In order to do this, proper identification of the customers' requests and accuracy of interaction coding are required.

- Keeping strict confidentiality of all operations and discussions with clients.

The clients must be satisfied with being offered the best services, they will have greater profitability and therefore they will use more bank services. Our strategy must be the best and profitability comes no doubt. The client is satisfied, we are optimistic and we view positively the outcomes.

Every business enterprise wishes to continuously improve the job satisfaction levels of employees as much as possible within their particular constraint and resource allowance. As can be seen from the number of theories, illustrations and conditions, most of which are extremely fluid, there appear to be numerous motivator and demotivators that can improve or reduce satisfaction levels and thereby hurt both motivation and performance.

The measures listed below, culled from all the information available with the researcher from a review of existing literature distils and concentrates current expert and management thinking on improvement of job satisfaction.

- A proper salary and reward system that is beneficial to employees, eminently fair, impartial towards gender or ethnicity and which promises rewards, in terms of money and career progression is the first and foremost requirement for ensuring job satisfaction in the workplace.
- The provision of a workplace which is co operative and where employees are cherished and wanted is essential for job satisfaction. This requirement is omnibus in many ways and includes the prevention of harassment, involvement of employees in real goal setting, planning, and problem solving, showing respect for diverse ideas and opinions, giving and taking honest and constructive feedback, arranging for mentoring facilities, and sharing as much information as possible with employees
- An atmosphere at work that continuously works towards employee progression and advancement, in skills and responsibilities, by way of using the full range of employee knowledge and skills by providing opportunities for challenging assignments, considering reassignments so that employee strengths align with position requirements, providing meaningful work with restructuring of positions if necessary and possible, providing public recognition of efforts and achievements, giving employees additional responsibilities and the freedom to take action, explaining why assignments are important to the accomplishment, providing opportunities to learn new things and supporting developmental assignments and on-the-job training.

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THE NEW TECHNOLOGIES EXTENSION IN BANKING: THE CASE OF E BANKING IN THE ROMANIAN PRACTICE

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Abstract: The new technologies in the banking services are part of rapid changes in the way of life and thinking. The banks are aware these new changes are fundamental for their performance improvement. The banks of Romania have rapidly growing and developing e-banking services, especially the Internet information and home and mobile banking. The sites of banks provide specific information, particularly on credit. Moreover, these are some other sites, which are dedicated to credit information. The future of e-banking, services in the Romanian practice depends on how much the banks understand the part these services play in attracting and keeping customers and the easiness of Internet, home, office and mobile access.

Key words: e/banking; Internet banking; home/office banking; mobile banking; Romanian banking system.

1. Drivers and reasons for e-banking

We see the change coming rapidly not only in technology, but also in society, in the economy in the way we live or we think. Banks should go on and meet all these changes, trying to make profits, but never forget the very essence of their existence: Their Customers. The banks presence in the on-line environment is a prerequisite for meeting the customers' expectations and adding value to the banking services.

The banks are aware that on-line activities are fundamental for their performance improvement. Therefore, for well-grounded reasons, they are set to use more and more the on-line banking. No bank wants to be left behind when it comes to the e-banking revolution (Sheshunoff, A., 2000, p. 51). With the development now moving at "the speed of the Internet", falling to far behind may make it effectively impossible, or at least very difficult, to catch up with the competitors. Most banks with websites are already providing or implementing full service e banking to their customers. These banks fully understand that the e banking is the corner stone of an effective customer relationship management. Bank customers are becoming increasingly more interested in having on-line access to their bank. The speed of on-line banking services is selecting the customers. If they are not willing to wait, the customers move their business to a competitor bank. Therefore, the banks could implement the on-line banking as an offensive tool, instead as a defensive one (Eliopoulos G., 2000, p. 125). At the beginning, the implementation of the Internet banking was driven by the desire to hold on the current customers. The objective of attracting new customers was a secondary concern. Banks are setting up websites because their competitors are doing the same. The passage to the relationship marketing philosophy, which has as basic principle the interactivity, forces the banks to consider the new opportunities on-line banking provide to reach customers and to avoid the limitations associated with a traditional strategy.

The translation from the traditional strategy to the new on line strategy is a progressive one. It is like a journey which begins with a strategy for driving traffic to the site, keeps on increasing actual utilization of on-line services, offering a broad array of e-commerce services and ultimately establishing a web based loyalty management program.

On line banking works best when is implemented as a part of a bank's overall customer relationship management strategy to retain the bank's more profitable customers, to sell them more services, and to attract profitable new customers.

The banks could offer Internet services in two ways (Ghencea S., 2007, p. 146). First, they could create sites and the Internet banking become a new channel. Second d, it could set up a Virtual Bank, Internet Only, without human presence. The virtual bank could completely play its revolutionary part if the banks are focusing on segregation the market into target groups, in order to hold the groups which are compatible with virtual services, change the infrastructure to support the new vision, identify and fulfill the value desired by customer and knowledge warehouse. From the standpoint of the customer, the virtual bank has to perform services anywhere, anytime and in any way, into a "one-touch" system.

2. On-line banking, a result of an improved architecture of the Romanian banking system

The architecture of the Romanian banking system has two levels. The National Bank of Romania (NBR) as a central bank is the core of the whole banking system. The commercial banks work according to the legislation, and under supervision of the NBR.

Romania commenced fairly late with the reforming up its banking system. Cleaning up the banking sector in the transition period of the country was a costly and time-consuming process. As NBR adopted a more decisive attitude with regard of supervising banks, enacting stricter legal requirements and taking more restrictive approach to monetary policy in the late 1990s, the Romanian banking sector began to restructure. After weathering the financial and banking crisis in the late 1990s, and subsequently initiating the process of bank restructuring, the sector began to consolidate. Supported by economic stability that has been firm since year 2000, the sector emarked to a steady growth path.

The Romania's banking market has as main characteristic an oligopolitic structure with respect of market share. The five largest banks commanded a market share of 62 % in 2006, as data in Table 1 show.

Table 1. **Top 10 of Romanian banks after, market share (%)**

Nr. crt.	Bank	2006	2004
1	Blanca Comercială Română (BCR)	26,2	26,1
2	Banca Română pentru Dezvoltare – Group Société Génerale (BRD-GSG)	16,3	13,0
3	Raiffeisen Bank	8,0	9,2
4	Unicredit Tiriac	6,8	4,63
5	Banca Transilvania	4,7	2,9
6	Banc Post	4,5	4,6
7	ING Bank	4,2	5,62
8	Alpha Bank	4,1	3,18
9	Casa de Economii si Consemnatiuni (C.E.C.)	4,1	5,9
10	ABN Amro Bank Romania	3,1	4,97

Sources: Chircu (2006), p. 23; Biz, nr. 147/2007, pp. 48-49; Banking in South-Eastern Europe on The Move, Bank Austria Creditanstalt AG, September 2005.

The on-line operations are growing in the Romanian banking system, even if both the banks and the customers are modestly using the e-banking services. Since about tree quarters of the bills are cash paid, the main distribution channel of the Romanian banks is the branch, (Toma A., 2007, *Biz, nr. 137, 1-15 martie, 2007, p.50.*

The Internet banking services are requested only by 7% of Romanians, comparing with 84% in Finland, the country in first place in EU by the end of year 2007 (7 Plus, February, 11, p.8).

The multiplication of the distribution channels and an increase of promotion and information importance are becoming stronger trends. They are confirmed by dynamic of e banking. In February 2007, 27 of 37 banks of Romania have implemented a e-banking system. Among them, 26 or 63,4% provide Internet banking, 13 banks had home banking and only 3 banks offered mobile banking (Table 2).

Table 2. e banking in the banks of Romanian Top 10 (February 2007)

Nr. Crt.	Bank	Internet Banking	Home Banking	Mobile Banking
1	BCR	Multicash BCR	Multicash BCR	-
2	BRD	BRD-NET;BRD@Office	Multix	Mobilis
3	Raiffeisen	Raiffeisen Online	Multicash	my Banking
4	Unicredit	Unicred Internet Banking	Multicash	-
5	Banca Transilvania	BT 24	BT-Ultra	-
6	Bank Post	Internet e-Bank	Internet e-Bank	-
7	ING Bank	ING Online; Home Bank	Multicash	-
8	Alpha Bank	Alpha Click	Alpha Line	-
9	ABN Amro Bank Romania	ABN Amro Net Banking Access On-line Romania	Office Net Romania	-

Source: http://www.banking.ro/e *banking php*

BRD-SCG only offers two Internet banking services. Some smaller banks such as ABN Amro and ING have two Internet banking services, too. All the Top 10 banks, but CEC, provide home banking services. CEC is the only state owned bank, and it provided not e-banking services at that time. Only two Top 10 banks, BRD and Raiffeisen and one smaller, Romexterra respectively provide mobile banking.

1. e-banking in the practice of Romanian banking system

The banking institutions of Romania are using the Internet from the year 2000. They are directed toward e banking, mainly at the beginning levels. The most offered service is Internet banking providing information.

At this first level, the banks present their products and services, and use Internet as a promotional channel. The transactional level of e banking is supposed to perform the complete range of banking operations, and it is a little less present into the practiced of Romanian banks. These banking operations have some risks, since they imply a connexion between the external user and the informatics system of the bank. Therefore, the data protection by such operations is needed. Internet banking and home banking are mainly involved in payment operations.

There are some present and future drivers, which are motivating the banks of Romania to emphasize e-banking services. A greater pressure for most of the banks seems to have the stronger competition and the struggle for attracting customers, mainly individuals. Under these circumstances, the banks have to stress more the promotion and marketing their products and services using e banking.

Beyond the competitive reasons, the rise of the number of Internet users in Romania is a strong driver for a greater use of e banking. There are about 6 million Internet users in Romania, and it could become good space for banking operations, which could support the materialization of many banking transactions (R. Bărbuceanu, 2008, p.). As a result, the banks are following their customers even here, offering them information, which they could obtain from the personnel of the bank, face to face or at call centers. (A. Drăgan, V. Toma, Biz, nr. 139,2 / 15 April, 2007, p. 40).

The banks are also strongly motivated by the advantages of e banking. The concept of e banking was only recently a main concern of the bank of Romania. The main reasons of such an attitude are the lack of a proper banking culture and the limited number of target customers for on-line services. At present, the banking customer has greater expectations, is more careful with the cost and conditions of banking offers, and has less time to go to the banking premises. More over, the stronger competition urge advantages for the customer's benefits. The Internet provides many and various advantages for the banking customers.

At random, the first of them is the interactive on-line relationship. The customers could interact with the bank, could get information in real time, could applicate for certain products and services and update the information without going to the bank. In their turn, the banks could quickly at low cost for production and spreading inform their customers and capture the public attention. The banks get a better visibility, could update more rapid the information, and could obtain a quick feedback from the customers. Moreover, the banks could more clearly segmenting the market, get better targeted products and services, the required investment for such an approach being smaller. The promotion campaigns on Internet are easier to evaluate and more effective. Last but not least, the Internet makes easier the distribution, and in this way the bank is getting an alternative channel. This new channel is an important support for the negotiations, transactions and delivery process.

As an important plus, the Internet allows many banks to have the same chances. The web site of a bank reflects and even become its public image. The difference between a good, stately site and a poor and ineffective site means a sum of thousand dollars. Therefore, the smaller banks could afford an equal or superior Internet site, comparing to one of a large bank.

2. Internet as an information channel in the Romanian banking system

Who wish specific information has at disposal the sites of banks and some other sites, which are specialized in delivering information about credit. Most of banks display detailed information about credits types, interest and commission included, on their sites.

The interested people could also make applications for credit, which afterwards arrive at the call-centers.

The Romanian economic magazines Capital performed an analysis in 13 banks of Romania. Among them, there are the five of Top 10 banks in the banking market hierarchy, BCR, BRD, Raiffeisen, Unicredit Tiriac, Banca Transilvania respectively, and some other smaller banks such as Alpha Bank, Ing, Volksbank, OTP (R. Barbuceanu, 2008, p. 33). Table 3 shows a relative hierarchy of the studied banks after the range of information, which is available on their sites at the end of year 2007. The data of the Table 3 show that all large banks are in the frontline of the use of Internet. The most advanced banks seem to be BRD and Banca Transilvania, and they are followed by some smaller banks such as Volksbank, Banc Post, OTP.

Table 3. Information available on the sites of banks of Romania

Banks	Interest	Commission	Rates	Applications on line
BRD	Yes	Yes	Yes	Yes
Banca Transilvania	Yes	Yes	Yes	Yes
Volksbank	Yes	Yes	Yes	Yes
Banc Post	Yes	Yes	Yes	Yes
OTP	Yes	Yes	Yes	Yes
Credite Europe Bank	Yes	Yes	Yes	Yes
Banca Romaneasca	Yes	Yes	Yes	Yes
Raiffeisen	Yes	Yes	Yes	No
ING Bank	Yes	Yes	No	Yes
BCR	Yes	No	Yes	Yes, no real estate
Alpha Bank	Yes	No	No	Yes
Unicredit	Yes	Yes	-	No
CEC	Yes	No	Yes	No

Source: Capital, 17 January 2008, p. 33.

The sites of the banks have also information about shareholders, and some banks are including chapters such as the section about professional career, too. BRD is a bank, which emphasize the section human resources. This section has more chapters, human resources policy, areas of bank practices, respectively and a chapter for young people who have evolution potential for management positions. The Banca Transilvania's site makes with an other site connection, which is dedicated to the members of B.T. Club.

This site has tree chapters, training, consulting and networking respectively (Banks sites and A. Dragan, V. Toma, 2007, pp. 48-49).

3. Sites dedicated to credit information

The sites dedicated to credit information have been launch in the year 2005. Despite they are niche site, they have rapidly advanced, having even about 30.000 visitors a week. The market share and the notoriousness are the drivers, which stimulate the internauts searching the bank's name, so that the actual banks hierarchy in the Romanian banking market is observed.

These web sites, among them being Conso.ro,Finzoom.ro and Vreau Credit.ro, allow the visitors getting information about the cheapest credit, no matter its type or currency.

By filling a blank with the requested amount and the number of partial payments, one could see the list of credits and the banks, which could offer it. The detailed conditions of the bank's offer are also available, so one could estimate the total cost of every offer by bank.

In a large measure, the initiatives of the Romanian banks for increasing their presence in the virtual space by means of a good web site are due to the global trends in the banking industry. Romania is following these trends and local banks should know the customer profile, and comply with their marketing strategies. Thus, strategic objective of the bank is focusing on the way its site is organized.

Within the countries where there are well-developed banking services and a proper customer culture, the banks have more diversified information on banking operations range. On the sites of some banks are available comparisons between their products, on-line consulting services about financial planning and direct contacts between the bank personnel and the on-line users. All these facilities are progressively added to the on-line information of the banks of Romania.

In order to join these international practices, the Romanian banks should fully understand the part Internet play in attracting customers and, especially, in loyalty of the customers. At the some time, the on-line services evolution and presence of the banks of Romania in e-banking will depend on the easiness of the Internet, home and mobile banking access, on the shorter time of the banking customers, and on the facilities these customers will receive.

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INSURANCE BROKERAGE IN ROMANIA

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The paper highlights the importance of brokerage on insurance market and shows the evolution of this kind of activity in Romania. A few aspects concerning brokerage activity are taken into consideration, stressing on Romania’s EU accession impact on brokerage as well as on the essential issues allowing a quantitative analysis of insurance brokerage in Romania. The paper lets the reader see a couple of opportunities as well as a couple of constraints brought by Romania’s EU accession to the Romanian brokerage market and the elements momentary braking the development of this activity to its full potential. It also suggests possibilities to support the growth of insurance brokerage.

Keywords: insurance intermediary, insurance broker, insurance agent

Distribution of insurance is handled in a number of ways. The most common is through the use of insurance intermediaries. Insurance intermediaries facilitate the placement and purchase of insurance, and provide services to insurance companies and consumers that complement the insurance placement process. We should emphasize on the intermediary not being and not having to become a party in the insurance contract (2).

Traditionally, insurance intermediaries have been categorized as either insurance agents or insurance brokers. The distinction between the two categories relates to the manner in which they function in the market. Insurance agents are, in general, licensed to conduct business on behalf of insurance companies. Agents represent the insurer in the insurance process and usually operate under the terms of an agency agreement with the insurer. The insurance broker is a specialized intermediary whose main activity consists in offering services based on a reasonable standard of experience and professional abilities. Brokers assist clients in the choice of their insurance by presenting them alternatives in terms of insurers and products. Acting as "agent" for the buyer, brokers usually work with multiple companies to place coverage for their clients. The broker offers advice and he normally signs the insurance contract as the insured’s agent, but he usually gets a part of the fee to by the insurance company (1). A broker acting on consolidating insurance markets is more often asked to inform and protect the client during the process of insurance contracts negotiation. Brokers act for the insured’s interests by actually placing the risks to an insurer.

As far as the presence of insurance intermediation companies in Romania is concerned, the regulations concerning Romanian insurance market was initially extremely vague and insurance intermediation was provided according to Law no. 47/1991 by entrepreneurs – individuals or companies – whose legal status rather blurred. The endorsement of Insurance and Reinsurance Activity Surveillance Office (OSAAR) authorized the setting up of intermediation agencies and it didn’t settle any barriers to the main activity of the companies. According to Law no. 47/1991 the companies acting as intermediation agencies were allowed to get involved in other activities beside insurances. This feature only made the intermediation activity more difficult to be surveyed by that time and it made some of the important objectives of the insurance field almost impossible to be fulfilled. The above mentioned objectives refer to: the difference between brokers and insurance mediators, share holders’ structure, information concerning the mediators’ experience within the field of insurances, registering the intermediation activities to the book accounts, the OSAAR’s gathering of financial papers, intermediation activities analyses and control and so on. Later on, insurance intermediation has been better and clearer regulated by Law No 32/ 2000 and, as consequence, the brokers interested in continuing their activity had to request and get a license from Insurance Surveillance Commission (CSA) according to the law.

A few changes have been made to the law during Romania’s EU accession process and now it stipulates that the insurance intermediation activities are those preliminary activities necessary in order to sign the insurance-reinsurance contracts and in order to provide assistance in drawing up and managing contracts, especially when damages are involved. When the above-mentioned activities are carried out by an insurer/re-insurer or by one of their employees acting under the insurer's / re-insurer's responsibility, one should not consider them intermediation activities.

Law No 32 /2000 stipulates that insurance agents and brokers are insurance intermediaries. A legal entity may act as an insurance and/or reinsurance broker if Insurance Surveillance Commission (CSA) authorizes it. In order to be authorized by the Insurance Surveillance Commission, the petitioner will bring to the CSA the papers proving it will act under certain conditions:

- it is a legal entity whose name necessarily includes one of the expressions "insurance broker", "insurance/reinsurance broker" or "reinsurance broker";
- it has a paid up registered share capital with a value exceeding a certain limit settled on by CSA regulations;
- it signed a third party liability contract valid through the whole European Community territory and the states within the European Economic Space;
- it only activates as an insurance and/or reinsurance broker;
- it hasn't previously been the subject of bankruptcy nor of a bankruptcy and/or legal reorganization by the date of authorization request;
- shareholders, main shareholders and stakeholders have a clean criminal record as far as patrimony related crimes or crimes defined by financial and fiscal law are concerned;
- its executive manager complies with the requests of the CSA standards concerning education and work experience;
- its name is not putting public opinion on the wrong track.
- An insurance/reinsurance broker is limited by the following restrictions:
- it can't be a main shareholder or stakeholder of a insurer/re-insurer;
- it can't be a shareholder or manager of an insurance and/or reinsurance broker;
- it can't activate by means of insurance agents.

Insurance/reinsurance brokers may collect insurance premium, pay for the damages using the currency stipulated by the insurance/reinsurance contract and issue the insurance/reinsurance papers in the name of their insurer/reinsurer.

Authorized insurance/reinsurance intermediaries may carry out intermediation activities in Romania or in any member state, under the condition of previously informing the CSA.

Emergency Governmental Decision no. 210/2005 altering the law no. 32/2000 has articulated and defined the brokerage assistants and the brokerage mandate. Meanwhile a couple of arrangements have been made in order to stimulate a better intermediation activity. Some of these arrangements referred to:

- requiring an integrated education and training system;
- laying down the compulsoriness of providing a minimal information set to the clients;
- setting up special bank accounts for insurance premiums or damages and protecting these sums against creditors;
- stating the broker's insolvency when the broker does not bring the insurance premiums to the insurer within 30 days later than the date settled by contract terms and the possibility that CSA initiate the procedure of bankruptcy and legal reorganization;
- accomplishing professional training standards of the broker's employees;
- the existence of a Journal of brokerage assistants;
- arrangements made in order to avoid the existence of more brokerage mandates issued by the same client for the same objective;
- the procedure of requesting mutual understanding or of brokerage mandate reversion at client's initiative.

Another opportunity for developing brokerage businesses has occurred due to Emergency Governmental Decision no. 87/2006 which granted the right of insurance / reinsurance brokers to intermediate facultative pensions, according to the specific law in force.

The National Union of Consultancy and Insurance Intermediation Companies in Romania (UNISCAR) was set up by a group of 12 consultancy and insurance intermediation companies as a non-profit organization in September 2000 and this was another essential element for the development of Romanian insurance brokerage. The main purpose of the Union was to support its members to get the public recognition of the insurance consultants' and mediators' activity.

The objectives of the Union refer to:

a) working together with insurance companies and the authority surveying insurance activity to prepare technical and legal basis within the insurance field;
b) drawing up the working standard, deontological norms and trying to reach a higher level of quality for the services provided by its members;
c) supporting its members in the education and training their employees;
d) supporting the legitimate interests of its members against third parties, including state institutions and mass-media;
e) developing national and international connections with similar organizations and organisms.

Broker's Ethical Code has been drawn up by UNISCAR in 2001, stating the professional standards and the principles any broker member of the Union has to comply with in his interaction with clients, insurers and other mediators. Another document drawn up by the Union was the Cooperation Protocol between UNISCAR and the National Union of Insurance Reinsurance Companies. The Protocol defines the minimal principles based on which brokers and insurers affiliated to these professional associations will cooperate and it aims to a better collaboration between the two professional categories on the insurance market for clients' benefit. Supporting professional training of insurance intermediaries is another concern of UNISCAR

As far as the importance of insurance brokerage at EU level is concerned, the European Directive concerning insurance intermediation, which came into force on 15 January 2005, highlights this. The fundamental objectives of this directive refer to enabling insurance intermediaries to operate freely throughout the European Union and to enhance the consumer protection. It set up principle of single license based upon notification, but general good requirements and extra information requirements in host country remain applicable.

A quantitative evaluation of Romanian insurance brokerage market is considered below. Thus, the insurance brokers' number evolution between 2001 and 2007 is shown in table no. 1.

Table no.1.

Insurance brokers' number in Romania between 2001 and 2007

Year	2001	2002	2003	2004	2005	2006	2007
Number of brokers	87	150	204	266	317	344	397
UNSICAR's members	18	23	24	28	41	47	73

Source: 2002-2006 Insurance Surveillance Commission's reports; Media Xprimm 2008

A significant decrease in the broker's number due to Law 32/2000 application has to be noticed. When Law 32/2000 came into force there were 817 active so-called brokers, but after the law being put into force, the number of brokers has severely reduced to 87. As their presence on the market was important, the brokers' number increased during 2001 and 2007, meaning a four times growth compared to the first year after the law enforcement. UNISCAR has now 73 members, meaning less than 20% of the total number of active brokers on the market, but they concentrate almost 67% of the incomes registered on the brokerage market in 2007. In the perspective of the share of intermediated insurance premiums, the situation is quite similar as UNISCAR brokers registering premiums intermediation evaluated at more than 66% of insurance brokerage.

As an effect of Romania's EU accession, a significant number of brokers from European Economic Area (EEA) made public their intention to activate on Romanian market, based on the freedom of establishment right or on the freedom to provide services on the unique license principle. A brief presentation of these brokers according to their origin country and number is made in the table no. 2.

Table no.2

Number of brokers from European Economic Area intending to activate in Romania

No.	Country of origin	Freedom of providing services principle	Freedom of establishment principle
1	Austria	4	
2	Belgia	11	
3	Bulgaria	2	
4	Cipru	1	
5	Danemarca	1	
6	Franta	32	
7	Germania	43	
8	Gibraltar	1	
9	Grecia	3	1
10	Irlanda	8	
11	Italia	6	
12	Liechtenstein	5	
13	Lituania	1	
14	Luxemburg	5	
15	Malta	1	
16	Marea Britanie	378	
17	Olanda	10	
18	Polonia	3	
19	Republica Ceha	6	
20	Slovacia	3	
21	Spania	2	
22	Suedia	4	
23	Ungaria	7	1
Total		537	2

Source: author's calculus based on the data from www.csa-isc.ro

There's an important number of intermediaries from European Economic Area (EES) interested in providing their intermediation services on the Romanian brokerage market, most of them being British (378 brokers out of 537), German (43 brokers) or French (32 brokers).

Romania's EU accession brought a number of opportunities for Romanian brokers, such as: settling a healthy business climate leading to a wider insurance cover, a wider market to activate on, the possibility to accentuate the brokers' role as a consequence of EU brokers' representation, simultaneously with offer diversification. As far as brokers are concerned they are expected not to request, negotiate and sign insurance contracts only, but also to provide other services such as risk evaluation, risk management, control and damage management.

On the other hand, a market concentration trend is expected as well as the emergence of specialized brokers, as an effect of market segmentation. An accentuated competition on the market due to EEA competitors is also expected.

The importance of brokerage on commercial insurance market is highlighted by the paid insurance premiums and the brokers' insurance market share in table no 3.

Table no 3

Brokers' insurance market share

from the perspective of intermediated gross insurance premiums

Year	Gross insurance premiums intermediated (lei)	Nominal growth (%)	Real growth (%)	Gross insurance premiums intermediated (mil. euro)	Nominal growth (%)	Share of direct insurances
2002	172433300	-	-	49,38	-	10,3
2003	288713301	67,43	46,74	70,22	42,20	10,8
2004	665660448	130,56	110,94	167,8	138,96	19,1
2005	855389230	28,50	18,32	232,63	38,64	19,4
2006	1233580000	44,21	37,51	350	50,45	21,5
2007*	2100000000	70,24	59,75	640	82,86	29

** estimated values*

Source: author's calculus based on the data from 2002-2006 Insurance Surveillance Commission's reports; Media Xprimm 2008

An analysis of the data in table 3 points to the significant growth of Romanian brokerage, showing that the number of insurance brokers has permanently increased. The same conclusion originates in the growth of values of insurance premium paid up due to brokers comparing to the values of insurance premium paid up due to insurers from 10.3% in 2002 to about 29% in 2007.

Brokers' involvement on private pensions market has been even more significant, as shown by table 4

Table no. 4

Private pensions intermediated by brokers

No.	Specification	Clients' number / percent
1	Clients due to brokers/ mediators	1.265.657
2	Clients validated after four months of direct selling	3.991.032
3	Brokers' and mediators' share	31,7%

Source: www.csspp.ro

One of three insured persons having bought a private pension has signed his / her contract due to an insurance broker, as shown above.

There are also some problems that curb the development of the brokerage activity in Romania. Thus, in Insurance Surveillance Commission (CSA) point of view, the main problems derive from a poor communication between the Commission and certain brokers, especially when registering changes of headquarters or point of sales to Trade Registry with no CSA notification and endorsement is involved. Other problems are related to a delayed presentation of their financial papers to CSA or to lack of contracts concerning professional third party liability.

Some insurers are also complaining of poor quality intermediation services especially for those services for which they granted special mandates according to Law 32/2000 (article 35) such as: collecting insurance premiums, paying for the damages in insurers' name, using the currency stipulated by the insurance / reinsurance contract, according to the legal regulations in force, and issuing insurance or reinsurance papers in the insurer's or re-insurer's name.

On the other hand, most of the brokers' complaints concern the insurers' hostile attitude determined by their former bad experience with other intermediaries as well as forcing the modification of their existing collaboration contracts and bringing the contracts to even terms for all brokers, under the threat of ceasing the contract if the new contractual terms are not agreed. Other complaints refer to: not validating the brokerage mandate when regularizing damages to be paid based on an insurance contract that have not been intermediated by a broker, insurers breaking their paying damages terms, and a poor professional training of the insurers' representatives in branches, distorted, delayed and even discontinued communication between brokers' and insurers' decision makers. There's also a long period of time between the moment a new insurance product is brought gets to the insurer's portfolio and the moment it is introduced to the broker.

We consider that by solving the above-mentioned problems, the Romanian brokerage market may double within the next three years as in brokers' perspectives.

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A NEW CRISIS OF HUMAN RESOURCES MANAGEMENT IN THE ROMANIAN BANKING SYSTEM

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Due to the fast market growth and due to the stiff competition, lately we have been experiencing a great demand for banking activity experts. Beginning with the demand and offer game, the migration of skilled manpower from one bank to another is quite high and each employer in the banking system would like to be able to implement a human resources management that would allow them to stabilize the manpower, to obtaining loyalty of the best employees, to reduce new staff training costs. The foreign agents of the banks claim that Romania is not the only one who is going through such a crisis, which will last at least two or three more years.

Crisis, human resources management, banking system

The number of banks in Romania (50%) continues to be low compared with the number of banks established in the European Union Member States (150%), consequently the banking system may still continue to develop, while Romania continues to be an interesting market for the main operators in Europa. But the Romanian banking system continues to have as salient feature a high level of bureaucracy compared with the western countries is we refer to the high number of employees operating in indirect activities (approximately 10% of the bank staff in Romania provide services other than actual operations carried out to the benefit of the client).

As far as the banking concentration level is concerned, Romania ranks low having a number of 4900 inhabitants / banking establishment, compared with the average corresponding to the European Union states that amounts to 2297 inhabitants / banking establishment. The savings level also features poor results; it amounts to 17.5 euros / month, compared with Czech Republic – 21 euros / month, Poland – 27 euros, Slovenia – 36 euros.

Human resources management acquired a special international importance as human resources are deemed to be the greatest asset of a company. Human resources are unique from the point of view of their growth and development potential and of their ability of knowing and exceeding their own limits.

Due to the fast market growth and due to the stiff competition, lately we have been experiencing a great demand for banking activity experts. Beginning with the demand and offer game, the migration of skilled manpower from one bank to another is quite high and each employer in the banking system would like to be able to implement a human resources management that would allow them to stabilize the manpower, to obtaining loyalty of the best employees, to reduce new staff training costs.

The problems encountered by the banks as far as human resources management is concerned focus on the following coordinates:

- Development and retention – the financial and banking sector is a dynamic field, displaying an accelerated growth, leading to the modification of skilled staff expectations;
- Motivation – compensation and motivation are essential components of human resources management system and these must be real and competitive;
- Geographical location – as territorially distributed human resources must be managed, the issue of data fragmentation, of centralized management and of management costs occurs;

- Efficient training – the need of training emerges along with the increase and complexity of the market and of products provided; it is necessary that this training be carried out as efficiently as possible, incurring costs as low as possible;
- Cost control – within an environment that is increasingly competitional, where profit is increasingly difficult to yield, and the margin of asset interest and liabilities interest is more and more reduced, thus the issue of rendering processes carried out more efficient and of using in an optimal way the manpower emerges;
- Reporting – the majority of ad hoc reporting requests refers to human resources; more often than not human resources departments operating inside banks must meet the requests coming both from the inside and from the outside;
- Legislative amendments – in the human resources field, legislative amendments entail a need for immediate adaptation carried out with minimum costs.

The actual crisis is encountered at the management level, since very few banks undertake human resources planning activities. The recruitment is usually carried out at the very last moment, either when an employee is leaving or when extension may no longer be supported by current employees.

Nowadays the Romanian banking system is confronted with a human resources crisis; each extension within territory entails the drawing of human resources and the banks are compelled to employ staff included in the junior category, who do not have professional experience, consequently banks are exposed to operational risk, as this has lately become reality that is characteristic to the Romanian banking system, under pressure of competition of investors in Romania, the majority of banking groups with foreign capital that controls the Romanian banks and under pressure of competition for increasing the market share.

Joining the European Union may entail a short-term deepening of the staff crisis in the banking system affecting Romania, since a large number of graduates could be interested in job outside Romania, attracted by the possibility of gaining high salaries. The crisis may also be generated by European companies penetrating the Romanian market; wishing to develop, they will recruit experts; moreover, outside banks might open subsidiaries in various cities, employing the staff operating there.

The domestic banking system is witness to a genuine migration process of the staff from one bank to another. The highly trained staff has become a rare asset of banks, which compete in order to employ the best professionals. The main cause of this human resources management is connected to bank expansion. Staff migration from one bank to another and the leave of experts to other activity sector have led to the occurrence of a human resource crisis in the banking sector.

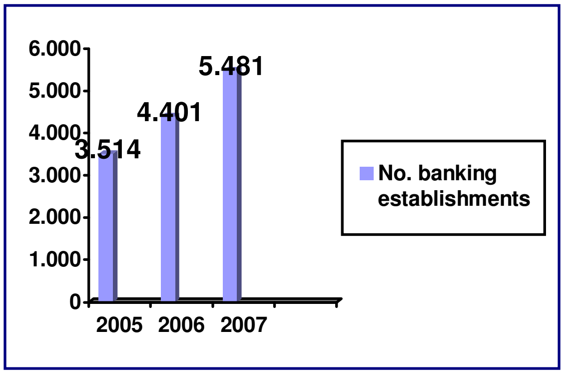
The banking market has become more and more of a paid work field. This is the natural consequence of demand, which exceeds the available experts offer. Unfortunately, a set of competences below the standard level is sold for a price high above the average and this happens more and more often.

Although the largest salaries received by top management are paid by banks or establishments operating in the financial field, Romania is confronted with a lack of staff in the financial and banking field, lack that has deepened following the adhesion, on account of economic climate and of absence of strategies intended to attract young persons on the labour market. Generally, the lack of experts in the financial and banking field is noticed in the case of middle and top management positions. If for the entry-level administrative, human resources or IT field it is easier to cover vacancies, there are highly specialized and technical positions, such as the operation, sales or department management positions that are difficult to cover if there are no specialized employees. The massive staff fluctuation and the preference of many experts for freelancing (persons working on their account, providing services to companies, without being employed) result in the sharp deepening of lack of staff operating in the field.

The managers of the banking establishments complain about the fact that they have to hire unskilled persons, which affects the efficiency of the services. This staff related crisis prevents the development of the medium and small-sized banks during the next period. The banking establishments in Romania have the fewest employees compared with the other countries in the European Union, if in our country there are approximately 100 employees in a bank, in Poland the average of the employees in a banking establishment is over 200 persons. From the point of view of the active efficiency of the employee, unfortunately we find ourselves in the same situation. We have a quarter of what Slovenia has, a third of what Hungary has, approximately 70% of Poland`s, 1/3 of Slovakia`s and a quarter of the Czech Republic`s. In the future the training system of every bank will differentiate; the banks will focus on the standardization of the sales processes, trying to open small establishments to sell standard products and where the operational risk will be reduced.

At present, there are 41 banks operating in Romania, the field market being divided into over 5 400 establishments. According to the statistics, in this field there are over 65 000 persons working, in the last year having been recorded an increase of approximately 10% of the number of employees. A significant increase was recorded at the salary level, the average of the salaries in the banking system being 1000 €. The reason of this salary boost is related directly to the lack of specialists.

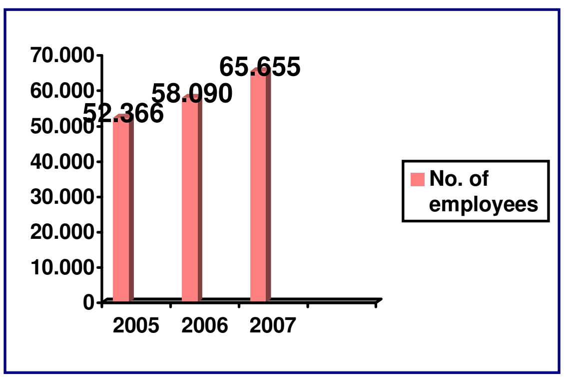
The Romanian banks have continued in 2007 the accelerated process of extension of the subsidiary networks. The number of the banking establishments in Romania was at the end of December 2007, of 5 481, with 1080 more than at the end of the previous year.



The evolution of the banking establishments in Romania

In 2006 the rate of development of the banks was almost to 1000 new agencies and subsidiaries. According to the data supplied by the specialists from BankingNews, from the most important retail banks in Romania, the rate of extension will remain at the same level in 2008 as well. Thus, the objectives established by the banks indicate the emergence of over 900 establishments in the course of this year.

As far as the situation of the employees from the banking system are concerned here too it was registered an increase, thus from a number of 52 366 employees registered at the end of 2005, by the end of 2007 it came to a number of 65 655 bank clerks.



The number of employees from the Romanian banking system

In the competition for the best clerks between the banks, only the one who offers the best salary packaging wins. The consequences of the workers deficit, as well as of the treble of the salaries in this field are directly visible in the profit of the bank in Romania, which in the last year has decreased with 0.33%.

However, for a worker who does not earn very much from the beginning in a banking establishment, the starting salary for the entry-level jobs is under 300 €. This is why the young persons have changed their options, giving up the idea of finding a job in a bank, some of them preferring to work in the insurance field, where the salary is much bigger and where they can gain experience faster.

The banks need specialists both in retail banking and in the corporate area. Companies focus both on universities and on other fields, because the universities cannot cope anymore. The banks count on the ability of the young persons to quickly adapt and take on the responsibility to train them for the specialties they need. The solution for the intercession of the staff deficit could be the achievement of efficient training programmes.

Due to the fast market growth and due to the stiff competition, lately we have been experiencing a great demand for banking activity experts. Beginning with the demand and offer game, the migration of skilled manpower from one bank to another is quite high and each employer in the banking system would like to be able to implement a human resources management that would allow them to stabilize the manpower, to obtaining loyalty of the best employees, to reduce new staff training costs. All these are possible today, by means of the Oracle Management solution of the Human Resources and Oracle iLearning solution.

For Oracle, the banking sector was and will be a strategic direction, both globally and on the Romanian market, taking into consideration that 17 of the first 20 banks in the world, according to some statistics of Banker Magazine, work with Oracle technology, and all of the first ten banks in Romania also use Oracle technology.

The solution of human resources and Oracle remuneration manages the employees of BCR (Romanian Commercial Bank), BNR (National Bank of Romania), LIBRA BANK, RAIFFEISEN, etc. Oracle Management of The Human Resources answers to all the challenges and covers the whole variety of processes related to the management of human resources: multidimensional centralized management, management of salaries, management of qualifications and competences, management of the process of evaluation, recruitment and hiring process, the complete analysis of manpower, in addition it is offered a complete and personalized solution of mixed training which allows the provision of courses to the internal employee (the employees of the bank), as well as to the external employee (to the clients, for example, the training for the use of the internet banking solution).

At present, Oracle covers with top solutions the whole range of operation of a bank. For example, the solution of calculation and analysis of the bank`s profitability, which is number one in the world, calculates the profitability on any dimension requested by the management: client, bank products, cost center, sales person. The solution is extremely valuable to the top management of the banks in the context of the more and more difficult attainment of profit against the background of a stiff competition on the market.

The strategic function of the IT element in banks becomes more important as we take part in the globalization and standardization process in the international banking system. The creed of the Oracle specialists is that of granting the banking establishments a competitive advantage.

The foreign agents of the banks claim that Romania is not the only one who is going through such a crisis, which will last at least two or three more years. As it can be seen, this year too, the banks are going to invest important resources in the extension of the networks, under the circumstances in which the number of banks in Romania is reduced, and the domestic banking market is developing. Thus, due to the expansion in the retail banking, next year the banks are expected to hire at least 10 000 persons, reaching a total of 80 000 employees in the system.

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THE EFFICIENCY OF THE INTERBANK PAYMENTS SYSTEM IN ROMANIA WITHIN THE FRAMEWORK OF THE EUROSYSTEM

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Abstract: In this article we aim at drawing up a concise presentation of the electronic payment system in our country combined with assessments of this system aligned to the European Union's from the point of view of functionalities as well as respecting European and international standards and practices in the field. Interbank real time settlement system in Romania is structured in order to be compatible with similar infrastructures in the European Union member states, Single Euro Payments Area. Payments handling will be simplified as all incoming and outgoing payments will use the same format.By providing new payment instruments and common interoperable infrastructures, SEPA will bring about further European integration and market efficiency.

Key words: interbank payments, electronic system, Eurosystem, efficiency

1. Introduction

Since the establishment of the European Economic Community in 1958, the movement towards a more integrated European financial market has been marked by several events, the most visible of which were undoubtedly the launch of the euro in 1999 and the cash changeover in the euro area countries in 2002 in particular. Less visible, but also of great importance, was the establishment of the central banks' large-value payment system, known as TARGET (Trans-European Automated Real-time Gross settlement Express Transfer), on 1 January 1999.

The introduction of the euro as the single currency of the countries of the euro area will be completed only when the Single Euro Payments Area - SEPA - permits to individuals and corporations to make cashless payments throughout the euro area from a single payment account anywhere in the euro area using a single set of payment instruments as easily, efficiently and safely as they can make them today at the national level.

In Romania, the first steps in view of implementing this system were taken starting with the year 2005 by gradual operationalization of its three components: gross basis settlement, net basis settlement and settlement of government securities operations. As a result, implementing an infrastructure of payments and settlements compatible with similar infrastructures in the European Union member states contributes to the Romanian system alignment to the Community requirements in the field.

2. The Single Euro Payments Area

The Single Euro Payments Area - SEPA – implies that customers can make payments throughout the whole euro area as efficiently and safely as in the national context today and, at the end of the process of implementation of it, euro area customers will have the possibility of using one payment account and one set of standardised instruments. SEPA consists of the single currency, a single set of euro payment instruments – credit transfers, direct debits and card payments – an efficient processing infrastructures for euro payments, common technical standards, common business practices, a harmonised legal basis and ongoing development of new customer-oriented services.

On the world level, with 2.3 trillion euros settled every day, the European Union system -TARGET - represents one of the three largest wholesale payment systems, alongside Fedwire in the United States and Continuous Linked Settlement (CLS), the international system for settling foreign exchange transactions.

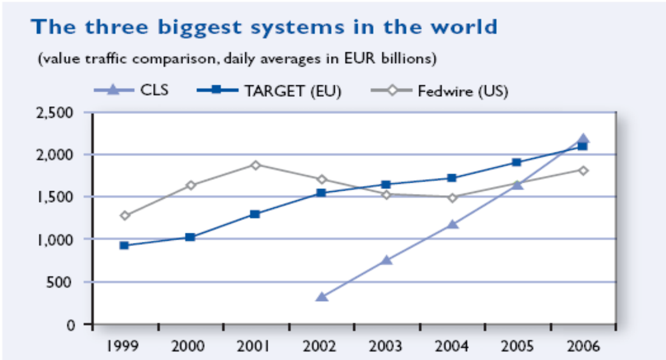

Figure 1. The three biggest systems in the world

Source: European Central Bank, A Single Currency – An Integrated Market Infrastructure, pag. 8

For the ending of the year 2007 (November 2007) and beginning of the 2008 (May 2008) it was projected a better variant of TARGET system called TARGET2 which replaces the current decentralised technical infrastructure. Also, it is created the CCBM2 project, which provides a single set of procedures for all eligible collateral used on both a domestic and a cross-border basis (proposed to be launched in March 2007).

Regarding the payment instruments, it has developed two schemes:

- SEPA Credit Transfer – programmed to start in January 2008;
- SEPA Direct Debit – roll-out starts in November 2009;
- SEPA Card Payments – for January 2008, which permits cardholders to be able to pay with one card throughout the euro area and there will no longer be cards for national use only. The point-of-sale terminals will be standardised and merchants will be able to accept a wide range of cards with a single terminal. There are currently more than 350 million cards in circulation in the euro area, which are used to make more than 12 billion payment transactions and 6 billion cash withdrawal transactions per year (ECB, The Eurosystem's view of a "SEPA for cards", November 2006, p. 1);
- SEPA Clearing and Settlement Infrastructures – also for January 2008.

By the end of 2010, the infrastructures must be able to reach all euro area banks and process euro payments made with the three SEPA payment instruments, respectively credit transfer, direct debit and card payments.

Around 50% of Europe's banks expect implementing the SEPA Direct Debit scheme to be highly complex, a higher proportion than for implementing SEPA Credit Transfers. In several nations, the SEPA Direct Debit scheme is significantly different from existing national. Banks inside the Euro-zone expect 62% of their investment in Automated Clearing House – ACH - payments and 64% of their cards expenditure to be SEPA-related, whereas banks outside the Euro-zone expect the proportion of their payments spend on SEPA to be 35% for ACH payments and 42% for cards (Accenture, The European Payments Revolution, Accenture European Survey 2006, p. 5).

3. Electronic System of Interbank Payments in Romania

The payment system in Romania experienced significant structural changes in 2005 by completing the process of implementing the electronic payment system and gradual operationalization of its three components, that is (NBR, Annual Report 2006, Chapter 4, Payment system, p. 67):

- RTGS system, Real Time Gross Settlement system, a real time gross settlement system that entered into force on April 8, 2005;
- ACH, Automated Clearing House, managed by TRANSFOND SA – an automated clearing house that became effective on May 13, 2005;
- GSRS, Government Securities Registration and Settlement system, registration and settlement system of government securities operations that entered into force on October 3, 2005.

3.1. Interbank Discount System on Gross Basis

In Romania, gross basis settlement system – RTGS – is a real time gross settlement system ensuring the exchange of payment instructions between participants and final (definite) settlement of interbank funds transfers on a continuous, transaction by transaction basis, as well as final (definite) settlement of net positions resulted from net basis settlement systems and funds transfers afferent to financial instruments based operations (RTGS system regulations 3rd version of October 10, 2006, NBR, p. 5).

This system represents *the first component of the Romanian electronic payment system*, entered into force on April 8, 2005 (according to Regulation no 1 of February 23, 2005 on payment systems ensuring funds clearing, published in the Official Monitor no 265/March 31, 2005, annulled by Regulation no 9 of September 23, 2005 on modifying and completion of the National Bank of Romania Regulation no 1/2005 on payment systems ensuring funds clearing, published in the Official Monitor no. 881/Sep. 30, 2005), ensuring high-value settlements (over 50.000 RON) and urgent interbank payments by payment order as well as great value and urgent payments between credit institutions and State Treasury initiated by payment orders for the Treasury. At the same time, RTGS system accepts and processes the instructions from NBR authorized clearing houses or from systems ensuring transaction settlement by means of financial instruments for participants' net or gross positions settlement.

In view of fulfilling safety, security and availability conditions used internationally in projecting RTGS system in Romania there have been implemented *Straight Through Processing* - STP – systems in order to ensure efficiency increase through cutting down on operational risks and settlement time.

For the year 2006, the daily average of the number of transactions processed through RTGS increased with 41% comparative with the year 2005, but, in the same time, the daily average of payments amount processed through RTGS decreased with 19% given the results from previous year, mainly because of reduction NBR interventions on the monetary and currency markets, as we can see in Table 1.

Year	**No of transactions**		**Payments Amount (mil. RON)**		**Average value of transaction (mil. RON)**
	Total	**Daily average**	**Total**	**Daily average**	
2005	1,100,668	4,325	2,408,448	9,370	2.19
2006	1,548,371	6,096	1,927,346	7,588	1.24
Variation	+ 41	+ 41	- 20	-19	- 43

Table 1. Evolution of payments through RTGS in Romania

Source: NBR, Annual Report 2006, p. 71

Payment transactions performed by financial institution in the own name, but on the clients accounts (with messages SWIFT MT103) are higher (81.19% of total system number of transactions), but total amount of its was relatively reduced (only 22.47% of all amount payments from the system). At the same time, the number of transactions performed by financial institutions in the own name and account (with messages SWIFT MT202) was relatively low, but these payments had a significant value (Table 2). Regarding payment transactions which involve direct credit or debit transfer, their volume was down, because these correspond some operations with low frequency, as takings by NBR of commissions, direct debit and credit transfer on the transfer participants accounts in relation with the central bank, operations performed by NBR in the name of participants in case of emergency, when participants are in impossibiity to connect to, and to do themselves the operations.

Payments	**MT103* (%)**	**MT202** (%)**	**Transfer direct (%)**
Total number	88.19	8.13	3.68
Total Amount	22.47	50.03	18.5

Table 2. The structure of the payments through RTGS in Romania, year 2006

Source: NBR, Annual Report 2006, p. 72

**MT103 represents transactions performed by financial institution in the own name, on the clients accounts*

*** MT202 represents transactions performed by financial institutions in the own name and account*

In the year 2006, the average availability of the RTGS system, respectively the access of participants to using of system without any occurrence on the time of its functioning, was 99.89%, taking part in tolerances established by NBR for the services quality level.

RTGS system was conceived in such a manner so as, along with the European Union accession, to make possible connecting to the platform of high-value payments settlements in the euro zone – TARGET ensuring the process of cross border payments in euro as well as changing the settlement currency from the actual national currency into euro.

3.2. Interbank Multilateral Net Settlement System

In Romania, since 1995, there has been the Interbank Clearing House belonging to the National Bank of Romania. This entity allowed passing over from an intermediary settlement system (on a bilateral net basis) of interbank payments to a settlement system through multilateral clearing after a cessation of more than 50 years. Starting with the year 2001, multilateral clearing of interbank payments has been taken over by another operator - TransFonD – a trade company created by the banking community that carries out its activity as a BNR authorized agent.

The net settlement Electronic System managed by TransFonD Ltd – ACH system – represents the second component of the electronic payment system in Romania that entered into force on May 13, 2005 (BNR Regulation no. 1 of February 3, 2005 on payment systems ensuring funds clearing and Regulation no3/23.02.2005 on direct debiting made through automated clearing house, Official Monitor no. 265/31.03.2005). *ACH* is an electronic system of multilateral payments clearing ensuring the exchange of payment instructions between participants, calculates participants 'net positions through multilateral clearing and initiates, in RTGS system, a settlement of a net settlement instruction (ACH system regulations, version 5 TransFonD, July 7, 2005, pg. 7).

The administrator and operator of ACH system is TransFonD too, ensuring clearing small value payments (respectively transfer-credit type and direct debit under 50.000 RON) between credit institutions (except for institutions issuing electronic currency) and between these and State Treasury, respectively calculating participants' multilateral net positions in the system and transmitting these positions to final settlement in RTGS system.

Payment instructions of transfer-credit type are initiated by participants to ACH system under packages form (folders) representing groups of payments instructions of the same type, with a single initiator participant, a single addressee participant and a single settlement date sent and processed within ACH system framework. Just like the RTGS system, ACH settlement system implies *a single national circuit* at the level of bank units' headquarters participating at the settlement through TransFonD headquarters.

Within the electronic system of interbank payments in Romania, in order to prevent net settlement risk, it is implemented a unilateral guarantee procedure with blocked funds in the system reserve and with guarantee eligible assets, in principle, interbank deposits and government securities, that is compulsory for all credit institutions participating.

4. Conclusion

The efficiency of interbank real time settlement system is appreciated through operational performances and facilities that it offers by liquidity supplying in a definite time (a bank day), the mechanism of waiting at queue as well as real time monitoring its own liquidities during the day.

In Romania, RTGS system can process and deduct a number of at least 30,000 day payment instructions and may ensure processing without interrupting payment instructions during the peak hours of a working day of at least 40% of the daily volume during an hour interval (RTGS system rules, ver. 3 of October 1, 2006, NBR, pg. 73). ACH system has certain specific characteristics such as great volume of processed instructions – between 150,000 and 300,000 instructions per day (TransFonD Annual Report 2005, p. 14) – but of small value, as well as the fact that there are many clearing sessions on the same day, each session being followed by obligations settlement between participating members in the RTGS system. Thus, just like the RTGS system, ACH system may ensure normal processing during peak hours of at least 40% of the daily operations volume in an hour interval.

Another criterion in assessing the system efficiency consists of the commissioning policy set out by NBR in its quality of system manager that may apply commissions' deduction on each type of instruction according to the volume of instructions processed and deducted in RTGS. Likewise, along with the system that is in operation, the commissions level was reduced by 25% compared to the one practiced until that moment in the system of great value payments on paper support.

The main *advantages that credit institutions clients benefit from as a result of implementing the electronic payment system* are the improvement of payment services quality by reducing the period from the moment of issuing the payment invoice and receiving funds of the payment beneficiary, the increase of funds circulating flow, efficiency increase, their safe transmission as well as cut down in costs afferent to payment operations. Moreover, perspectives foresee also implementing a model that would ensure electronic processing of small value payments afferent to instruments of written debit payment (checks, bills of exchange, promissory notes). This represents the last component of the classic payment system in operation. Thus, starting with May 13, 2005, the clearing system managed by NBR ensures only processing and clearing debit payment instruments on paper.

Interbank real time settlement system in Romania is structured in order to be compatible with similar infrastructures in the European Union member states, Single Euro Payments Area. Payments handling will be simplified as all incoming and outgoing payments will use the same format. By providing new payment instruments and common interoperable infrastructures, SEPA will bring about fur ther European integration and market efficiency. This consolidation of infrastructures will spur competition and banks can then negotiate better clearing prices.

The research performed confirms that the SEPA programme will result in enormous change both for banks and the wider European payments industry. On the negative side, banks initially anticipate the main impact to be the high cost of compliance. Many banks also predict that the collateral damage from SEPA implementation will include a substantial reduction in ACH and card revenues (Accenture, "The European Payments Revolution", Accenture European Survey 2006, p. 36). However, on the positive side, banks will have access to an increased supply of competitive payment processors (both card and ACH), which will enable some to defer part of the cost of compliance. The larger, pan-European banks will also have access to open markets and the ability to introduce new products which would not have been possible under the current restrictive domestic scheme regimes.

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THE RELATIONSHIP BETWEEN ELECTRONIC MONEY AND FREE BANKING

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Abstract. This paper is focused on the relationship between e – money and free banking percepts. The discussion details how e – money helps to address three main aspects of the free banking debate: the lender of last resort function, currency backing and multiplicity of currencies. In this article we have focus on possible implication for the future central banking, rather than predicting radical change to the current monetary policy framework. If the incumbent central banks could be let to behave in a way, which would make their currencies as attractive as those, produced by the private sector, the benefits of the free banking system may be attained even without displacing current institution or currencies.

Keywords: free banking, account based electronic payment systems, e-money, currency backing, multiplicity of currencies.

1. Free Banking – definitions and characterizations

The location of monetary policy in central banks is a recent development in the history of finance. Central banks became monetary policy makers only as the gold standard was replaced by fiat money, which was controlled by governments. There are alternatives to central banking as practised today, like currency boards, full convertibility (under a commodity standard) and free banking. White (1995) defines free banking as "a monetary system without a central bank, under which the issuing of currency and deposit money is left to legally unrestricted private banks," a definition representative of a general consensus in the free banking literature - see, for example, Dowd (1993).

White points out that, as a monetary regime, free banking consists of two main elements – unregulated issue of transferable bank liabilities and unmanipulated supply of base money or basic cash. There is no government role in regard to the quantity of money produced inside or outside the banking industry, and outside money free of central bank control is desirable. Money issue is not seen as a device of governments to achieve their goals, but operates as the means for individuals to pursue their own purposes. That said, White (1995) does not reject the idea of a clearing house at the centre of the financial system when without a central bank; his view is that this should be a market mechanism designed to eliminate imperfections within the financial system.

As envisaged by Dowd and others, free banking is regarded as the multiple issue of currencies by competing banks, whose notes, however, are interchangeable and redeemable against a "community-recognised commodity", while option clauses protect against "sudden excessive demands for liquidity". This last is an arrangement that obviates the need for a lender of last resort, since free banking is a system in which monetary and financial stability are guaranteed by market determination of the preferred currencies and interest rates. Dowd (1996) has underlined the basic requirements for successful free banking based on private money. One of them was the emergence of a clearing system. Another was the use of option-clauses - auto-control mechanisms used in cases of 'fire-sales' to defend against bank-runs. The final one was the development of a private lender of last resort within the financial sector to help individual institutions that were solvent but facing a liquidity crisis. In an earlier study, Dowd defined the distinctive features of a free banking system as:

- multiple note issuers who would guarantee to redeem their notes in a commodity
- recognised as valuable;
- a regular note exchange between note issuers;

- the insertion of option clauses into the convertibility contracts to protect the note issuers against sudden excessive demands for liquidity (Dowd, 1993).

Free banking as an alternative to central banking was discussed by Capie, Goodhart, Fischer, and Schnadt (1994). Although they described today's free banking proposals as a "somewhat fringe academic exercise without much support from financial practitioners," they emphasised that free banking ought not to be discounted as an alternative to central banks and currency boards for the operation of monetary systems. They pointed out that the preference of governments for central banking stems from national pride and seigniorage interests, while the financial community in general and commercial banks in particular support the central banking option for two reasons of their own. First, commercial banks economise systemic non-interest bearing reserves by offering a safety-net. As a result they are able to reduce individual bank capital requirements when providing leadership in joint exercises like establishing payments and settlement systems. Second, commercial banks enjoy an influence on central bank decisions through the dynamics of the relationships between controllers and controlled, supervisors and supervised. (This influence may not, however, extend to the full theory of capture, which argues that commercial banks capture central banks and thus approve their operations.)

It can be identified four problems associated with free banking theory:

- it may lead to extra transaction costs;
- some additional bank reserves of real assets may be needed;
- there may be possible minor inefficiencies connected with multiple note issue;
- it seems indeterminate how the system as a whole behaves since free banking theory relies on the law of flux. (the theory of reflux is explain on the situation where a note issuing bank will lose/gain reserves at the clearing if it expands faster/slower than other competing note issuing banks).

They then summarised four responses of free banking advocates to the argument that free banking may lead to bank runs and contagious panics. The first is the denial of the likelihood of such events in a free, competitive system. The second is the argument that an implicit central bank safety net or a deposit insurance scheme invites moral hazard (absent in free banking), while intrusive regulation to minimise moral hazard leads to further distortion and misallocation of resources. The third is that free banking decreases susceptibility to instability through its adoption of self-regulatory mechanisms like option clauses, clearing houses, and narrow banking. The fourth is the denial of any sizeable externalities and social losses in excess of internalised private losses in the case of banking failures. Such possible externalities were not found to be potentially greater in banking than in other industries.

2. Electronic money

Electronic money has different shapes. Up till very recently, electronisation of the payment systems has been based on improvements in account-based systems, their reach (domain) and their speed. Account-based systems record all the transactions and authorise them centrally, whereas non-account-based systems circulate e-tokens through telecommunication networks or on smart cards and may allow transactions without central authorisation. Account-based e-money systems are really very little different from the debit card of credit card networks of EFT systems currently in use. Token-based e money, "e-cash", on the other hand, is radically different in the sense that it introduces an electronic form of currency.

The formal definition of e-money offered by the European Central Bank is as follows: "an electronic store of monetary value on a technical device that may be widely used for making payments to undertakings other than the issuer without necessarily involving bank accounts in the transaction, but acting as a prepaid bearer instrument" (ECB 1998, p.7). This definition highlights some important aspects of e-money:

1. The fact that it stores monetary value on a technical device with a capacity to be used widely for making payments.
2. Its role as a prepaid bearer instrument, excluding account-based electronic payment instruments such as credit and debit cards and EFT payments.
3. Its use to cover payments to undertakings other than the issuer, essential to differentiating e-money products from single purpose prepaid cards like telephone cards.
4. Its ability to by-pass bank accounts or any other financial service providers' authorisation.

Because it does not specify the type of technical device used, such a definition serves as a useful starting point and is well suited to a development that is in an emerging state, the full technical potential of which remains unclear. In particular, the above definition includes card-based schemes, which can be used in conventional retail commerce, as well as various types of "cyber money" which are designed to circulate in the Internet. The definition is unsatisfactory, however, in two respects: Firstly, it may overemphasise the technical distinction between account-based and token-based systems, which have ultimately similar effects. Secondly, it does not distinguish clearly enough two quite distinct kinds of e-money issuance strategies: the conventional strategy of a new electronic payments medium and the more radical one of electronic issue of alternative, competing currencies (not based on conventional, government-organised monies).

We might call the two different kinds of e-money "representative" and "independent" e-money, respectively. As long as it is representative of legal tender under a given monetary policy framework, 'e-cash' is a form and extension of cash generally, an addition to coinage, notes, cheques and debit and credit cards, etc. In this respect, e-money is clearly nominal in its effects - such as increasing velocity - and may be regarded as neutral in terms of systemic change. It has important implications for the current monetary framework, in that it makes for easier payments, revolutionizes monetary base management, and enriches currency choice through making it easier to use several currencies and/or to switch between them. It would reduce the demand for conventional central bank money. But, e-money as a mere representation of a given currency may have no different effect on monetary policy frameworks than what has already been caused by advanced payment systems, which have decreased the proportion of currency in circulation to total money stock especially in the last couple of decades.

However, the impact of e-money would seem to be most significant when it comes to the electronic issue of non-bank money, that is, money issued without reference to banking reserves. If e-money is introduced as independent money, not a representation of any conventional currency, it may have the potential to revolutionise the competition among monetary policy frameworks. This impact may well be different for developed and developing countries: For developed countries, it may provoke 'currency competition' among core currencies like Dollar and Euro, or perhaps between these traditional currencies and new, privately issued monies (if the performance of the incumbent central banks is seen as unsatisfactory by money users). For developing countries, it may facilitate and speed up currency substitution to dollarisation and/or Euroisation.

3. Electronic Money and Free Banking

The direct or indirect relationship between e-money and free banking has been addressed quite often recently. For example, Browne and Cronin (1996) pointed out that laissez-faire banking could emerge endogenously over time in response to technological improvements in information and financial products. As a result, regulation of the banking industry after e-money could prove unjustified because of the system's likely inherent stability and efficiency. White (1995) argues that the technology gives an opportunity to issue private bank notes as smart card balances, which are transferable without bank involvement. He adds that digital payment technology has begun to foreshadow a world in which central bank currency is obsolete - replaced, perhaps, by privately issued currency in the form of balances written to smart cards or downloaded to personal computers and transferred by means of electronic wallets or over the internet. He also investigates the potential of e-money to make small denomination currencies interest-bearing for the first time in the history, and concludes that, when combined with anonymity e-money would facilitate the public's turning away from government-based notes and coins.

If we now turn our attention to the relation between e-money and free banking, it seems to us that e-money has very significant, even synergetic, effects. Not only does e-money foster a clearer understanding of the nature and workings of money, and thus of its 'proper' management with its influence on banking and finance that has been analysed in the earlier section, but its electronic issue may provide a technical means to bring free banking into play. Provided the electronic issue of money does not become subject to excessive regulation or outlawing1, it may enrich currency choice through a process of substitution that has been supported by the e-money based financial service provision. Chief influences of electronisation which suggest such a scenario are the following:

- because bits and bytes are more easily re-defined than banknotes and coins, it may be easier to revise or change currency representation, leading, in the case of countries, to easier entry and exit to monetary unions, and facilitating intercurrency switching by end-users and, therefore, private money issue. This view may be supported by the long planned currency conversion in the Euro area with conventional banknotes and coins;

- thanks to the opportunities for transparency afforded by Internet applications, money can be backed as easily by commodities as by indices, or both. It does not mean to turn back to commodity backed currencies but the monetary institutions may not take the risk of inflating their currencies because of these opportunities that has been available with the advent of e-money technologies;
- the increasing use of distribution channels such as the Internet, digital TV and mobile phones, may enable 'good money' to reach end-users more easily. Conversely, end-users that have need of a reliable medium of exchange may find it easier to reach better alternatives;
- ease of access to e-money may speed up the formation of a critical mass, the moment when people generally become willing to accept the new proposed unit of account because they become convinced that it now enjoys widespread recognition and appropriate worldwide liquidity and systemic support. This potential of e-money allows institutions to challenge mismanaged currencies with stronger proposals.

Insofar as free banking considers that sound money not only delivers price stability but also financial stability, it may now be only a matter of time before free banking *challenges* central banking in practical fact with the advent of e-money. Such a development would be influenced by the manner in which free banking addresses three key questions which e-money serves to emphasise:

1. The role of the lender of last resort

Under present monetary policy framework, the misbehaviour of one financial institution can have disastrous consequences for the financial system as a whole with regards the risk for a total collapse of the money stock. In order to prevent contagious risk, central banks are given the sole right to issue money without limit and for as long as it takes, provided the situation is in extremis and the danger is systemic. The lender of last resort is a costly arrangement and there is always a risk for socialisation of private losses. On the other hand, free banking leaves it to the market to 'discipline' bad money and it does not entertain the need for a lender of last resort. It is believed that the system will never fall into a systemic risk because the invisible hand of market mechanism forces every individual financial institution to be ready against bankruns. It is also believed that weakened and unfeasible institutions will be replaced by the competitors before they create any systemic risk. If the danger still persist, Dowd and others envisage 'option clauses', whereby in extreme circumstances banks can exercise compensatory delays to withdrawals. This is a concept of prudence – appealing to the depositor to avoid rash investment and precipitate action.

E-money serves to reinforce free banking by providing it with a powerful instrument for its realisation and it may decrease the need for a lender of last resort for at least two reasons. The first one is because option clauses becomes very easy to arrange, manage and realise, thanks not only to the electronification of money but also electronic finance, electronic distribution channels and electronic relationship management. E-money serves to decrease the costs of making and performing on option clauses and all manners of contracts between issuers and users. Secondly, it creates new frameworks to analyse individual defenders of the integrity of money so as to take individual decisions, which in the end, eliminates systemic structuring within the financial service provision. It allows individual institutions to develop personalised relations with the end users so as to be ready to convince them on the quality of their service in case of a fall of a financial institution. Lender of last resort function is not to save individual institutions and unless one failure does not effect other members of the financial system, there will be no need for it in the first place. With increased end-user awareness supported by e-money, no economic entity will question the overall stability of the system when they can easily reach to the data that can convince them about the integrity of money that they rely on.

2. Currency backing

If one is clear that a lender of last resort is not envisaged by free banking because it is not necessary, one can turn one's attention to two related topics – the cover of money (backing of currency) and a multiplicity of currencies (currency competition). The unit of account function of money generally has two aspects. On the one hand, for money to enjoy general acceptance, the unit of account needs to be widely recognised, otherwise circulation will be impeded and people will not wish to use it. Thus, for example, the US dollar enjoys far greater global acceptance than the Russian rouble. In crisis moments, however, the unit of account in itself is not enough. Money's ability to act as a medium of exchange becomes a matter of its backing or its cover. Until 1973, gold provided the anchor for all currencies, even though technically it was held at a remove. Since then, foreign currency reserves (that is to say, other units of account) have played an increasing role. To give an example, the backing for US dollar is the power of US economy to keep the value of dollar against other currencies strong enough to eliminate any loss of the value for end-users. Liquid money and capital markets and strong fiscal structure with budget surpluses further sustain the cover of the US dollar.

It is important to consider the question of cover in the context of our overall approach (Figure 1). It may be no accident that much of 20th century monetary history centres on a debate about cover and the quest for a replacement to the gold standard of equivalent effect but without the disadvantages of gold. It was during the beginning of the 20th century that central banks (in the negative sense) came to the fore, printing bad money seemingly without constraint. The ultimate cover of such money is, of course, future tax revenue, which is an indirect reference to future profitability. Tax cover and fiat finance may disguise but cannot change the basic economic fact that the cover of money entails a spectrum between potential values and created values, future profitability and existing assets, or a mixture of the two. Where we are on the spectrum depends largely on economic conditions.

Figure 1 Spectrum of cover

This image is neither new nor radical. In terms of our analytical framework, the spectrum of cover suggests that 'cash', or money as a medium of exchange, is related to the finite things that one can buy. Insofar as money is not backed by consumable goods, it cannot but be a potential (and in crisis moments, actual) call on future profits. This is the true match for money as store of value. This image is important because it is ordering, on the one hand, yet admits to a wide variety of backings, on the other. One cannot say, for example, that gold is good and assignats are bad. Indeed, free banking experience embraces both. The point is that the backing has to be appropriate and adequate.

3. The Multiplicity of Currencies

The prospect of unregulated currencies implies multiple currencies or currency competition, giving rise to the question of how these would work. The fungibility of cover is supported by the clearinghouse system, which does not arbitrate over what the 'right' cover should be, but leaves this to the market. After free banking theory, multiple currencies do not proliferate, but are subject to rationalisation. In their ultimate expression of self-administered banking (home banking, etc.), one can envisage one currency per person. This is wholly impracticable, however, since trade and division of labour even between two people requires a common element, a universal language enabling communication. It is said that multiple currencies imply a worldwide bank, but surely this, too, requires a common language. However many names we give to our separate currencies, they need to be linked. To be sure, these linkages do not need to be determined, as under the gold standard, from gold (or some other backing) via a primary currency or numeraire, thence to all others. Rather, the independently determined currencies will coalesce in an implied reciprocator ('best basket'), a shared unit of account one level up, so to speak. Parities may not all be 1:1, but parities will be needed and they will need to be based on floating, so that market forces can be allowed to work to discover the best denominator. Put another way, the actual parties to any transaction are free to determine the parity that suits them.

Insofar as this scenario takes us beyond national economic considerations and the world economy at large becomes our primary frame of reference, here we touch again upon free banking's recognition of the need, at least as advocated by Hayek, to denationalise money. This, as is readily conceded, leads to a shrinking number of currencies – the logic of which may be the universalisation of finance. Global financial markets and electronic finance in particular do not respect national monetary jurisdictions, so that their impact must be to promote homogeneity in the fields of monetary policy and supervision, and the denationalisation of money. Indeed, for this purpose, there could hardly be a more effective means than e-money.

The denationalisation of currencies gives rise to a further consideration, however. To denominate money in a national motif is to mask the fact that what really matters is (a) its interchangeability with other currencies and (b) their mutual convertibility into real rather than fiat or, perhaps better put, sound rather than unsound, cover. In this respect, e-money easily extends the reach of good money with the best cover to the end holder, functioning successfully both as a medium of exchange and as a store of value. Every holder of money also gets to choose from among currencies that are independent of local availability constraints. The multiplicity of currencies in this regard makes more than one unit of account available as the common denominator in trade at both local and international levels with the right to choose the currency that is most preferred. This practice is limited at the moment on the level of currency substitution but e-money extends the reach of good money and increases the level of competition among national and international, which helps to save individually strong money with sustainable integrity.

Conclusions

For two main reasons, e-money may lead to a new era for free banking type practices. Firstly, innovation in payment technology is reducing the fixed costs of banking business. Being cheaper than printing, distributing and retrieving banknotes through banking systems, the creation of digital strings of money is likely to reduce the cost of maintaining a payment system infrastructure for the economy as a whole. This may attract more economic entities to provide financial services as the natural barriers to entry to the banking sector become less effective. Secondly, as the computing power of new generations of computers increases, risk management and data processing with huge amounts of entries might become risk-free and less costly to process. It may then be possible that the information monopoly of banks relating to financial services may deteriorate, giving further opportunities for non-banks to supply financial services to customers. Such a development may decrease the special treatment of banks over against other firms, so that the argument about the private positions of banks in an economy may become even harder to defend.

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PARTICULARITIES OF THE FRENCH BANKING SYSTEM'S EVOLUTION

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Abstract : During its evolution, the French banking system registered the passing from a bank under the absolute control of the state to a bank that meets the customers' needs. In this work, we try to emphasize the switch from the extreme specialization of the banking activities which characterized the universal bank during the period precursory to WWII, as the modern bank is in a continuous adaptation to the market's needs.

Keywords : specialization, resettlement, universal bank.

1. Banking specialization – Characteristic of the French post-war banking system

A dominant characteristic of the French post-war banking system is the strict specialization. The reorganizing of the French banking system , inherent to the WWII, oriented itself to the promotion of the state control of the banking system.Therefore, through the banking law issued on the 2nd of December 1945, the nationalization of the Bank of France (created by Napoleon Bonaparte in 1800) has been decided , as well as the nationalization of the deposit banks that dominated the French banking market : Credit Lyonnais, Societe Generale, The National Bank for Commerce and Industry respectively Comptoir d'Escompte de Paris.The nationalized banks devoted themselves to the collecting of the short term savings, supported the emissions of the treasury and actively participated in the financing of the rebuilding and the modernization of the French economy. Actually, at the root of the decision of nationalizing from the French banking system was the necessity of a rapid restoration of the French economy, respectively of the French banking system affected by war.

By the same law, the banks are classified as :

- business banks – banks which can have industry shares , but cannot collect deposits from the population, respectively call accounts
- deposit banks - may collect deposits from the population, but are not allowed to have industry shares

Through the same law are established the limits between the deposit banks and the business banks which avoided nationalization and which could carry long term commitments.

The specialized banking dominated the French financing system until the beginning of the eighties, even if it proved to create more problems than the one it resolved. Beneficent for the French economy immediately after the war, it became a brake in the way of financing the industry. This was the reason for which the sixties are the years when the resettlement process, respectively of giving up the strict banking specialization started.

The first stage of the resettlement of the French banking system was constituted by the de-specialization initiated with the "Debre-Haberer" reforms between 1966-1969, reforms which led to the changes of the legal framework of the French banking system. These reforms followed three main targets :

- the attenuation of the restraints linked to banking specialization ;
- the stimulation of the competition between the banks, by granting the right to open new offices depending on their strategies to all the banks ;
- the improvement of the techniques of managing the banking risk.

Besides, by promoting these reforms inside the structure of the French banking system, a modification of the classification manner of the banks of the system appeared. Therefore the deposit banks (which are said to be specialized in short term riskless operations) and business banks (which have industry shares and mobilize firm resources or personal resources) keep up, but on the market also appear the so called medium and long term credit banks, which base their credit operations on the savings they attracted. This classification was based on the duration of the operation which these crediting institution were able to carry out. The purpose was the framing of the credit banking activities in a well defined category, respectively achieving the control of the monetary creation and orientation of the savings in the context of keeping the inflation under control and satisfying the investments needs.

Giving up the strict specialization aims at the modality of resources constitution and their distribution (allocation) as well, bringing into being an important step, we could say even decisive, towards the “bank does it all”(banque a tout faire), namely what we call „universal bank”.

Until the beginning of the eighties, there was a strict delimitation between the financial intermediate carried out by banks, respectively the one effected on the stock market , plus a delimitation of the intermediate inside the banking system. This way, there could be observed a special legislation for the mutual banks, different from the one for the deposit of business banks, as well as there was a distinct law for the savings banks. In spite of the fragmentation of juridical nature the French banking system had a fast evolution. The structural harmonization, respectively a sole juridical framework for all the French credit institutions was created by the Banking Law from the 24^{th} of January 1984. Only the Treasury, the Bank of France, the Savings House the and the financial services of the Mail Post remained outside of the applying field of this law. According to this law, the credit institutions are classified as follows :

- banks members of the French Banking Association – called certificated or listed banks because they appeared on a special list. In this category entered all the banks emerged before 1984;
- mutual banks – popular banks, cooperative credit associations;
- other credit institutions – Saving Houses, Credit Houses;
- other financial institutions – mutual funds, specialized financial institutions.

As a matter of fact, this law eliminated the division between business banks and deposit banks.

2. The diminution of the involvement of the State in the banking activity

Simultaneously with the promulgation of the Banking Law in 1984, the French banking environment became more unitary, even if some of its institutions still had particularities. Besides, the progressive liberality and modernization of the capital market in the mid-eighties favored the increasing competition generated by the emergence and development of the non-banking societies (OPCVM and insurance companies), respectively of the intermediating societies on the stock market field. The possibility of emiting negotiable debt titles starting with 1985 offered new financing forms, leading to the broadening of the financing mechanism available to those interested.

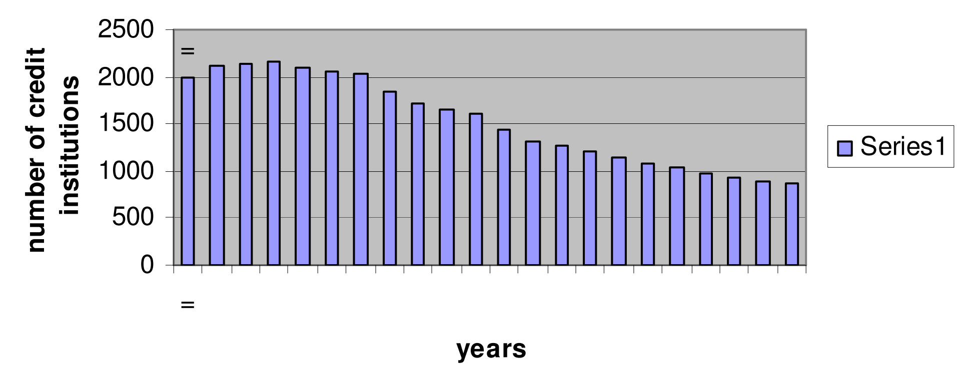
If we follow the evolution of the number of active crediting institutions in the French banking system, we notice the decrease of their number as a result resorganizing of the shareholding.This decreasing resulted either as a consequence of the activity ceasing of the credit institutions left without development perspectives because of the harsh competition, or as a result of their restructure by mergers or aquisitions, or after the reorganizations of the banking system.If in 1998 there were 2106 credit institutions, in 2005 their number had decreased to 874.

Table 1: Evolution of the number of the credit institutions in the French banking system, with the exception of the state of Monaco

Year	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05
Credit institutions	2001	2109	2144	2152	2106	2063	2027	1837	1713	1649	1608	1445	1309	1273	1209	1143	1085	1034	974	925	893	874

Source: www.banque-france/statistics.

Figure 1:Evolution of the number of the credit institutions in the French banking system, with the exception of the state of Monaco



From the point of view of the crediting activities, we have observed that the share of the first 20 institutions passed from 65,1% in 1988 to 78,4 in 2006 and together the first five French banking groups cover more than 64% of the given credits and more than 75% of the constituted deposits.We see the concentration of the banking activities at the level of banking groups, the trend on the French banking market being similar to the world-wide manifested tendencies.Overall it has been stated that the first ten world banking groups control more than 85% of the banking activities in France.

During the past fifteen years, the structure of the French banking system underwent a permanent transformation process, this mainly taking place in the shareholding structure.It has been recorded a decrease of the State involvment in the banking activity, the number of banks where the State has shares diminishing visibly. In fact, this is the effect of the repeated privatization waves which started in the mid-eighties, more precisely between 1986-1987, followed by another wave in the mid-nineties (1993).These privatizations led to the exiting of the majority of the crediting institutions from the public sector.

3. The Diversification in the French Banking System

The recomposing of the French banking landscape at the end of the nineties had as a common denominator the merger and aquisition operations which, even if led to the diminution of the number of credit institutions in the French banking system, didn't induce a decrease of the banking offer.We may say that the effect was one of mantaining and even multiplication of the banking offer, the mergers and aquisitions leading to the increment of the power od the new banks emerged „overnight".It is a phenomenon we started to face at the level of the Romanian banking system, but in our case we are only at its beginning.

Table2:Number of mergers and aquisitions made in France between 1996 and 2003

Year	Mergers		Aquisitions	
	Number of mergers	Number of involved institutions	Number of aquisitions	Number of involved institutions
1996	29	67	37	115
1997	24	51	28	110
1998	26	57	34	149

1999	39	90	22	115
2000	32	70	29	98
2001	28	63	22	63
2002	32	69	18	43
2003	24	51	15	54

Source: Banking Board, www.banque-france.fr

Thus, after these operations which led to the reorganization of the French banking system, nowadays the French baking market is being dominated by eight groups : BNP – Paribas, Credit Agricole, Societe Generale, Credit Lyonnais, CCF –HSBC, Banques Populaires, Caisses d'Epargne, Credit Mutuel – CIC. The constancy of the number of offices spred all over France, respectively the modernization of the services and products offered to the customers is one of the base characteristics of the contemporary French banking system.

Another characteristic is the diversification of the French banking activities, respectively the development of their activities at international level. This penetration on the international market was a normal response to the increasing competition. It is not a new phenomenon. The wish to expand the banking activities abroad goes a long way back, we can already speak of a thirty years old history. There were years when the French banks systematically tried to conquer the Middle East, South-Eastern Asia, North America and not last the other European countries. An element which favoured the expansion of French banks in Europe was the process of European integration, process which is in full development.

4. Conclusions

The French banking system from the beginning of the XXIst century is completely different from the one which worked in the sixties. Its structure has been profoundly modified, the range of activities it unfolds is more wide and the administration of the banking risks doesn't look at all like the one used years ago.

The French banks, the big French banking groups penetrated on the Asian, American and European credit markets, the internationalization of business having a high rank on their agenda.From this point of view, the French banking system follows the globalization trend which nowadays leads the entire financial world.

The French credit institutions became very attentive at the way of administration of costs, the main characteristic being the development and improvement of the monitoring and administration methods of the performances of their activity and even more of the risks it faces.The implementation of the provisions of the Basel Agreement confirms the care of these institutions for the improvement of their performance.

In conclusion, the French banking system is being characterized by dynamics, a continuous diversification of the performed activities, which makes it a role-model for the entire international banking community.

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INTERNAL RATING MODELS FOR CREDIT RISK EVALUATION AND SUPPORT INSTRUMENTS

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This article approaches the necessity of designing internal models of rating, in order to evaluate and manage credit risk. The authors address in equal measure the credit institutions, the Romanian legal entities, the Romanian branches of the credit institutions from third-party states, their potential customers, whether individual persons or legal entities, as well as the whole academic community in the finance-banking field. The internal rating models can be used to calculate the risk weight value of exposures, in order to determine the minimum capital requirements for credit risk, in accordance to government ordinance no. 99/2006, supplemented and modified by the Law no. 227/ 04.07.2007. By means of the internal rating models, we could achieve the following goals: pertinent evaluation of debtor characteristics; use of the computer system in risk evaluation within the decisional process of credit approval, internal allocation of capital and corporate governance of the credit institution.

Key-words: Internal rating models, risk management, corporate governance, credit risk, IT instruments

The elaboration of this article has been determined by three important evolutions.

Firstly, the Basel Committee on Banking Supervision, followed by the European Comission, has introduced, under the title of Basel II, a series of standards regarding the estimation of essential banking indicators: *PD* (probability of default), *LGD* (loss given default) and *EAD* (exposure at default).

Secondly, the Government Ordinance no. 99 was passed in 2006, followed and modified by the Law 227/ 04.07.2007 and accompanied by a series of new regulations, more specifically, the new banking legislation, applicable to credit institutions, as of the date of Romanian E.U. adherence on January 1st, 2007. This new legislation allows the integration of the Basel II requirements with the Romanian finance-banking legal framework.

Last but not least, the Romanian banks have become ever more interested in creating and improving methods and procedures of risk evaluation, while implementing the Basel II requirements.

We consider that designing an information system necessary throughout the process of credit-approving by the credit institutions represents a timely initiative. The role of this system is to assess and evaluate the loan candidates' characteristics. The information system will allow establishing a set of variables which will, in turn, provide a comprehensive image of the potential debtor's status, as well as designing an aggregate system, capable of outlining the candidate's position in comparison with the other debtors. That set of variables will differ in function of the type of candidate: individual person or legal entity.

The information system will provide a financial diagnosis and a risk rating score for the applicant, so that the bank could limit the risks assumed during the crediting process and direct the applicant to the best credit option according to the set of variables that characterize that particular person.

In the case of legal entities, their current and estimated economic and financial status will be assessed. One method proposed by this project will consist in determining, by means of specialized IT instruments, the economic and financial indicators and a client rating, by processing data taken from the clients' accounting documents. In this respect, the information system can be used to reach a decision in credit approval, in the financial analysis related to the crediting activity, in increasing caution when making payments and in optimizing investment and selling banking products.

Individual persons will be analyzed based on a series of social, economic and demographic criteria, the project aiming to create an assessment scoring-function for this category of applicants.

Thus, banks can diminish credit risk according to the approach based on internal models of rating, and can also offer counselling to prospective credit applicants in choosing the best suited financing offer. Therefore, an easy connection can be developed between the credit institutions and their clients, based on the centralization of information concerning the offer or the demand in an interactive database.

Supposing that the present article might evolve into a scientific research project, it would comprise the following stages:

The first stage is represented by the **Market Research,** by means of specific instruments: establishing samples on groups of beneficiaries, drawing up surveys, conducting interviews, as means of research, centralizing and processing collected data.

We propose as the second stage the **Adjustment of the Information System**, comprising drafting models for shaping data structures, desinging the data base and designing a module capable to allow the on-line choice of the best suited credit offer.

We would continue by **filling in the database**, then testing its functioning.

A distinctive and major stage would be the **design of on-line counselling modules**, followed by **the promotion of the designed product**, by implementing the website/portal into the market, respectively, its upload on the internet, by designing the interface for the web – website/portal, by holding conferences in order to endorse the final product, by promoting the product on the level of credit institutions, Romanian bank association, World bank and by publishing results in form of articles in various specialty magazines.

The project's result will materialize in an information system which will play a double role: on the one hand, it will allow for a pertinent information of prospective credit beneficiaries about existing options at any given time, and on the other hand, it will build a model of evaluation for each client. This model will be used by the credit institution to screen its own clientele, or it will serve as a self evaluation tool for each visitor of the website, regarding his/her own capacity to repay a potential credit.

The advantages of the information system in analyzing the opportunity of bank crediting address especially the time issue, in that the time needed to take the granting decision, to delegate competencies to persons who have the quality of experts, to bring to a common denominator the documentation resulted from the analysys. Also, another goal will be the development of research in bank crediting activity and even the professional improvement of the bank's personnel.

There are a series of limitations in designing such an expert system, respectively, of the evaluation model: the necessity to obtain accurate information regarding past client activity in a 2-4 years time-frame; the necessity to manually or automatically process the information in creating a knowledge database, and limitations of economic nature (changes in legislation, shifting of the demand-supply balance, competitional influences, etc.).

The emergence of new players in the financial-banking market and, implicitly, the strong competitive character of this activity sector, second to the substantial growth of the financing need, impose on the banking instiutions a need to constantly improve the services on offer, doubled by the need to optimize associated costs. From this perspective, the project generates an economic impact by means of:

1. The analysis of the risk profile of credit applicants that will considerably diminish the incumbed costs for all beneficiaries (credit institutions as well as clients);
2. Diminishing of credit risk, improving the efficiency of credit institutions' activity and profit growth for those institutions;
3. Decrease of time and costs for credit applicants by an educated choice of offers.

We can also highlight some elements showing the project's social impact*:*

1. The project will help improve the confidence and trust of the general population in credit institutions, as well as the security of their operations;
2. Financial education of potential credit beneficiaries.

The validation of internal models by the authorized supervisor represents an essential condition if a credit institution intends to use another approach than the standardized one in determining the capital requirements.

While building the internal rating models, we must „have strict stress testing procedures at our disposal”[258].

Generally speaking, stress testing can be described as an useful tool in the the process of assessing the possible effects of extraordinary, but plausible events, which can affect the evolution of an institution.

The effective use of stress-testing methodologies is extended nowadays not only to the commercial banks, but also to the regulatory authorities and to the Central Banks. At present, all these institutions are combining stress-testing with their own macro-economic models.

Stress-testing is implemented at country level in order to assess the strength of the financial system to unfavourable economic evolutions. This type of analysis is set up in conformity with the Financial System Assessment Programme (FSAP) deployed by the International Monetary Fund (IMF). According to the Central-European Bank, the FSAP is implemented in the following countries: Ireland (2000), Finland (2001), Luxembourg (2002), Germany (2003), Austria and Netherlands (2004), Belgium, Greece, Italy, Portugal, Spain and again Ireland (2006).

In our opinion, stress-testing should be extended to a larger geographical area. We appreciate this direction to be important in the context of the increasingly powerful integration of the EU members, both on the economic and the financial level. We can only guess that such testing is essential in order to assess as accurately as possible the effects of changes the Basel II has brought to the EU credit institutions since January 2007. We mainly have in view the banks adopting the Internal Rating-Based approach.

Conclusions

At present, the Romanian banking system is in a incipient stage from the point of view of using the internal rating models. These models represent a major objective for the appropriate banking risk management. In Romania, rating companies operating with such information tools will have to be put into place. Apart from their practical usefulness, the authors of this article also envisage the possibility of extending the proposed studies to national and international research projects, as wells as to materials which can be exploited in the further education of the banking experts.

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WEB PORTAL SPECIALIZED IN EDUCATION AND FINANCIAL ASSISTANCE FOR BANKING PRODUCT AND SERVICE CONSUMERS

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The financial system of our country is going through a process of continual consolidation and development, based on an entire array of opportunities and meeting multiple challenges in equal measure. One of the most important challenges stems from the implementation of the Basel II standard, which has an influence both on the functioning of the credit institutions and on the National Bank, as a monitoring body. Although many bank customers are fully aware of the fact that saving, investing and anticipating future evolutions have an essential impact on their life quality and financial security, they do not posess, in most cases, the necessary knowledge and information to effectively manage these elements. The main scope of the present article is trying to make the academic environment aware of the necessity of creating and providing for free all the instruments the public requires in order to effectively manage their own financial resources.

Key-words: web portal, education and financial assistance, banking products and services

The population is exposed to higher and higher financial risks, without always being aware of their existence. While in other coutries from Europe, extensive public information campaigns were launched several years ago, in our country, no such basic financial education programmes have been initiated yet on a social scale. Even if the financial product and service providers are private organizations, we estimate that ensuring the population a minimal financial training would have as a result not only an educated customer pool for these organizations, but also a greater succes in avoiding unwanted situations generated by the risk of non-reimbursement related to the financial obligations assumed by individual customers. These risks can negatively influence the credit institutions' indicators, the indicators established on the bank sector's level, a situation that can also lead to severe financial problems on the bank customers' level.

The rate of personal credit growth has intensified in 2007, its starting threshold already being on a superior level. There has been noticed an increased preference for credits in foreign currencies, an option which, in the context of an accentuated depreciation of the national currency, can have a negative impact on the credit evolution and on the financial situation of the individual customers who disregarded this influence factor.

The most appropriate person to correctly assess the reimbursement capacity is the credit applicant himself, therefore helping individuals at taking substantiated financial decisions represents the best solution for keeping a safe and undeteriorated financial environment.

By means of some actions organized on a national level, we intend to bring a contribution to the financial education of the general public. They will provide distance courses, including illustrations, animation and short movies, IT tools for determining the endebtment rate or generating scenarios concerning the financial evolution of the population.

A possible instrument for the public financial education could be a specialized website designed as a friendly, easy-to-use interface, containing various tests and useful strategy games, so as to make the assimilation of financial knowledge a much more pleasant process.

The portal will also comprise an area dedicated to the pre-college academic staff, providing not only user-friendly plans for the economy classes, but also suggestions concerning effective and unconventional teaching methods.

A specialized module addressing pre-college and college students, teachers and parents will be also put into place. This will contain flexible easy-to-use free guides, created especially to enhance the financial education of the future banking product and service consumers. The main objective of this module will be helping young people develop the capacity to create a budget, to manage it and to use a series of banking tools, such as: cards, deposits, credits, internet banking, mobile banking.

Last but not least, there will be created a news and comment section, providing intelligible explanations of economy-related events.

At present, Romania cannot provide enough data or analysis concerning either the financial behaviour of its population on a microeconomic level, or the population saving, endebtment and accumulation behaviour, in a climate in which the impact of the aforesaid behaviour upon general wealthfare is obvious.

The financial education of the population has not represented a top priority in Romania so far, although in Western countries, as well as in the new European member states, the supervision authorities attach the utmost importance to this component.

In the United States, The Federal Reserve takes public education very seriously. In November 2007, the FED set up a centralized call centre, by means of which people can contact the central bank experts by phone or e-mail, in order to file complaints against financial institutions or to obtain a diverse range of financial information concerning banking products and services or their consumer rights. Here, the people concerned can find brochures and guides explaining in simple terms the risks and benefits of financial products, from credits with low interest rates in the first year to credit reports, electronic banking and current accounts.

The Financial Services Authority, - the monitoring body of the financial sector in the United Kingdom – is statutorily qualified to contribute to the improvement of public financial education. As a result, the institution is fully involved in disseminating banking product and service information. In this respect, the FSA has prepared several publications where it offers recommendations on how to use financial services. As in the United States, the British institution has created a specialized website providing brochures, guides, calculation schemes and credit, saving or private pension comparative tables to its users.

We can also find similar examples in countries with an economic status much more closer to our own. In Poland, the population financial education effort started in 2003, when a specialized web portal was launched. The portal provides distances courses, assorted with illustrations, animation and short movies. There is even an area dedicated to primary and secondary school teachers, where one can find easy-to-use plans for economy classes, as well as suggestions concerning effective and unconventional teaching methods.

In Hungary, the consumer financial education campaign was also initiated one year before the country's adherence to the European Union. The programme consisted in solving the customer complaints, editing useful brochures and publications and launching a media campaign drawing attention to important current financial problems. The financial product comparative tables scored the highest public success.

On the national level, in February 2007, the banks from Romania initiated a series of projects aiming at improving customer services. The longest and most extensive of these projects is the one having in view consumer education. In this respect, Radu Gratian Ghetea, the president of the Romanian Bank Association, has indicated that the above-mentioned project is meant to be a long-term, fairly continuous initiative. The elaboration of the consumer education strategy and programme was incumbent to the Special Initiative Committee, a partnership between the Romanian Bank Association , the National Bank of Romania, the Finance Ministry and Consumer Protection, sustained by the Convergence Programme, run by the World Bank.

Within the draft report concerning public service policy on the European level issued on the 12th of March, 2007 by the Economic and Monetary Affairs Committee of the European Parliament, one refers to the necessity of giving more alternatives to the bank product and service consumers, highlighting the fact that promoting financial literature and access to accurate information and unbiased counselling on investment stands for a crucial element. One also heartily applauded the creation of the Consumer Group for financial services, as well as the attempts to involve the users'representatives in expert and consultant groups; nevertheless, one also notices that the interests of the financial industry still prevail over those of the customers and end-users; the report recommends opening a European budgetary line in order to finance the expertise of the financial market for consumer organizations.

By means of the present project, we respond to the Committee's initiative to increase the level of population financial education and we answer to its invitation to step up the effort to create specific programmes and websites, while following the call to integrate these initiatives with the elementary school education.

The proposed project will comprise media campaigns and the setting-up of the web portal for the financial information of consumers. It proposes itself to modify and update the information on the websites belonging to the involved institutions, to implement consumer alert systems, to suggest elements specific to the financial education to be included in the academic curriculum, to launch modules for comparing financial products. The project responsibles have chosen a step-by-step strategy envisaged to unfold over a period of two years.

The main objective of the proposed project refers to upgrading the level of population's financial education by presenting both the benefits the customers can enjoy while using various banking tools, and the risks to which the bank product and service consumers are exposed.

The reason for setting this objective stems from the increasing risk that the fast dynamics of crediting might lead to cases of over-endebtment or irresponsible use of the loans, alongside the expansion of the bank sector. This risk is aggravated by the fact that the long-lasting transition period, as well as the still poor quality of life have given rise to a strong appetite for consumption, which leaves little space for a reasonable financial planning of the family budget.

Moreover, as the financial institutions are extending their presence in Romania, they begin to provide products and services with a higher degree of sophistication, yet mostly unfamiliar to the general public. For example, the banks offer credits in foreign currencies on a large scale, recently even in more exotic currencies (the Swiss frank, although few people are aware of the associated exchange rate risks. Another case is that of intensive proliferation of home loans with low interest rates in the first year, without the interest adjustment mechanism being properly presented to the public.

If initially the information, education and consultance activities are directed towards all the categories of banking product and service consumers, we subsequently intend to develop special programmes within the project addressing some particular categories: debtors with financial problems, first-time home buyers, young people, credit card users, first-time bank customers, low revenue consumers, retired people, etc. Among these, the young and the senior citizens are the most vulnerable.

Ethics is important both in setting-up and in carrying out the project. In the education and consultance activity, the stress falls on adopting an ethical behaviour, a greater attention being given to the quality of the teaching material, as well as to the ways of presenting it, all of these triggering in the long run the interest for the training, information and consultance provided by the project.

The education and consultance provided by the project must be achieved from a neutral stand with regard to the financial and banking institutions, thus any reference to bank products and services on the market at a given moment should be avoided. This aspect will be carefully monitored by the project coordinator.

The ethics in scientific research activities is based on an aggregate of moral principles and procedures to observe them. The partners involved in the present project will follow and observe Law no. 206/2004 concerning appropriate behaviour in scientific research, technological development and innovation, as well as Law no. 8/1996 concerning royalties and associated rights.

Complying with the specific EU legislation and international regulations in the banking-finance field is also included.

In order to attain the proposed objectives, we offer an elaborated work plan, so as the public is provided the best knowledge possible of banking instruments. Based on the information obtained in the research stage, we will put into practice an education and assistance system which contribute to the increase in efficiency, effectiveness and quality of the financial educations of banking product and service consumers.

As we have mentioned before, the financial assistance and education project specialized in banking products and services will be based on a mixture of measures aiming both informing, training, and assisting consumers. This mixture represents the most appropriate way to achieve objectives, because it provides the opportunity of using multiple communication channels.

The experience of other countries has shown that such projects have a decisive impact on the financial culture level, as well as on the wealthfare of the people.

The programme will develop around the web portal and will contain several dissemination channels for the education and assistance facilities: on-line or printed publications (brochures, guides, trimestrial reports, e-mails, letters), phone or forum-based assistance services, free courses, public awareness-raising campaigns, symposiums, workshops, motivational software, financial strategy games.

The project proves its viability in the sense that it is harmonized with the European and national strategies of providing financial education to the consumers and it aims to become an instrument of implementing these strategies with the general public.

If the level of financial education of the general public is usually fairly low, one can notice an even more disturbing situation with certain categories of consumers. We refer mostly to people with primary or highschool education, with low revenues or belonging to an ethnic minority (the Rroma minority in particular).

The project results will be exploited as it follows:

- the resulted studies and reports – through extensive dissemination with the interested scientific community, by means of articles, scientific communications, the website of the project;
- the education module, containing material especially created to allow tranforming the acquired financial knowledge into action tools;
- the assistance module available to the banking product and service consumers, by means of which they can analyze the main steps to be taken in order to repay their debts and to invest afterwards in an apropriate and aware manner, by responsibly assuming the risks they are exposed to, in order to achieve their financial objectives.

The main project beneficiary is the banking product and service consumer, this category including all the citizens of age, regardless their level of training, social status, age, occupation, property or other demographic, social or economic criteria.

The project addresses also to the bank service providers, to the Special Initiative Committee, to the Romanian Bank Association, to the National Authority for Consumer Protection, to the National Bank of Romania, as coordinating and monitoring body of the national banking system, as initiator of monetary and credit policies, as „judge" of financial relations between banks and their customers.

According to the activity plan, we intend to support an intensive promotion of the end-products, by publishing scientific material in specialized magazines, by organizing conferences with the participation of the RBA, NBR, NACP, finance-banking institutions, specialized companies and, last but not least, by intensively and directly promoting the project on the Internet. The web portal will provide information concerning the main bank credit offers, thus each visitor (individual or legal person) will be able to assess its reimbursement capacity and assumed risks. Each visitor of the system will practiclly obtain a score on the basis of which he/she will be recommended the best bank offer possible at the moment.

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THE COMPETITION IN ROMANIAN BANKS

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The banks, as large financial intermediaries, are themselves placed in a global environment. Globalization will bring about a new online economic world, the so-called cyber-economics, a world in which competition in the banking sector acquires new dimensions and features. In Romania, the banking system was organized on modern basis, on the occidental performance principle. Competition in Romanian banks led to the approach of a new dimension in the client relations management, to an increase of the innovative role and to the regulation of bank management, the role of the bank informatics and to the re-organizing and efficiency of some bank activities. The emergence of new foreign bank societies on the Romanian market led to the assignment of the banking system on a new corridor of performance, due to the intensification of competition and the increase of offer for new complex bank services and products for the clients.

Key words: Romanian banking system, competition and regulation, the new dimension of the bank- client relation, bank activities performance.

PAPER CONTENT

In Romania, after 1990, a modern occidental banking system, based on the principle of bank universality was created.

The reform of the Romanian banking system in the period of transition toward the market economy led to its structuring on two levels or the two-tier banking system, respectively the central bank (The National Bank of Romania) and commercial banks. This new structure of the banking system meets the current requirements of the Romanian economy. The organizing of the Romanian banking system on the two levels assured, by law, the autonomy of the Romanian National Bank from the executive power, and to commercial banks a statute of stock companies. The commercial banks, from an organizational point of view, develop their activity in a way similar to private companies, being led and managed by the general stockholders meeting and by structures ensuring a current management, meaning the president, the vice-president, the management board, etc. Commercial banks have a horizontal organization, formed of departments, directions, services, offices, works compartments, etc. Banks also have a vertical organization, meaning territorial, composed of branches, county branches, agencies, representatives and works points.

In order to be able to face competition, Romanian commercial banks have this vertical organization. It is developed by the territorial bank central, in order to efficiently unfold current activities, with the compliance to the uniform and unitary procedures and bank work normative. Each of these organizational territorial bank structures have attributions, responsibilities and subordinations, that are well defined and delimited by the “mother” bank, meaning the Commercial Bank Central, being a juridical person.

The profound transformations which took place in the organization of the Romanian banking system in the transition period are based on the internal bank legislation, harmonized with the provisions of the community and the directives of the European Union in this area. Legal regulations also contributed to the consolidation of the Romanian banking system and its part in the economy.

The strengthening of the stability and the solidarity of the Romanian banking system was due to progress on the line of macro- stabilization, corroborated with the bank efforts for consolidating their position on the domestic market. The emergence of new foreign bank societies on the Romanian market led to the assignment of the banking system on a new corridor of performance, due to the intensification of competition and the increase of offer for new complex bank services and products for the clients.

The dimension of competition in the bank sector is also given by the large number of banks activating on the market. Therefore the componence of the banking system on property forms in the period 2000-2006 and the evolution of bank numbers at the end of the analyzed period are as follows:

Table 1

The structure of the banking system on forms of property number of banks

	2000	2001	2002	2003	2004	2005	2006
Banks, out of which:	33	33	31	30	32	33	31
banks with integral or majority state capital, out of which:	4	3	3	3	2	2	2
- with integral state capital	1	1	1	1	1	1	1
- with majority state capital	3	2	2	2	1	1	1
banks with a majority of private capital, out of which:	29	30	28	27	30	31	29
- with a majority of domestic capital	8	6	4	6	7	7	3
- with a majority of foreign capital	21	24	24	21	23	24	26
branches of foreign banks	8	8	8	8	7	6	7
Total banking system	41	41	39	38	39	39	38

Source: The Romanian National Bank - Annual Report, 2003 (p.87); 2005 (p. 36), 2006 (55).

The process of cleansing the bank sector and the entrance on the Romanian market of foreign banks led to a strong competition in the Romanian banking environment. As a consequence the market quotations held by domestic banks diminished in the favor of the foreign segment.

The evolution of market quotations for banks and branches of foreign banks in the period 2001-2006 is as follows:

Table 2 The bank market quotations (%)

	2001	2002	2003	2004	2005	2006
Banks with Romanian capital, out of which	44.8	43.6	41.8	37.9	37.8	11.4
- with a majority of state capital	41.8	40.4	37.5	6.9	6.0	5.5
- with a majority of private capital	3.0	3.2	4.3	31.0	31.8	5.9
Banks with a majority of foreign capital	47.3	49.0	50.5	53.6	54.7	82.9
I. Total commercial banks	92.1	92.6	92.3	91.5	92.5	94.2
II. Foreign banks branches	7.9	7.4	7.7	8.5	7.5	5.8
Total banking system (I+II)	100. 0	100. 0	100. 0	100. 0	100. 0	100.0

Source: The Romanian National Bank - Annual report, 2003 (p.84), 2005 (p. 35), 2006 (p.53).

At the end of 2005 from the point of view of the invested capital original country in foreign banks and bank branches on the Romanian banking market, the first three places were taken by Austria, Greece and Holland, followed by Italy, France, Hungary, USA, Great Britain, Germany, etc. AII these foreign participations in the capital of credit institutions in România brought a new tendency in the activity of Romanian banks and its unprecedented development.

Also an important moment in the consolidation and strengthening of the competition in the Romanian banking system was the moment of the bank crash, marked by the introduction of the Law no. 83/1998 regarding the procedure for bank bankruptcy. Starting that date all the banks with negative capital or unable to make payments were eliminated from the system, after many years. From this point of view, we can consider that beginning with 2002-2003 the Romanian banking system operates according to the principles of a functional market economy.

The new dimensions of competition in Romanian banks take into account the following aspects:

- the re-dimensioning of the client segment (the market) depending on the bank policy and strategy, be it retail or corporate bank;
- the development and diversification of the bank product and service portfolio, that is offered to clients, be they traditional or sophisticated clients;
- the improvement of quality and structure within the portfolio of credits managed by commercial banks;
- the approach of a new strategy in relation to clients, respectively the personalization of relationships, insurance of counseling and consultancy services for clients, the knowing and inventory of client information, the approach of an effective communication with clients and the consolidation of their trust in the bank;
- the re-dimensioning of the importance of client satisfaction;
- the efficient organization of front-office activities and all bank activities which have to do with the clients;
- the development of an organizational culture that would come to the support of relational strategies with the clients, that are adequate for their specificity;
- the efficient management of bank risks and especially of the credit risk;
- the establishment of new priorities in bank management, taking into consideration that in
- the bank management of the 21st century a new relational strategy with clients was imposed;
- the organization of the entire bank activity on the profitability principle.

In the complex transformation process of the banking system in România in a European context, an important part is played by the regulation and innovation of bank management. Analyzing the report innovation- regulation in the Romanian bank management we think the accent must be placed on regulation. The plea for regulation is based upon the consideration that in the banking environment regulation is the one assuring financial- banking discipline and is statutory on correct client relations. Without clear and precise regulations the banks, which are considered the most disciplined financial entities in the economy, are not going to succeed in aligning to the requirements of the new Basel Accord II. The issue of innovation and regulation in the bank management shall win in time a well- deserved place in the culture and civilization of banks in the 21st century.

In order to face competition, banks activating on the Romanian market oriented themselves also towards the externalizing of some bank activities, which are situated under the profitability limit for the bank total.

Also, in order to deal with competition banks oriented towards the development of informatics systems. In the bank practice the vital importance of the informatics system is well- known, both for the quality and operationally of management decisions, and for the successful unfolding of bank operations. Without a performing informatics system banks can no longer face the very large volume of bank operations, for a more and more numerous bank clientele, which is diversified and exigent. Beside the large volume of bank operations which must be effected by the bank, there is also the issue of the speed with which these must be processed, making bank transfers in very short time or online. Generally informatics applications used in the Romanian banking system are based on the evaluation criteria established by the internal bank norms. This orientation of commercial banks is due to a great prudence and the strict respecting of their own internal norms, but also to the instability of the Romanian economic climate. In order to deal with competition, the Romanian banks developed performing computing systems.

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THE NEW DIMENSION OF BANKING KNOWLEDGE IN THE GLOBAL ECONOMY

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The diversity and complexity of banking activities have emphasised the role and the importance of knowledge in the banking domain. This new online economic world has led to an exponential development of banking knowledge. Being the most disciplined financial entities, the banks are especially interested in banking knowledge. This is not limited only to the knowledge of work norms and banking procedures, to the use of algorithms for calculation of financial banking indicators. In this IT era, the diplomatic and psychological dimensions of banking knowledge have been developed. There are three main types of knowledge: factual knowledge, practical knowledge and knowledge by acquaintance. Banking knowledge also represents a source of risk prevention, and especially fraud risk. In the global economy, banking knowledge has acquired new dimensions.

Key words: banking knowledge, global economy, banking information, global markets.

PAPER CONTENT

The banks are great financial intermediaries activating within global economy. A series of global products as cards, Internet banking, Home banking, etc. can be found in their portfolios of products and banking services. At the same time, in their customer portfolio there are also corporate customers (large transnational corporations), that are activating in the global environment.

The diversity and complexity of banking activities have emphasised the role and the importance of knowledge in the banking domain. In order to define the new dimension of banking knowledge in the global economic context one has to start with defining knowledge.

Knowledge is defined in *Romanian Explanatory Dictionary* as having two aspects:

- reflecting in consciousness of an existent reality independent from the knowledgeable subject;
- having certain knowledge, information about a subject or a matter.

Gnoseology or theory of knowledge, a branch of philosophy, studies the possibility, the sources, the forms, and the regulations of knowledge. Thus, knowledge implies possessing information about a subject. The banks have access to three categories of information. The present legislation regulates the information circulation depending on the criterion of its degree of accessibility. Based on this criterion, the global analysis of the valid legal provisions allows for information to be divided into three categories:

- information with unrestricted access;
- internal data and information;
- restricted information.

In the category of information with unrestricted access there is public information and information for public interest. Their defining characteristic is the degree of public openness. The banks operate with a large area of public information, as for example: information registered in the registry of commerce regarding shareholding, equity capital, headquarters, administrators, public information in the Official Gazette, in written press, etc. This information provides the bank with certain level of knowledge regarding its customers.

Internal data and information are an intermediary category between information with unrestricted access and restricted information. It is created or received by the bank, circulating freely usually within the bank. It is of great importance for each bank to have the complete inventory of data and information with which it operates.

Restricted information is the one whose circulation is limited either by law or corporate internal banking regulations. Usually there are two kinds of restrictions: regarding persons (subjective restriction) and regarding categories of information (objective restriction). All these categories of information assure banking knowledge.

In the context of world economy globalisation, in the era of Digital Economy the access to information is no longer restricted by time and space. Information storage regardless of its volume does not represent a problem for banks any more. This new online economic world has led to an exponential development of banking knowledge.

Banking knowledge also represents a source of risk prevention, and especially fraud risk. The dimension of fraud risk for a bank implies three aspects. They refer to fraud risk by bank management, employees, or customers. In order to protect the bank in crisis situations when the bank is constrained to rapidly implement multiple new requirements, there is a need for quick solutions to maintain the credibility in social and economic environment and to manage conflict situations. Banking knowledge permits a decrease of decision risk, credit risk, market risk, etc. Banking knowledge leads to a greater degree of social responsibility regarding priorities and objectives of banking activity.

Being the most disciplined financial entities, the banks are especially interested in banking knowledge. This is not limited only to the knowledge of work norms and banking procedures, to the use of algorithms for calculation of financial banking indicators. In this IT era, the diplomatic and psychological dimensions of banking knowledge have been developed. The implementation of global banking products is the result of knowledge of global macro-economic context as well as of necessities and priorities prescribed by global economy.

In the post-industrial connotation the notion of knowledge implies an extended dissemination of knowledge in a global world. In order to assure the continuity of banking activity, banking knowledge offers:

- transparent, complete and accurate information issued in the banking system;
- creation of a favourable image of the bank, image which will motivate the customer's interest for the institution;
- a thorough approach and check-up of various possible scenarios for the development of reaction capacity in crisis situations;
- the necessary condition for displaying the economic truth;
- outlining bank politics and strategies based on the social and economic context in which the bank activates;
- efficient management of banking activity.

Being a notion with a subjective characteristic, knowledge is unequally distributed and its capitalisation depends on: life experience, personality, natural aspirations and qualities of the individual.

Knowledge has two dimensions: common or subjective and scientific or objective. Common or subjective knowledge refers to common sense while scientific or objective knowledge implies the use of ideas and scientific reasoning. Banking knowledge makes use of the two dimensions, the common and the scientific. Both dimensions materialise in banking activities as well as in its relations with customers.

A system of banking knowledge comprises specific elements of knowledge paradigm, useful in the following domains:

- strategic management (social, administrative) of the bank;
- executive, actual, operative management;
- global risk administration, i.e. risk decrease and fraud prevention;
- promoting new knowledge and social control;
- knowledge management, i.e. efficient use of information possessed by the bank with the aim of obtaining best economic and financial results.

In order to eliminate the danger of fraud in the bank there are opinions stating that it is safer if the decisions are based only on a single econometric system of optimisation, using the informational system which will eliminate contingency and subjectivism. However, in banking activity this proves to be not only impossible but undesirable as well, as thus, work procedures would eliminate the use of intuition, creation and knowledge. The banks take into consideration the experience as well as safe practice in the domain.

To outline the dimensions of banking knowledge one has to start from the philosophical questions regarding knowledge, which belong to either epistemology or the philosophy of spirit. The two groups of questions can be separated approximately, considering that the first analyses the nature of knowledge, and the second analyses the nature of the knowledgeable subject.

There are three main types of knowledge:

– factual knowledge, or "knowledge that", which implies knowledge of bank regulations and instructions;
– practical knowledge, which implies "knowledge how". In banking activity this knowledge is materialised in implementation of banking norms and instructions;
– knowledge of people, places and things, or knowledge by acquaintance. In banking environment this knowledge implies knowledge of customers.

The three main types of knowledge that constitute the component elements or the dimensions of banking knowledge are shown in the figure below:

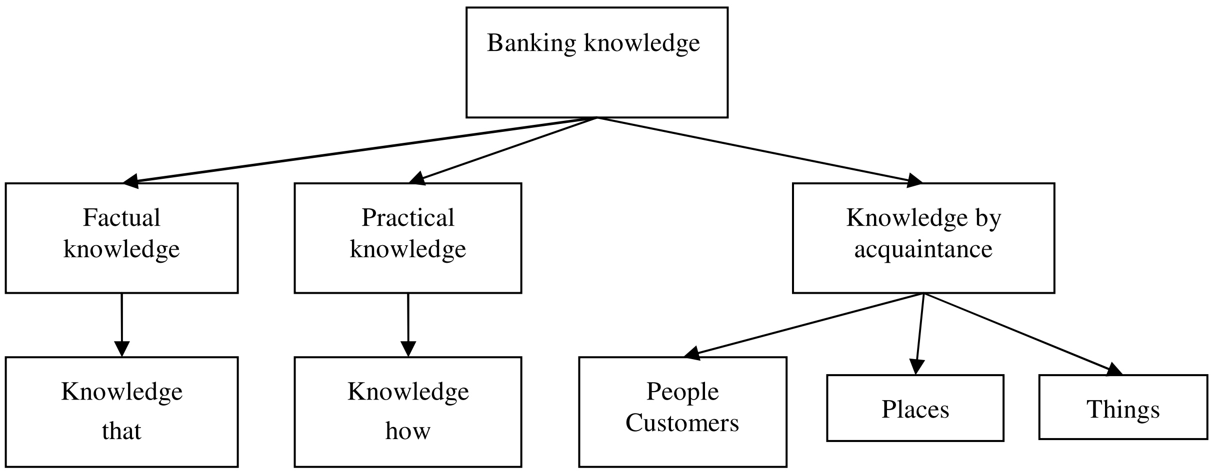

Figure 1. Dimensions of banking knowledge

In the global economy, banking knowledge has acquired new dimensions. It is no longer limited to bank norms and instructions or to the national juridical and economic context in which the bank activates. Nowadays, banks activate on global markets and manage banking products and services as cards and Internet banking. In this context banking knowledge implies:

– use of information from global economic environment;
– knowledge of universal laws that are producing economic booms, economic crisis, and other economic events;
– knowledge of European legislation regarding economic and banking domain.

Stabilisation of the Romanian banking system requires a strategy of the organisational management of banking information which comprises elements of banking knowledge.

In the context of world economy globalisation both banking activity and banking knowledge have acquired new dimensions. Banking performance depends for the most part on the dimension of banking knowledge.

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TARGET 2 – THE NEW EU INNOVATION AND TRANSFORMATION RTGS SYSTEM

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Abstract. Since it inception TARGET has formed a benchmark for processing euro payments in terms of speed, reliability, opening times and service level, and has contributed to the harmonization of business practices in the European Union. TARGET 2 is on track from 19 November 2007. In TARGET 2, all banks in the EU, irrespective of where they are located will be offered high – quality services, functionality and interfaces, as well as a single price structure. This will level out the playing field for banks across Europe. TARGET 2 will ultimately benefit from, and evolve with, its users' expectations and requirements.

Keywords: single technical platform, flexible liquidity management services, operational day, multi - addressee access, core pricing scheme, migration groups.

1. The initial TARGET system

TARGET is the Real Time Gross Settlement system (RTGS), offered by the Eurosystem. It is used for the settlement of the central bank operations, large value euro interbank transfers as well as other euro payments. It provides real time processing, settlement in central bank money and intermediate finality. TARGET stands for **T**rans-European **A**utomated **R**eal-time **G**ross settlement **E**xpress **T**ransfer system and it was created by interconnecting national euro RTGS systems and the ECB payment mechanism. It went live in January 1999. The launch of the single currency necessitated a real-time payment system for the euro area.

With €1.9 trillion settled every day, TARGET, is one of the three largest wholesale payment systems in the world, alongside Fedwire in the United States and Continuous Linked Settlement (CLS), the international system for settling foreign exchange transactions. The TARGET system has a decentralized structure consisting of 16 national RTGS systems and the ECB's payment mechanism (EPM), which are interlinked to provide a uniform platform for the processing of inter-Member State euro payments. TARGET began operations on 4 January 1999 at the same time as the launch. Since then, TARGET has provided real-time payment processing and intraday finality to almost all credit institutions in the EU. Moreover, TARGET serves the monetary policy needs of the Eurosystem and promotes the integration of the euro money market. With its special focus on large-value payments related to inter-bank operations, TARGET helps to reduce systemic risk. TARGET has long operating hours, being open from 7 a.m. to 6 p.m. CET on each of its working days, with a cut-off time of 5 p.m. for customer payments. TARGET is a highly reliable system. In 2005 the overall availability of TARGET was 99.83%, compared with 99.81% in 2004 (TARGET availability is defined as the ratio of time during which TARGET components are fully operational to TARGET opening hours).

The decentralized structure of TARGET

2. The new features of the TARGET 2

TARGET2, which will replace the current decentralized infrastructure, has a single technical platform and features new functionalities designed to meet the future needs of financial markets. In building this new system, the Eurosystem is aiming to:

- provide a harmonized level of service on the basis of a common technical platform;
- achieve a high level of cost recovery and have a single price structure applicable to both intra-national and cross-border payments;
- meet the new demands of users, as well as those resulting from the future connection to TARGET of the countries that joined the European Union on 1 May 2004.

The Eurosystem has developed the features and services of TARGET2 in close cooperation with TARGET users. In November 2005 the Eurosystem published the User Detailed Functional Specifications (UDFS, version 2.0), which give TARGET users the information they need to start the technical development and implementation work related to TARGET2. The principal innovations of TARGET2 are as follows:

1. *A single technical platform* - the most important innovation is the consolidation of the technical infrastructure.TARGET2 will replace the decentralized technical structure of the current TARGET system with a single technical platform, known as the Single Shared Platform (SSP). Three Eurosystem central banks – the Banca d'Italia, the Banque de France and the Deutsche Bundesbank – will jointly provide the SSP and will operate the platform on behalf of the Eurosystem.
2. *TARGET – WIDE flexible liquidity management services* - There is increasing demand among payment system users for enhanced liquidity management services and liquidity-efficient RTGS systems. In response, TARGET 2 will offer state-of-theart liquidity management tools, such as prioritisation of payments, liquidity reservation (also for the settlement of payments in ancillary systems), definition and implementation of sender limits and active queue management.
3. *Support for payments with a debit time indicator* – TARGET 2 will take into account the increased time-criticality of payments, particularly in the context of CLS, by making it possible to submit transactions with a debit time indicator.
4. *Pooling of intraday liquidity* - Liquidity pooling will be achieved by grouping a number ofaccounts.TARGET2 will offer two variants for liquidity pooling: i) the virtual account; and ii) consolidated information. In the virtual account option, a payment order submitted by a participant belonging to a group of accounts will be settled if the payment amount is smaller than or equal to the sum of the liquidity available on all accounts (including any credit lines) in the group. Otherwise the payment order will be queued.

The consolidated information option is an information tool: it will give comprehensive information to the participant subscribing to the service about the liquidity position of all of the entities of the group at any given moment. Such information will also be provided in the virtual account option. However, payment amounts will be checked only against the liquidity available on the individual RTGS account of the sending participant. The liquidity available on other accounts in the group will not be used to settle the payment. In the event of insufficient liquidity on the sending bank's account, money will need to be transferred to that account.

5. *Interaction with ancillary systems* - TARGET2 will provide cash settlement services in central bank money for all kinds of ancillary systems (ASs), including retail payment systems, large-value payment systems, foreign houses and securities settlement systems (SSSs). The main advantage of TARGET2 for ASs is that they will be able to access any account on the SSP via a standardized interface.
6. *Strengthened the business continuity measures* - TARGET2 will offer the highest possible level of reliability and resilience, as well as sophisticated business contingency arrangements commensurate with the systemic importance of the TARGET2 infrastructure. The business continuity concept of TARGET2 consists of a multi-region/multi-site architecture. There will be two regions. In each region, there will be two sites some distance from each other. This

will be combined with the principle of region rotation in order to ensure the presence of experienced staff in both regions.

7. *Information and control module* - TARGET2 users will have access, via the information and control module (ICM), to comprehensive online information and easy-to-use liquidity control measures appropriate to their business needs. Users of the ICM will be able to choose what information they receive and when. Urgent messages (e.g. system broadcasts from central banks and warnings concerning payments with a debit time indicator) will be displayed automatically on the screen. Through the ICM, TARGET2 users will have access to the payments module (PM) and the static data (management) module. Depending on the decision of the relevant central bank with regard to the use of the optional modules offered by the SSP, participants may also have access to the home accounting facility of the central banks and the applications for reserve management and standing facilities.
8. *TARGET 2 directory* - the TARGET 2 directory will contain information on each institution that can be addressed in the TARGET2 system, and will be updated on a weekly basis to support system participants in their routing of payment instructions. The directory will use TARGET2-specific information provided by TARGET users during the SSP registration process in combination with SWIFT-related information. The TARGET2 directory will be an electronic product/service provided to the direct participants by the Eurosystem.
9. *Operational day* – in order to better meet users' business needs, the operational day in TARGET2 will be longer than that of the current TARGET system. TARGET2 will start the new business day on the evening of the previous day. The night-time window will be available from 7.30 p.m. to 6.45 a.m. the next day, with a technical maintenance period of three hours between 10 p.m. and 1 a.m. The night-time window will facilitate the night-time settlement of the different ancillary systems in central bank money with finality, and will also support cross-system settlement during the night. Settlement of ASs will take place in dedicated accounts. During the night-time window, liquidity transfers via the ICM between RTGS accounts and the dedicated sub-accounts will be possible. Ancillary systems and their participants will be able to choose whether or not to enable this liquidity transfer functionality, or to limit the functionality. Banks may alternatively decide not to participate in night-time settlement. The Eurosystem believes that the night-time window will generally increase the efficiency of night-time settlement and will favour initiatives such as cross-system delivery versus payment.

	Time	Description
Daytime	6.45 a.m.-7 a.m.	Preparations for daytime operations
	7 a.m.-6 p.m.	Day trade phase
	5 p.m.	Cut-off for customer payments
	6 p.m. + 15 min.	General cut-off for the use of standing facilities
End of day	6 p.m. + 30 min.	Cut-off for the use of standing facilities on the last day of a minimum reserve period
Start of day	6.45 p.m.-7 p.m. (1)	Start-of-day processing
	7 p.m.-7.30 p.m. (1)	Provisioning of liquidity (from standing facilities, intraday credit, home accounts) until start of procedure for ASs
Night-time window for AS	7.30 p.m. (1)-10 p.m.	Automated start of procedure message to set aside liquidity until start of cycle message of ASs, and ancillary system night-time processing (ancillary system settlement procedure 6)
	10 p.m.-l a.m.	Technical maintenance period of 3 hours. The system is shut down
	l a.m.-6.45 a.m.	Night-time processing (ancillary system settlement procedure 6)

Opening day for TARGET 2

3. Access for TARGET 2

A number of options are provided for the access to TARGET 2. These include direct or indirect participation, "addressable BICs" and "multi-addressee access" to the system, also known as "technical BIC access".

1. Direct participation - the criteria for direct participation in TARGET2 is the same as for the TARGET system. Direct participants will hold an RTGS account in the PM of the SSP with access to real-time information and control features, and will therefore be able to: i) submit/receive payments directly to/from the system; and ii) settle directly with their national central bank. Direct participants will be responsible for all payments sent or received on their account by any TARGET2 entity (i.e. indirect participants, addressable BICs and multi-addressee access entities as described below) registered through them. To connect to TARGET2, direct participants will require a direct connection to SWIFT's secure IP network via their own SWIFT interface or via a SWIFT Service Bureau. For the exchange of payments information, TARGET2 will use the SWIFTNet FIN service, while the SWIFTNet services "InterAct", "Browse" and "FileAct" will be used for information and control services.
2. Indirect participation - implies that payment orders are always sent to/received from the system via a direct participant. Payments are settled in the direct participant's account in the PM of the SSP. Indirect participants will be registered by and under the responsibility of the direct participants, acting on their behalf, and will be listed in the TARGET2 directory. Only supervised credit institutions established within the EEA can become indirect participants.
3. Addressable BICs – another category of access already available in the current TARGET system is that of TARGET2-addressable BICs. Any direct participant's correspondent or branch that holds a BIC is eligible to be listed in the TARGET2 directory, irrespective of its place of establishment. Moreover, no financial or administrative criteria have been established by the Eurosystem for such addressable BICs, meaning that it will be up to the relevant direct participant to define a marketing strategy for offering such status. It will be the responsibility of the direct participant concerned to forward the relevant information to the appropriate national central bank for inclusion in the TARGET2 directory (for technical reasons, an indirect participant/addressable BIC can be linked to only one direct participant). Addressable BICs will always send and receive payment orders to/from the system via a direct participant, and their payments will be settled in the account of that direct participant in the PM of the SSP. Although technically there is no difference between an indirect participant and an addressable BIC (The TARGET2 directory will distinguish between indirect participants and addressable institutions) in legal terms, only indirect participants will be recognized by the TARGET2 system and as such benefit from the protection of the Settlement Finality Directive (in those countries where such protection has been granted).

4. The TARGET Core Pricing Scheme

The Eurosystem has set up a pricing structure for the TARGET2 core service which will eliminate the current differences in pricing between intra-national and cross-border transactions, as well as increase cost-effectiveness for its users. The price of a TARGET2 payment will range between €0.125 and €0.80.

Option A			
Monthly fee			**€100**
Flat transaction fee			€0.80
Option B			
Monthly fee			**€1,250**
	Transaction volume		Transaction
Band	From	To	fee
1	1	10,000	€0.60
2	10,001	25,000	€0.50
3	25,001	50,000	€0.40
4	50,001	100,000	€0.20
5		above 100,000	€0.125

The pricing scheme for the TARGET 2

Payments settled on the accounts held in the national central banks' proprietary applications, also known as "proprietary home accounts", will be charged more than the TARGET2 fee (i.e. more than €100 + €0.80

per transaction).This will serve as an incentive to shorten the transition period and move to the PM of the SSP as quickly as possible.

The Eurosystem has decided that ASs interacting with TARGET2 should be subject to a pricing scheme comprising a transaction fee plus a separate fixed fee charged to each system, irrespective of where settlement takes place (e.g. in the PM or in proprietary home accounting (PHA) applications). A fixed fee of €12,000 per year will be charged to each ancillary system that settles in central bank money, irrespective of whether it settles in an account held at the SSP or in an account held in the central banks' home accounting application. A second fixed fee in the range of €5,000 to €50,000 per year will be charged to each ancillary system depending on the size of the system. In addition, all transactions that are settled for ASs will be charged according to a degressive transaction fee scale still to be specified in detail by the Eurosystem.

The liquidity pooling service (virtual account option and consolidated information option) is an optional and separately priced core service. The charge for liquidity pooling ser vices will be €1,200 per account per annum for the consolidated information option and €2,400 per account per annum for the virtual account option (which includes the consolidated information option). Furthermore, within a group of accounts (with either the consolidated information option or the virtual account option) group pricing will apply, which means the degressive transaction fee will be applied to all payments by members of the group as if they were sent from one account.

The following pricing will apply to the various ways of participating in TARGET2, in addition to TARGET2 transaction fees. In addition, direct participants will be charged a one-off registration fee of €20 for each registration of an indirect participant and €5 for each registration of an addressable BIC (including BICs of branches of direct and indirect participants) in the TARGET2 directory.

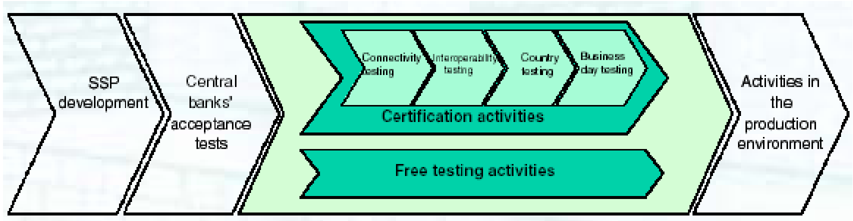
Type of participation	Monthly fee per account/BIC
Direct participation	€100 or €1,250 depending on the scheme chosen (see the TARGET2 core pricing scheme above)
Multi-addressee access	€80 per BIC address in addition to the BIC of the account of the direct participant
Unpublished account in the PM of the SSP	Direct participants who do not want their BIC to be published in the TARGET2 directory will pay €30 per account (BIC) per month in addition to the monthly fee above

Other pricing elements

5. User testing and migration groups

The objective of user testing is to ensure that users have made the necessary technical, procedural and operational adjustments to be ready for TARGET2. User testing started in May 2007 after the acceptance tests performed by the national central banks and will closely reflect the organisation of the migration groups (details below). Both structured tests and free tests are organised at institution, country and European level. In addition, the testing strategy will give due consideration to the specific situations faced by multi-country players. For each migration group, TARGET2 user testing are divided into two main activities, taking place in parallel:

- *Certification activities* – certification tests comprise four distinct steps, which have to be completed in a specific sequence. Tests first of all involve individual institutions (certification and interoperability tests), then national banking communities (country tests) and eventually the whole TARGET community (business day tests). Certification tests are compulsory for all TARGET2 users.
- *Free testing activities* – when the system is available for free testing, TARGET 2 users can perform any kind of testing activity. Free tests are optional, but TARGET 2 users are encouraged to make use of this option in order to be fully prepared for certification tests.



TARGET 2 user testing

The Eurosystem is defining TARGET2 test cases and scenarios. In parallel, a TARGET2 user test guide is being prepared to inform TARGET2 users about the testing procedures. A TARGET2 test-related information system (T2TRIS) is being developed to facilitate coordination and communication between all stakeholders during the testing phase. This web-based application will provide TARGET2 users with all the information needed for the preparation, planning and performance of, and reporting on, TARGET2 user testing activities. The T2TRIS is available to all TARGET2 users via the TARGET2 website from the last quarter of 2006.

The migration to TARGET2 will be carried out by "country groups", allowing TARGET users to migrate to TARGET2 in different waves and on different pre-defined dates. Each wave will consist of a group of national central banks and their respective national banking communities. The number of migration groups will be limited to four. TARGET users will be allocated to the first three groups, while the fourth group will be held in reserve as a contingency measure. The total migration period will be limited to six months (or ten months if the fourth group is used).

Group 1 19 Nov. 2007	Group 2 18 Feb. 2008	Group 3 19 May 2008	Group 4 15 Sep. 2008
Austria	Belgium	Denmark	Reserved
Cyprus	Finland	ECB	for
Germany	France	Estonia	contingency
Latvia	Ireland	Greece	
Lithuania	Netherlands	Italy	
Luxembourg	Portugal	Poland	
Malta	Spain		
Slovenia			

Composition of the migration groups

Different tools are being designed to facilitate the migration to TARGET2, e.g. the national migration profiles and ancillary system profiles, operational workshops, registration and changeover procedures.

6. Conclusions

Since it was launch, TARGET has made a significant contribution to the integration of the financial markets in Europe by providing its user with a uniform payment and settlement infrastructure. Given the wide ranges that TARGET 2 will offer, the Eurosystem expects to see even greater progress once the transition to the new system is complete.

TARGET 2 will contribute to the harmonization of the business practices of its user and can therefore be seen as a stimulus for further consolidation. Moreover, TARGET 2, is expected to help consolidate the internal process such as treasury and back office functions and promote the harmonization of the ancillary systems interfaces throughout Europe.

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THE DURABLE CREDITING AND THE MANAGEMENT OF CAPITALIZATION

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Summary: Undercapitalization and undercrediting of the national economy in the period of transition to the market economy necessarily requires the strengthening of the role of credit as a genuine factor of growth and increase of the productive capitals. The financing of the capitalization process becomes more valuable in the present stage of our country development, imposing itself as an objective need. It is thus compulsive to define a new concept in the speciality literature, namely the concept of "durable crediting" according to which the credit must have as a main goal the capitalization of the national economy which, in its turn could constitute an essential condition for a durable future crediting. The starting point in supporting and defining this concept underlines the importance of the capital in all economic processes.

Key words: durable crediting, capitalization, capital suitability, management of capitalization,

1. Introduction

Le parcours de l'actuelle étape de développement de l'économie roumaine doit affronter à des réalités cruelles dont la compréhension et le dépassement ne peuvent pas être possibles sans la réorientation des politiques à l'égard du capital. De cette façon il s'impose que le processus de capitalisation soit traité avec priorité dans les conditions où l'économie roumaine est à présent déficitaire en ce qui concerne le niveau du capital entraîné dans les processus économiques productifs[9].

Dans le plan mondial de nombreuses revues de grande circulation internationale[2] (quottées ISI) accordent des espaces pour les articles qui traitent le problème de la capitalisation du secteur bancaire et du milieu des affaires. Parmi celles-ci on rappelle: Journal of Money Credit and Banking (U.S.A), Journal of Finance (Oxford), Journal of Banking & Finance (Amsterdam). Dans la revue Journal of Money Credit and Banking on a publié en novembre 2007 l'article des auteurs Valeriya Dinger et Jurgen von Hagen intitulé *Does Interbank Borrowing Reduce Bank Risk*. Ceux-ci font un analyse empirique des banques des pays de l'Europe Centrale et de l'Est, y compris la Roumanie, en concluant qu'il s'impose urgemment une massive recapitalisation de celles-ci[4].

Pour cela une meilleure implication du marché financier est nécessaire pour la constitution, l'augmentation mais aussi pour la protection des capitaux. En ce sens on a essayé de lancer d'autres concepts - "la capitalisation de sécurité" et "la capitalisation but"[7]. La capitalisation de sécurité permet aux banques d'affronter les retraits de dépôts à n'importe quel moment, en posant de problèmes seulement du point de vue de ses coûts. La politique de la capitalisation de sécurité sera influencée par des facteurs tels la rate d'intérêt, l'insécurité du flux de dépôts, l'intérêt de référence de la Banque Nationale de la Roumanie ainsi de suite. La capitalisation but présuppose, selon notre conception, une augmentation des capitaux à travers l'attirance des fonds du marché primaire de capital suivie, après une période, par l'accroissement de la valeur de marché des entreprises sur le marché secondaire.

La qualité du processus de crédit constitue un deuxième aspect majeur dans le processus de capitalisation bancaire[3]. Plus le portefeuille de crédits est plus important, plus le processus de capitalisation se déroule de manière plus accélérée et à long terme[6]. La reconsidération de la catégorie de crédits non performants est nécessaire aussi, au sens de l'élargissement de celle-ci et de la compréhension dans le contenu d'autres catégories de crédits, à côté de ceux situés hors le bilan.

La méconnaissance des thérapies basée sur le crédit mais aussi la faible implication des marchés financiers et des institutions financières bancaires dans le processus de capitalisation ont constitué des éléments qui ont freiné l'accroissement économique et implicitement le développement plus rapide de notre pays après 1989.

La privatisation, la restructuration, le système de crédit, la politique fiscale, doivent encourager la constitution et la consolidation des capitaux – facteur de production, qui se trouvent à la disposition des entreprises, mais surtout l'augmentation de l'intérêt pour la capitalisation au détriment de la satisfaction des besoins personnels des propriétaires de capitaux.

Le processus de capitalisation de l'économie roumaine ne peut pas être conçu sans l'existence correspondante des ressources de financement. Les problèmes avec lesquels se confronte l'économie nationale et de la résolution desquels dépend l'atteinte des objectifs dans le processus de consolidation de l'économie de marché et de l'accroissement de la prospérité économique, peuvent être dépassés seulement à travers une capitalisation correspondante de tous les secteurs d'activité.

2. Les crédits non performants et la double décapitalisation de l'économie nationale

Les crédits non performants sont associés dans la pratique bancaire de la Roumanie aux crédits non remboursés, mis en évidence hors du bilan des banques et pour lesquels on a commencé la procédure d'exécution forcée. Ce catalogage est étroit et nocif, d'autant plus que les crédits non performants provoquent une double décapitalisation de l'économie nationale, soit au niveau des banques qu'au niveau des agents économiques.

Vu les effets extrêmement négatifs des crédits non performants sur l'économie nationale, il s'impose une reconsidération immédiate de ceux-ci.

Premièrement, pour l'économie nationale, un crédit non performant est aussi celui, qui, bien qu'il fût remboursé, a provoqué de graves déséquilibres dans l'activité des agents économiques, à travers l'utilisation non correspondante et nocive grâce à plusieurs causes :

- le désir des managers des sociétés commerciales d'obtenir, à tout prix, un crédit bancaire, sans avoir la dimension correcte du marché et le potentiel de la firme concernant l'augmentation des dépenses imposées par un éventuel accroissement du chiffre d'affaire,
- la réalisation de quelques importations d'outillages et d'installations à crédits ou par l'intermédiaire des lettres de garantie bancaire qui, après le montage et la mise en œuvre n'ont jamais atteint les capacités projetées,
- le financement des investissements à crédits à court terme, les managers préférant cette combinaison inefficiente à cause des pratiques rigoureuses exigées par les crédits d'investissements (plan d'affaires, étude de faisabilité, la projection des sources de remboursement, la constitution du cash-flow à long terme), ayant une fausse dimension et supra sollicitant le potentiel des autres affaires du groupe qui devait supporter les coûts et les remboursements des crédits,
- l'utilisation des crédits dans des buts personnels, pour le payement des dividendes, des sponsorisations etc.

De manière concrète, les déséquilibres générés aussi que l'aggravation des performances financières se sont manifestés à travers l'accroissement de la perte enregistrée au niveau du résultat financier à cause de l'augmentation des dépenses et des intérêts; l'augmentation des dépenses d'exploitation liées à la mise en œuvre des outillages, sans augmenter aussi les revenus de l'exploitation de façon correspondante ; l'accroissement continu du fonds de roulement en sens négatif suite du financement des investissements des sources à court terme; la diminution du chiffre d'affaires; la perte de certains fournisseurs à cause de l'arrière enregistrée à l'égard de ceux-ci. Finalement, ces causes ont conduit à l'enregistrement des pertes du total de l'activité et implicitement à la décapitalisation des agents économiques.

Deuxièmement, on a démontré - en pratique - le fait qu'au niveau des banques non seulement les crédits tirés hors du bilan génèrent l'augmentation des dépenses et l'obtention des pertes, mais aussi les crédits vieux et mal gérés, qui consistent à la maintenance et au prolongement successif des lignes de crédit du portefeuille des banques, pour lesquelles les sociétés commerciales ont payé seulement des intérêts, sans rembourser rien du crédit proprement dit; l'échéance et le rééchelonnement successif des crédits par objet, qui a permis la transformation de certains crédits à court terme en crédits à long terme; la transformation d'une catégorie de crédit dans une autre catégorie de crédit; l'accord de crédits pour le remboursement d'autres par la même banque ou par des banques différentes.

Par la suite, la décapitalisation produite au niveau des banques a été générée par les suivantes causes:

- la création de commissions spécifiques de risque de crédit et d'intérêt,
- l'augmentation des dépenses concernant les intérêts pour les sources attirées qui devaient réaliser les placements non profitables,
- la diminution de la confiance de la population dans la banque dans les conditions où un crédit non performant a été médiatisé,
- l'aggravation de l'image de la banque dans les milieux internationaux dans le cas où les crédits non performants sont provenus de l'exécution d'une lettre de garantie ou de la garantie de certains billets d'ordre,
- le vieillissement du portefeuille de crédits, qui a privé les banques de la possibilité du crédit d'un groupe d'agents économiques des secteurs plus profitables et en vertu duquel les banques se sont créées des stratégies pour le futur,
- la diminution des sources de crédit qui produisent profit, étant connu le fait qu'en pratique les coûts d'un crédit non performant sont couverts par le déroulement d'un volume de crédits performants plus grand,
- l'enregistrement de certains revenus des intérêts de manière artificielle, soumis à l'impôt;
- la réduction des liquidités pronostiquée, à cause du fait que les intérêts ne sont pas payés à échéance.

Du point de vue macroéconomique, la décapitalisation de l'économie nationale soit au niveau des banques soit au niveau des agents économiques a généré des dérèglements monétaires, un blocage financier, et la limitation de l'activité de commerce extérieur. La reconsidération de cette catégorie de crédits a eu comme point de départ, il est juste un peu tard, la Banque Nationale qui, par l'intermédiaire des règlements émis, peut contribuer décisivement à réduire les effets négatifs de ceux-ci.

3. Le crédit durable – cause et effet dans le processus de capitalisation de l'économie roumaine

L'introduction par la Banque Nationale de la Roumanie du règlement no.5/2002 concernant la classification des crédits et des placements, aussi que la constitution, le régularisation et l'utilisation des commissions spécifiques de risque de crédit, constituera assurément le commencement de la transposition et en pratique du concept de crédit durable qu'on essaie de lancer et de définir distinctement dans la littérature de spécialité.

Du point de vue du concept de crédit durable, l'accord de crédits doit avoir comme but la capitalisation des agents économiques. Le règlement no.5/2002 ne doit pas être interprété du point de vue de la diminution ou de l'extension de l'activité de crédit mais du point de vue de la qualité des portefeuilles, qui, détermineront à la fin la capitalisation des agents économiques, des banques et de l'entière économie nationale.

Le crédit durable deviendra dans ces conditions une cause de la capitalisation de l'économie nationale, la qualité du portefeuille de crédits jouant un rôle important dans l'accélération du processus de capitalisation ou même d'intégration européenne.

Plus le portefeuille de crédits est plus performant plus le système bancaire est plus sûr et peut contribuer grâce à l'augmentation des capitaux à la réalisation des objectifs pas à pas dans le processus de capitalisation[1].

Pour constituer une cause de la capitalisation, il n'est pas suffisamment que la performance économique et financière des agents économiques soit déterminée strictement en conformité avec les règlements introduits. L'analyse économique et financière doit mettre l'accent aussi sur l'état des indicateurs après l'accord du crédit, vu que, à travers l'accroissement des dettes en même temps avec la valeur du crédit, la liquidité, la solvabilité et le degré de débit s'aggravent. Ainsi, la performance devient-elle un concept qui contient en même mesure aussi des anciennes informations mais aussi des données à caractère de pronostique. Dans ces conditions, le calcul des principaux indicateurs de l'analyse des crédits devrait tenir compte aussi de la valeur des crédits pour lesquels on fait l'analyse en question.

L'introduction dans le calcul des indicateurs du volume des crédits qui sont sollicités par les débiteurs mène à la réduction du risque à l'égard de l'apparition de certains crédits non performants. En même temps ce mode de calcul devrait changer les conceptions incorrectes de certains fonctionnaires de banque conformément auxquels les crédits sont accordés lorsque le client "va bien ", mais aussi de certains managers de firme conformément auxquels les crédits sont accordés lorsque le client "va mal ".

A son tour, la capitalisation de l'économie nationale constituera une cause du crédit durable. Cette conclusion est fondée premièrement sur le mode de conception des actes normatifs en vigueur, qui imposent un niveau correspondant minimum des capitaux autant pour les institutions bancaires que pour les agents économiques qui participent au marché du crédit. Deuxièmement, l'augmentation des capitaux des participants au marché du crédit permettra aussi la réorientation des politiques de crédit des banques vers d'autres segments de marché moins crédités jusqu'à présent, tout comme l'accès plus rapide vers le crédit des agents économiques et en spécial vers des produits de crédit qui correspondent mieux aux nécessités de financement.

Employés dans le but de l'augmentation des capitaux, les crédits viseront dans une première étape l'assurance des équilibres financiers au niveau de l'activité d'investissements[8] (le fonds de roulement) et, au niveau de l'activité courante (le nécessaire pour le fonds de roulement). Dans la situation où le fonds de roulement est négatif à cause de l'accroissement des actifs immobilisés outre les capitaux à long terme, il s'impose une capitalisation urgente de l'agent économique et la contraction de crédits à long terme avec des périodes de grâces convenables permettra l'accroissement des actifs immobilisés de sources correspondantes. Si les actifs qui circulent sont plus petits que les dettes à court terme, il en résulte un nécessaire de fonds de roulement négatif, qui, s'il ne peut pas être couvert avec le surplus résulté au niveau de l'activité d'investissements (fonds de roulement positif), doit être réalisé des crédits bancaires à court terme.

Pour que la relation d'interdépendance entre les capitaux et le crédit devienne plus concrète, un rôle important jouera à l'avenir la structure financière ou la structure des capitaux. Le crédit constituera une cause de la capitalisation de l'économie nationale à condition que le financement des capitaux à structure soit fait des sources correspondantes, dans le sens que les investissements doivent être réalisés de sources à long terme et les activités d'exploitation des crédits à court terme, n'étant pas permis le transfert de la source de financement de l'activité d'exploitation à l'activité d'investissements.

L'augmentation des capitaux dans le cadre de la structure financière implique, à son tour, aussi l'accroissement correspondant des sources de financement, dans les conditions actuelles de l'économie nationale étant préférée une pondération plus grande des capitaux prêtés à la structure des capitaux[5]. L'augmentation des capitaux prêtés représente un pas important dans la mise en évidence du concept de crédit durable vu le fait que dans la théorie économique et financière aussi l'on a constaté du point de vue mathématique que si la rate de l'intérêt est plus basse que la rentabilité économique de la firme, l'augmentation du degré de débit a un effet bénéfique sur la valeur de la rentabilité financière.

Le concept de crédit durable ne sous-estime pas le rôle des autres éléments économiques et financiers, l'un d'eux étant la rentabilité économique, qui, si elle est plus basse que la rate de l'intérêt pour les crédits, alors le crédit a un effet négatif sur l'activité économique et financière, menant à la réduction de la rentabilité financière des agents économiques.

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BANK GUARANTEES IN THE DEVELOPMENT OF COMMERCIAL RELATIONSHIP BETWEEN ROMANIA AND EUROPEAN UNION

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Summary: In the context of European integration, the development of economical and commercial changes between Romania and European states must be sustained especially by bank system. The apparition of Romanian companies on European markets, the developments of imports and the common realization of some productivity objectives are impossible without the guarantees offered by the bank system. Because of emission guarantee letters in the name and the count of the clients, the banks assure practically the unrolling of transactions without an effective finance, assuming an entire risk which results from the encroaching upon the obligation of the contract between partners. The guarantee interferes just in the moment of participating to auction about the contracting of different works or about the realization of some imports and it is ending with the final act of using the goods by the beneficiaries.

Key words: guarantee bank letters, extra-balance sheets engagements, downstream, executing guarantees, provisions

1. The Extra-Balance Sheets Engagements in the Process of Capitalization

The extra-balance sheets play a very important role in the banking process of capitalization. Bank practice demonstrates that sometimes they are made with superficiality and from this reason we have negative consequences upon the stability of the bank system. So, we must insist on the implications of these in bank activity because the fundamental extra-balance sheets about we will talk about are structured like in table no 1.

The extra-balance sheets with function of assets are those engagements that banks must afford at any time from their own treasury. The most used extra-balance sheets with function of assets are:

- the limit of bank credits approved by the banks. After the approvement of the bank its value is recorded in the accounting of the bank in an extra-sheet count until the clients use effectively his money according to the objective of the contract. When the client use it the sum is recorded in balance sheet being simultaneously deleted from the extra-sheet evidence;
- guarantee bank letters and downstream. This are engagements assumed by banks in the name of clients, so that the banks will sums of money in the future to the purveyor and to creditors of the clients in the conditions in which the last of them will carry out their contractual obligations (downstream) or the conditions in which the client of the bank don't carry out their contractual obligations (guarantee bank letters).

Elements of Assets	Elements of Passive
901 Engagements favorable to other banks	**902** Engagements received from other banks
903 Engagements favorable to clients	**904** Engagements received from financial clients

9031 Opening the conforming credits	**912** Bails, downstream and other guarantees received from other banks
9032 Acceptance and engagements for pay	**914** Guarantees bring by clients
9039 Other engagements favorable to other banks	9141 Guarantees received from public administrative institutions
911 Bails, downstream and other guarantees gave from other banks	9142 Guarantees received from assurance companies
9111 Confirms of opening documentary credits	9143 Guarantees received from financial clients
9112 Paying acceptance	9144 Immovable mortgage
9119 Other guarantees gave to other banks	9145 Pledges with dispossessing
913 Guarantees gave for clients	9146 Pledges without dispossessing
9131 Bails, downstream and other guarantees	9149 Other guarantees received from clients
9139 Other guarantees gave for clients	

Table no.1 Extra-Balance Sheets Engagements

As much as these extra-balance sheets engagements remain recorded in extra-balance sheets evidence as a results of the fact that the people that solicit finance do not use it or they do not carry out the contractual obligations, in practice they do not give the proper attention and the legislation does not include the obligatory classification of those as in the case of balance-sheet credits, it does not include the obligation of making provisions.

For the banking activity, these extra-balance sheets with the accounting asset function represent "late effect bombs" of which explosion may lead to fast decapitalization. An example in this sense is given by Bancorex, of which downfall because obtaining losses was attenuated as implications over the banking system in some measures like: passing under special administration on a limited period of time, taking unprofessional by the The Authority of Turning Accounts of Banking Assets, the deposits transfer of natural persons towards BCR. The Government Ordinance nr. 39/1999 approved closing Bancorex by letting it be overtaken by BCR with all the assets and passives remained, including the extra-balance sheets elements and concrete obligations.

In 10th of December 1999 The Minister of Public Finance has emitted a guarantee in the favor of BCR by which it was covered any obligation that appeared before concerning the extra-balance sheets engagements taken from Bancorex. The debt limit was of 58 billion lei for the sums expressed in lei and 324 million dollars for the sums expressed in foreign currency. The overtaking of Bancorex by BCR would not be possible without the existence of this kind of guarantee, because the obligations BCR would have to face in the future as a following of the extra-balance sheets engagements could have destabilized even the biggest bank, with disaster effects over the Romanian banking system.

The classification of extra-balance sheets engagements of asset presented in the period 2000-2004 in conformation to table nr. 2.

Billions of lei

Anul	Total	Standard	In observation	Substandard	Doubtful	Loss
2000	34936,7	34321,5	36,5	126,4	216,4	236,0
2001	48571,4	48358,8	44,7	5,9	5,4	156,6
2002	75063,5	74758,0	12,5	182,2	1,7	109,0
2003	99882,2	68733,0	23596,2	4203,4	373,4	2976,2
2004	135316,1	91390,8	36454,3	3701,8	489,5	3279,7

Source: Annual report of BNR 2004, p.293

Table no. 2 Exposure of elements outside the balance-sheet on which are constituted supplies 2000-2004

As rate of total extra-balance sheets the situation is presented as in figure nr. 1

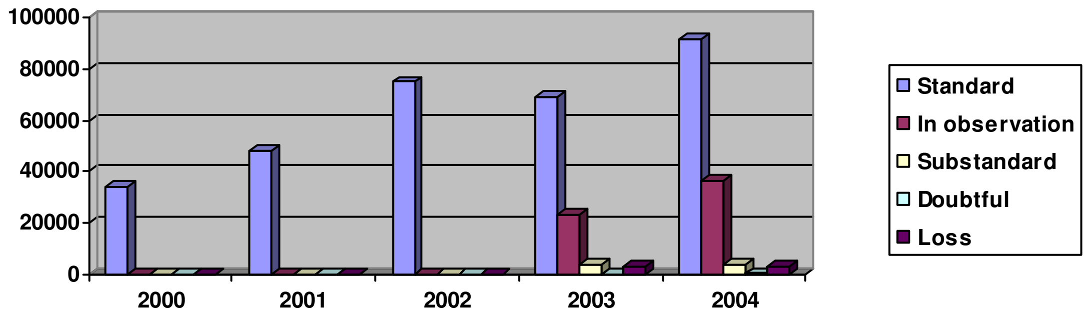

Fig. nr. 1 The structure of the extra-balance sheets quality 2000-2004

(Source: Annual report of BNR 2004, p.293)

Classifying the extra-balance sheets of asset are presented in the 2005-2007 period in conformation to table nr. 3

Millions of lei (RON)

Year	Total	Standard	In observation	Substandard	Doubtful	Loss
2005	19577,8	14339,0	4309,0	499,0	52,7	378,1
2006	29968,6	20048,4	7747,7	1001,4	81,2	1089,9
2007	43140,6	29094,6	10978,4	1783,6	274,6	1009,4

Source: Monthly bulletin of BNR at the date of 31.12.2006 and 31.01.2008

Table nr.3 Exposure of elements outside the extra-balance sheets for which there aren't constituted supplies 2005-2007

As total rate of extra-balance sheets in the situation presented in figure nr. 2

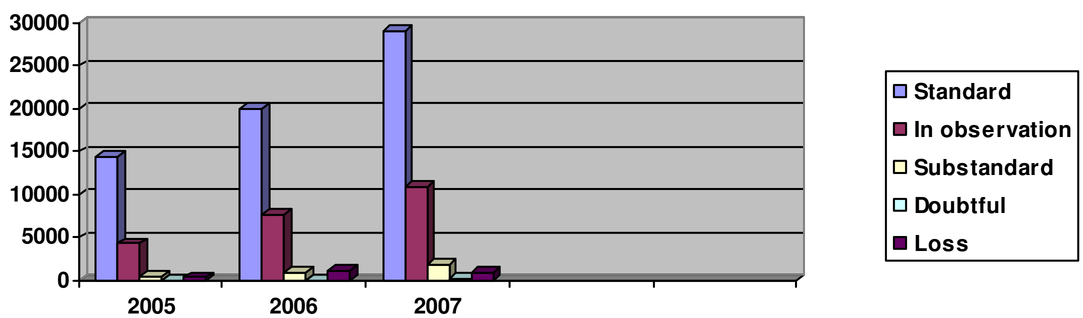

Fig. nr. 2 The extra-balance sheets quality structure 2005-2007

(Source: Monthly bulletin of BNR at the date of 31.12.2006 and 31.01.2008)

Although the standard category occupies the biggest rate, we consider that it is benefic the constitution of reserves for the engagements that are classified in the loss category. In this way we can avoid a decapitalization provoked by the balance-sheet of these sums.

2. Developing the commercial transactions using the bank guarantee letters

About negatively influencing in a smaller measure the banks treasury it is imposed to use on a wider scale extra-balance sheets. For this, a financing model of a transaction of import export[259] based only on bank guarantee letters would have the following steps:

- Transmitting the offer along with the guarantee letter of participation to the auction emitted by the importer or by the exporter bank, depending on who organizes the auction,
- Signing the commercial contract with the special clauses concerning emitting letters of guarantee of advance restitution, of payment, of good execution and of good functionality;
- The exporter commands its bank to emit guarantee letters of advance restitution,
- The guarantee letter of advance restitution emission and transmission over the banking channel to the importer,
- Paying the advance in the exporter's account stipulated by the advance restitution guarantee,
- The exporter commands its bank to emit the guarantee letter of good execution,
- The emission and transmission on bank channel of the guarantee letter of good execution,
- The importer orders the emission of the payment guarantee letter,
- The emission and transmission on banking channel of the payment guarantee letter,
- Delivering the merchandise or performing the service,
- The exporter orders the emission of the guarantee letter of good functionality,
- Emitting and transmitting on bank channel the good functionality guarantee letter.

Transmitting the guarantee letters on banking channel is done for verifying the authentic signatures of the emitting bank. In these conditions, every letter of guarantee must have a clause of identification conforming to which the guarantee letter execution request must come from the emitting bank by a bank of first rank.

We will forward present some advantages and characteristics of using these types of extra-balance sheets engagements.

The guarantee letter of participating to the auction guarantees the good intentions of the tendered and it is deposed to the beneficiary along with the offer. The emitting bank will pay the sums foreseen when the tendered is on one of the following situations: revokes the offer after opening it and before adjudication; revokes the offer after adjudication; being the winner of the auction, does not sign the acquisition contract in the term of availability of the offer; being the winner of the auction, does not constitute the guarantee of good execution[260].

The guarantee value is settled usually as a percent of the merchandise value (up to 10%) and the availability may reach even 6 months. Once passing over the terms of evaluation of the offers there can appear also the first risks for the tendered (the price risk and the market product risk).

The guarantee letter of advance restitution guarantees returning the advance received by the exporter, transforming it in a real financing instrument. This affirmation is as realist as can be as long as the advance received is used depending on the transaction object for prepare payments for the export or launching some new lots of products in fabrication. The clause of entering in availability must be conditioned by the effective receiving of advance in the exporter's account opened at the emitting bank. The reducing clause will mention that the guarantee value is diminished with a percent cote from the value of every delivery, cote equal with the one from the advantages. In this case the guarantee availability automatically contains automatically the whole delivering period.

In practice there have been met some cases in which taking profit from the lack of experience of the importer concerning guarantees, it was mentioned in the guarantee that the guarantee value is reduced with the value of the delivered merchandise. The guaranteed value will be equal with the advance guarantee but it will be also introduced the mentioning of interest payment calculated from the advance delivering date and until the payment date in execution of the guarantee.

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[259] Ilie Dragoş, *Durable Creditation*, Publishing-House Sitech, Craiova, 2005, p.167

[260] Negruş Mariana, *International payments and guarantees*, Publishing-House ALL, Bucharest, 1996, p. 305-306

The payment guarantee letter is requested in the commercial transactions of our country with the foreign countries as long as the Romanian companies are not known on the European markets and still find suspicious their goodness and seriousness. The purpose of the payment guarantee letter was understood wrongly by the patronages of the Romanian companies, who by their attitude they had at executing them they have considered that it is more like a payment instrument. And so, there have been registered arrears in paying the contractual sums and the banks have paid from their own treasury.

Executing a guarantee creates a negative image to the emitting bank in the corresponding banks round. The entering in availability clause must be conditioned in the merchandise delivering moment or when fulfilling the services, in which situation the presentation of the execution request of the guarantee must be presented and the documents to attest the merchandise delivery or fulfilling services.

In practice, there are met more and more cases when the guarantee is unconditioned by the presentation of export documents, situation in which exists the risk of executing the guarantee letter without the guarantee beneficiary to have delivered the merchandise or fulfill the service. This situation appears in the international practice concerning protecting the guarantee beneficiaries for the eventual stoppers put by the banks from countries with a higher risk in the process of their execution.

The guarantee letter for the good execution is solicited by the importer as long as at its turn has ordered its own bank to emit the payment guarantee letter in the exporter's favor. This way the importing company is sure that the export will fulfill its contractual obligations in the quantum and terms stipulated in the commercial export contract. Usually the guarantee value is in 10% of the commercial contract and its availability covers the time of the contract's execution.

The guarantee letter of good functionality covers the risks with which the importer may confront after delivering the merchandise, that being: products that may not correspond qualitatively or a defect service from the exporter at the products for which it is accorded a period of guarantee. The importers will negotiate as much as possible the emission of a technical guarantee as much as the intern market that will absorb the respective products refuses the weak quality products and with the guarantee periods unsatisfying. The guarantee availability will cover integrally the technical guarantee which the importer accords to the products offered before towards selling on the intern market.

3. Conclusions

Emitting the letters of guarantee by the banks is done after a rigorous analysis the same as in the case of the credits. For avoiding the elaboration of some multiple documents of constitution of guarantees of materials for every letter of guarantee, it is imposed that the banks finish accords of guarantee with their customers for emitting more guarantee letters in the frame of an approved plan. In this case the operation of the emission grows more and the costs of emission go lower, the clients having a real advantage for developing their relations with the exterior.

In the crediting activity, in the future the banks must orient over the guarantees on the business plans, the phase-ability or the company guarantee. Only this way the capitalization process can be developed and the activity of crediting will not be strictly conditioned by the existence of a cover of material goods at the level of national economy.

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THE RELATIONSHIP BETWEEN THE BANKING LEGAL ENVIRONMENT CHARACTERISTICS AND BANKING RISK MANAGEMENT ACTIVITIES

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Abstract: The role of the financial intermediaries such as banks is that to channel savings towards investors. In a modern economy banks do this by maintaining a delicate balance between risk taking and risk management. Our goal here is to examine ***the relationship between bank risk taking and risk management activities and the quality of the legal environment****. Examining this relation is interesting because theoretical studies in this direction are ambiguous and this can be proved by considering the role of the collateral, a very widely spread and widely used risk amelioration mechanism.*

Keywords: banking legal environment, risk management, transition economies

The banking field of the countries in transition remarkably developed in the last 15 years. The bank activity from most countries in transition actually exceeded the specific trauma of transition. Therefore, the banks of these countries are very much alike those of anywhere else at the beginning of the 21st century.

A surprisingly great number of studies that provided information about bank performances were carried out, but not many things about their position about assuming risks and the way in which this is influenced by the bank environment are known. The institutional area of a country differs a lot from that of all the others. Berger and Udell (2002) [1.], Berger et al. (2001) [2.] and Haselmann and Wachtel (2006) [3.] proved that banks differently react according to the existing institutional regime. Berger and Udell (2002), for example, found out that banks are more willing to offer finance to debtors they do not hold insufficient information about into a better legal system. That is to say, if reliable guarantee regulations do exist, the banks will grant credits to risky debtors even though they do not have sufficient information, such as, financial statement or statement of account. From this point of view, the improvement in the bank legislative area is associated to a high level of risk assumed by the banks.

The bank activity of the countries in transition has rapidly got over four different stages (see Bonin and Wachtel 2003) [4.]. The first stage of bank development for the economies in transition meant the setting up of banking institutions at the beginning of the 90's. During the planned economy era – mostly unknown -, the only existing financial institutions were appendix for the state mechanism and bank activity, in the contemporary sense of the word. The commercial banks were separated from the payment central banking system. Anyway, the role of these institutions was mostly unchanged. The state banks financed state enterprises, quickly becoming insolvent. The second stage of the banking transition process consisted of banking crashes and systemic crisis that affected in a negative way all economies in transition after 1990 (see Bonim and Wachtel 2005) [5.]. The third stage consisted of a long process of reorganization by privatization and the intermission of foreign banks. Most banks were private property and the foreign banks dominated the bank activity in the countries in transition at the end of the century. The forth stage brings us to the present moment. In most economies in transition banks are safe, competitive and adequately regulated institutions. The bank activity from the period of transition left aside any kind of track from the period of the planned economy. The research made in the field of the transition economy is exhaustive and the problems about risk assuming and administration still remain with no kind of investigation. The first studies about the bank activity in the transition period were focused on the bank institutions creation and structure (see Corbet and Mayer 1992 [6.], Udell and Wachtel, 1995 [7.]). Accordingly as the transition process developed, the research interest focused on the bank performances and the bank activity efficiency later on. Recent studies approached the bank crises, the processes of reorganization and privatization that marked the transition period. Haas and Lelyveld (2006) [8.] and Haselmann (2006) [9.] finally focused on the consequences the foreign banks intermission brought upon the bank sector stability. The studies concerning the risk management carried out by the banks in the economies in transition are rare because the information about specific bank activities is very limited.

Kager (2002) [10.] focuses especially on banks at individual level and pointed out that the non-performance credit problem persists in many banks having economies in transition, Romania included. In Haselman and Wachtel's work (2007) [11] the three following points resume their discovering: 1. Certain bank groups differ at the risk level; for example, the foreign banks from the European Union and the big ones disclose a less probable loss by comparison with their competitors. Still, they are not but slight differences that are generally statistically insignificant and this issue reveals the fact that the bank markets are relatively homogeneous and no groups of banks that can take excessive risks may be identified. 2. They did not find out a clear connection between the risk taking activity by the banks and their legislative environment. Their discovering still reveals the fact that the banks that carry out their activity in a less secure institutional area retain more capital and assume themselves less credit risk. 3. The banks that take on more risk administrate it by the setting up, for example, different risk administration departments or obtaining information about the borrowers. These banks also have the tendency to retain more capital.

Nevertheless, banks adapt themselves to the area in which they operate by adapting their own capital. Haselmann and Wachtel (2007) [11.] pointed out that the differences at the legal environment level alter the credit portfolio composition. The banks do not have comprehensive information at their disposal when they engage themselves in a crediting process because the debtors are aware of the risk of their investment project. There are still some stipulations that may be included by the banks in their credit contracts for combating with the lack of information. Bester (1985) [12.] pointed out that the pledge may serve as warning instruments, taking into account the fact that the true risk degree is revealed by the guarantee size that the debtors are willing to produce. A good legislation to regulate the system of pledge and appropriate institutions to apply it are necessary for efficient warning instruments such the guarantee to exist. A growing reliability of the law and the agreements concerning the guarantee system may lead to the development of the guarantee employment for combating with the insufficiency of information and the generalized risk reduction. A debtor may use the same goods as pledge for different credit contracts or decline its handing in case of debt redemption impossibility in a poor regulated environment. A more developed institutional environment is associated with a greater availability to use the guaranteed credits and an intense credit activity in this respect. This is accordingly with the data from the juridical and financial literature that indicates a positive connection between the rights of the creditors and the credit market development. (La Porta, et al., 1997, 1998). [13], [14.].

The guarantees are the juridical means that give to the titular creditors either priority to other creditors concerning the unwilling pursuit of specific assets from the debtor's fortune or the possibility to unwillingly pursue another person that obliged himself together with the debtor. The essential function of the guarantees is to diminish or eliminate the loss risk the creditor takes from debtor's insolvency. The concept of guarantee is defined neither by the Romanian civil or commercial legislation, nor by those of the other countries, and general dispositions applicable to any forms of warrant do not exist either. Only different types of guarantees are regulated and there are special stipulations specific to certain types of warrant. This legislative gap was completed by the juridical literature and different opinions about the concept of guarantee that have been stated [15.] **We mention that no studies about guaranty legislation and the quality of the legislation assessment means have been done in Romania in the field of bank perception**.

The Basel Agreement II or, as it is also called, The International Convergence of Capital Measurement and Capital Standards – a Revised Framework, has been finalized and signed by the Basel Committee in 2005 and progressively implemented by the countries from the European Union from the 1st of January 2007 (with certain impairment of the advanced methods of risk evaluation that had to be applied up to the 1st of January 2008) [16]. The Agreement itself is not compulsory either for the countries that are members of The Basel Committee or other states. The stipulations of the Agreement in Europe are taken over by European Directives obligatory to transpose in the national legislation of the states that are members by virtue of understandings of the gentlemen agreement type. It is the situation of the Directive known as the capital Adequacy Directive. Capital Requirements Directive CRD published in the Official Journal of the European Union on the 30th of June 2006 actually represents a combination of two Directives: The Directive 2006/48/EC concerning the setting up and development of the credit institutions activity (revised [17]) and the Directive 2006/49/EC about the investment societies and credit institutions capital adequacy (revised [18]). Romania, as member of the European Union, has to apply the European Directives stipulations according to the Basel Agreement II. A new package of normative documents in the domain of bank capital adequacy (The Government's Urgency Decree no. 99/2006 regarding credit institutions and capital adequacy, subsequently approved, in 2007, by the Law no. 227; The Order no.12/2007 of the National Bank of Romania regarding the reference of the minimal capital requirements to credit institutions; The Regulation of the National Bank of Romania and Romanian National Securities Commission RNSC no. 22/27/2006 regarding the credit institution and investment firms capital adequacy; the Regulation of the National Bank of Romania and RNSC no. 18/23/2006 regarding private funds of credit institutions and investment firms; the Regulation of the National Bank of Romania and RNSC no. 13/18/2006 regarding the fixation of capital requirements for credit institutions and investment firms) was adopted in the context of the preliminary training of the Romanian banking system for the process of implementation of the Basel II Agreement stipulations in Romania. The concept of capital adequacy is therefore present in our country, too, but in the first years of development of the Romanian banking system, the specific legislation made references to the capital requirements only (art. 40-43 of the Banking Law no. 58/1998 which in the present is abrogated) and the same concept was taken over by the national regulations (for example: the Government's Emergency Ordinance no. 99/2006 regarding credit institutions and capital adequacy) only when the Basel II Agreement has been implemented. The reference formula elaborated by the Bank Supervisors Committee from CEBS Europe that represent instruments necessary for bank supervising according to Basel II have been taken over and adapted for the Romanian banking system. It is about the Common solvency ratio REPorting framework that we are talking about. They were transposed at the individual level and consolidated through the Order of The National Bank of Romania no. 12/2007 regarding the reference of the capital minimal requirements for credit institutions and the FINancial REPorting stipulations that were transposed at individual level and consolidated by the Orders of the National Bank of Romania no.6/2007 and 13/2007 regarding the financial situation of credit institutions according to The International Standards of Financial Report. The references of the COREP type that commercial banks carry out at the National Bank of Romania stipulate the transmission of information that certifies if the credit institutions do respect the prudential requirements regarding the proper funds and capital requirements, credit risk, market risk and the operational one at individual level as well as the consolidated one. The references of the FINREP type represent an important intermediary between the bookkeeping information and the prudential one as well as an instrument used by the supervisors for checking the prudential information.

The national legislation according to the Basel Agreement II suggests two alternatives concerning the **credit risk** evaluation: - *the standard method*, according to which the capital requirements are calculated having in view the debtor's type and rating and allows the possibility of determining the credit quality also by using the evaluations made by institutions of credit external evaluation, - *the internal models*, having two possibilities: basic and advanced internal models that give to the bank the possibility for risk evaluation according to the specific features of each disposal. The risk weight and the capital that is due to it are determined by quantitative entrance combinations provided by credit institutions and formula specified in the Agreement based on modern risk management techniques that involve statistic evaluations. Regarding to the **market risk**, the national legislation according to the Basel II Agreement suggests two measurement alternatives of the interest rate risk, the share price risk , the currency circulation risk, the wares price risk and the transaction of options risk for market risk evaluation: - *the standard method* mesures these components of the market risk by applying weights upon the positions in the transactional portfolio that is held for determining the losses in and extra balance positions owing to the inauspicious fluctuations of the market prices. – *the internal methods* permit us to fix the market risk by using the VAR Calue at Risk models on the basis of a set of quantitative and qualitative criteria and stress testing rigorous programs. The national legislation according to the Basel II Agreement suggests three measurement alternatives for **operational risk** evaluation: - the basis indicator approach, in which a single risk indicator of 15% is used at the level of a bank in order to calculate the capital requirements on the basis of a fix percentage of 15% from the annual average income registered in the last three years. – the standard approach that implies the grouping of the bank activities into eight groups and the proper funds requirement is determined separately for each category by applying a specific coefficient between 12-18% upon the gross proceeds from the last three years. – the advanced evaluation approach, where the capital requirements are calculated on the basis of the internal data of the banks regarding the operational loss through methodologies, as well as those of income volatility, those based on assets evaluation, parametrical models etc.

The European Commission adopted the **THE WHITE BOOK regarding the European Union mortgage credit market** integration on the 18^{th} of December 2007. The following situation is presented in the document: the financial services providers may offer Trans- frontier mortgage credits in different ways: by their local presence (e.g. branches, subsidiaries, fusions and acquisitions); direct distribution channels (e.g.: by phone or internet); or local intermediaries (e.g. brokers). The financial service providers may also engage into trans-frontier activities through mortgage portfolios acquisition from a mortgage creditor in a different state member. The differences of juridical order, the existence of fragmentized structures (for example, credit registers), as well as the lack of an appropriate juridical framework in certain aspects (for example, for mortgage financing) creates juridical and economic obstacles that restrict the trans-frontier loans and hinder the development of the pan-European strategies capable of financing. That is why the European Commission tries to eliminate the disproportioned obstacles in order to reduce the sale cost of mortgage products in the European Union. The impact study that encloses the present White Book suggests that a new legislation would signify the most adequate option of policy for accomplishing the established objectives in certain domains, but the European Commission believes that new analyses and consultations with the interested parts before a final political evaluation regarding the most appropriate way to be followed represent a necessity. The Commission is going to analyze a rigorous impact study that is going to include a quantitative analyze for costs and profits of the different options of policy for all aspects in view especially according to the principles stated regarding the best way to legislate and assure that the expected profit is not going to be overcome by the costs. The Commission believes that it is premature to take a decision before the end of this study and carry on new consulting with the interested parts if a directive would represent the necessary added value. In 2008 the European Commission: 1. is going to finish a revised version of the European Standardized Information Sheet – ESIS) upon the credits for lodging using the positive results obtained by the Group of Experts convened by the Commission in 2006 and formed of creditors and debtors, taking into account the initial results of the tests made by the Commission within the customers in 2007, as much as possible (especially regarding the warning about risks and foreign currency loans); 2. is going to test the revised version of the ESIS sheet in all member states on a large scale; 3. will examine to what extent the stipulations regarding APRC and included in the directive regarding the consumption credit may be extended to the mortgage credit either in the present form or in a way that has to take into account the specific features of the mortgage credit. The European Commission will publish up-to-date board tables containing objective information about the costs and duration of the landed registering and, respectively, prescribing procedure in all member states. In 2008, the European Commission will present a recommendation based on an adequate impact study. That recommendation: 1. is going to invite the member states to secure that the prescribing procedures are completed in a reasonable time and at reasonable cost and their landed book registers are available on line; 2. will encourage the member states to adhere to the EULIS project [European Land Information Service with 10 participants up to present that want to facilitate the trans-frontier access to landed property on line (www.eulis.org.)] financed through the eContent program of the European Commission; 3. invites the member states to secure more transparency and reliability for the landed book registers;

The institutional (legal banking) environment differs a great deal from one country to another. The European countries adhering to the EU in 2004 were forced to establish the creditor's rights and to ensure proper legal regulations while most of the other countries were not subjected to this kind of external reforming pressure. Thus, institutions in this countries offer, on average, less protection to creditors (see EBRD 2004 and Pistor 2000). There are no signs that one particular group of banks in transition has taken excessive risks. The bank markets in transition economies are relatively homogenous varying only slightly regarding banks in different regions, belonging to different ownership groups or having a different size. What's interesting is that we didn't find one single study to present the relationship between the level of risk banks take and the Romanian legal environment they operate in. However, banks operating in an unsafe environment generally maintain a higher level of capital/assets. And banks with a higher risk rate, comparing to their competitors, develop more risk management activities. This suggests that banks in transition economies have learned by now how to manage the risks. Banks that have access to files within the Payment Incident Bureau, Credit Bureau, and Banking Risk Bureau tend to have a considerably lower probability of default than the ones that don't have access to the information. In conclusion, credit Institutions must undertake all necessary precautions to obey local requirements regarding the execution of the collateral security. Credit institutions must ensure that there is a legal frame allowing them, as creditors, to have a first rank preference right regarding the secured debt, except those cases when the national law confers this first rank preference right to preferential, according to legal or procedural stipulations.

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SPECIAL LETTER OF CREDIT ARRANGEMENTS

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Commercial letters of credit facilitate the movement of goods into the channels of trade. A letter of credit is a written undertaking by a bank (issuing bank), acting at the request and on the instructions of its customer (applicant for the credit) to make payment to, or to the order of, a third party (the beneficiary).

For a credit to be transferable, the exporter must arrange for the importer to have a credit opened expressly stipulating that is transferable. A beneficiary may require financing in order to complete the manufacturing of merchandise or to purchase items to fill a particular order. A red clause credit helps achieve this.The applicant and beneficiary may wish to have a letter of credit structured to satisfy a long term contract requiring the constant supply of merchandise over a specific time period. This can be accomplished with a revolving letter of credit.

Key words: letter of credit, issuing bank, advising bank, payments, negotiation

Introduction

Commercial letters of credit facilitate the movement of goods into the channels of trade. They provide even more protection to the exporter than does the collection. That is why an exporter may refuse to conclude a sales contract unless it provides for shippment and payment under a letter of credit.

A letter of credit is a written undertaking by a bank (issuing bank), acting at the request and on the instructions of its customer (applicant for the credit) to make payment to, or to the order of, a third party (the beneficiary), accept and pay bills of exchange (drafts) drawn by the beneficiary, authorize another bank to effect such payment or to pay, accept or negotiate such bills of exchange (drafts).

The terms and conditions of the credit must be complied with before payment, negotiation, or acceptance can be made.

In issuing the letter of credit, the importer's bank (issuing bank) substitutes its credit standing for that of the importer, thereby assuming the credit of financial risk in full. If the beneficiary's documents comply with the terms and conditions of the letter of credit, he or she is promised payment from the issuing bank (and perhaps confirming bank), independent of the ability- or willingness – of the importer to pay.

Transferable credit

When the exporter is an intermediary between a supplier and the importer, in other words is the beneficiary, a transferable credit allows him to transfer all or part of his rights under credit to a third party (the transferee). Still, the transferee must comply with the terms and conditions of the transferred credit in order to receive payment.

For a credit to be transferable, the exporter must arrange for the importer to have a credit opened expressly stipulating that is transferable. It must be clearly stated that the credit is ''transferable''; no other terminology is accepted. Terms such as ''divisible'', ''fractionable'', ''assignable'' and ''transmissible'' do not render the credit transferable and will be disregarded.

Before transfer can be made, the exporter must send a written request to the transferring bank. The transferring bank, wheter it has confirmed the credit or not, is under no obligation to effect the transfer except to the extent and in the manner to which it has expressly consented, and until bank charges in respect of such transfers are paid.

The Uniform Customs and Practice for Documentary Credits (the U.C.P.) established the conditions under which credits may be transferred and specified the rights and obligations of the parties. The U.C.P. provide that a credit may be transferred only once. Consequently the credit cannot be transferred at the request of second beneficiary to any subsequent third beneficiary.

The terms ''assignment of proceeds'' and ''transferable'' credits sholud not be confused; they are entirely different. Unlike a transferred credit, the beneficiary maintains sole rights to the credit and it is solely *responsable for complying with its terms and conditions. With an assignment of proceeds, the beneficiary of a letter of credit assigns all or part of the proceeds under a credit to a third party (the asignee). For the asignee, an assignment means only that the paying bank, once it receives notice of the assignment, undertakes to follow the assignment instructions, if and when payment is made. An assignment of proceeds does not provide the asignee with any rights under the credit. He is dependent upon the beneficiary for compliance, and thus this arrangement is more risky for the assignee than a transferred credit.*

According to the U.C.P. „the fact that a credit is not stated to be transferable does not affect the beneficiary's rights to assign any proceeds which he may become entitled to under such credit, in accordance with the provisions of the applicable law."

As an alternative to the transferable credit, the exporter, being an intermediary between a supplier and an importer, might ask the advising bank or a third bank to issue a second letter of credit in favor of the supplier ,using as collateral a letter of credit issued in the exporter's favor by the importer. When one letter of credit is used as security to obtain the issuance of a second letter of credit to cover the same transaction, that arrangement is known as ''back-to-back''- letter of credit**.**

Associated risks make most banks reluctant to enter into back-to-back credit arrangements.

Anticipated compliance and eventual payment under the first credit should provide some assurance of payment under the second, but performance under the first credit may become impossible, either through acts of the parties involved, government edict, or other causes. For example, the actual supplier (the beneficiary of the second credit) may perform under his credit covering the domestic movement of goods and thus be entitled to payment. It is possible that the shipper(the exporter of the beneficiary of the first letter of credit)will be unable to perform under his or her letter of credit because of a strike by dock personnel preventing the international movement of goods before the expiry date of the first credit.

The intermediary's bank, which opened the second credit, will still have to pay the beneficiary of this credit if documents are in order and will look to the shipper/intermediary for reimbursement. If he cannot on-ship to the ultimate importer, he will not be able to obtain payment under the first credit and may not be able to reimburse his bank. For this reason,if a bank agrees to issue a second credit with the first collateral, it will generally seek assurances that the exporter could, if necessary, make repayment from his general financial resources.

In order to protect its interest further, the bank issuing the second credit may require that the first credit be confirmed by them before considering issuance of the second. As stated earlier, for these and other reasons most banks will generally prefer their customers to utilize ,if possible, transfer or assignment of proceeds arrangements rather than back-to-back letters of credit.

Red clause

A beneficiary may require financing in order to complete the manufacturing of merchandise or to purchase items to fill a particular order. A red clause credit helps achieve this (this name is derrived from the historical practice of placing a notation in the credit in red ink to identify this option.).

Upon the instruction of the importer, the issuing bank authorizes the advising or confirming bank to make a cash advance to the beneficiary against the beneficiary's written undertaking to present documents evidencing shipment in compliance with the credit term. A red clause permits the exporter to obtain an advance of part or all of the amount of the credit, as specified in the credit.

Later, when the letter of credit is drawn under, the paying or negotiating bank deducts the amount of the advance, and any interest due as a result, from its payment to the beneficiary. Should the beneficiary fail to ship or meet the credit requirements, the paying or nagotiating bank looks to the issuing bank to obtain reimbursement for the amount of the advance plus interest. The issuing bank then changes the account of the importer. Before agreeing to an exporter's request for a red clause credit, the importer should consult his or her banker to ensure an understanding of the risk involved.

Installment credit

The applicant for an letter of credit may need to be assured of receiving the merchandise over a period of time in certain given installments. When a bank issues an installment credit or a credit stipulating shipments by installment within given periods, that credit should clearly state „Shipment must be effected in the following installments."

For example, the bank should not leave it up to the beneficiary to determine wheter a clause „Ship Style No.1 no earlier than January 1, and no later than January 31; Ship Style No.2 no earlier than February 1 and no later than February 28; and Ship Style No.3 no earlier than March 1 and no later than March 31", is to be interpreted as an installment requirement.

Revolving credit

The applicant and beneficiary may wish to have a letter of credit structured to satisfy a long term contract requiring the constant supply of merchandise over a specific time period. This can be accomplished with a revolving letter of credit.

A revolving letter of credit contains instructions which allow the beneficiary to draw for specified amounts over specified periods.

The revolving credit uses the same letter of credit to cover numerous schedules shipments over a long period without the necessity of issuing new credits or amending the existing credit; it restricts the amount available for each shipment and controls the frequency of shipments and amounts available.

There are similarities and yet major diffrences between installment and revolving credits. The diffrence can represent significant risks for all parties involved. For example, with an installment credit, should the beneficiary miss one of the installments, the credit is no longer available for future installments.

Revolving credits are either ''cumulative'' or ''non-cumulative''. These classifications control the amounts available for drawing.

For example, the consequence of non-shipment in a specified period under an installment letter of credit is that the letter of credit ceases to exist. Under a revolving non-cumulative letter of credit, the consequence is the loss of the amount for that period.

Deferred payment

Under a deferred payment credit, after shipment the exporter presents complying documents to the negotiating/paying bank. Instead of drawing a draft on the bank or applicant when the documents are presented, the exporter authorizes the bank to release documents against the bank's obligation to pay on a future date as specified in the credit.

An exporter may be called upon by the buyer to provide financing under a letter of credit for the term beyond six months. In this case, a letter of credit providing for the drawing of a time draft for acceptance by the bank (i.e., a banker's acceptance) might not be appropriate because the acceptance would be ''ineligible for discount''.

The issuing/confirming bank therefore makes a promise of future sight payment(s). For incurring this liability, the bank asseses a deferred payment comission, usually a fee proportional to its regular acceptance comission,adjusted for the longer period.

If the beneficiary requires interim financing, he or she may be able to use the issuing/confirming bank's promise of future payment to obtain credit from his or her bank. The beneficiary will not be able to ''discount'' any paper for this financing, as in this case of a banker's acceptance transaction, because a deferred payment credit does not provide for the creation of a negotiable instrument which may be sold in the secondary market. The bank would have to fund the loan from its own sources, so the interest rate would usually be higher than the cost of acceptance financing.

Bankers' acceptances

A bankers' acceptance is a time draft drawn on and accepted by a bank and payable at a fixed or determinable future date. By accepting the draft, the bank conveys its unconditional promise to pay the face amount of the draft to any holder in due course who presents it at maturity. It is a short-term, self liquidating, fixed-rate method of financing where the instrument used to evidence the debt is a draft and not a note, as is the case in coventional lending. The result:lower rates of interest or cost to the borrower.

Bankers' acceptances play a vital role in trade finance. Banks substitute their credit standing for that of their customers by accepting drafts and advancing discounted funds to the borrower.

A key feature of the bankers' acceptance is its marketability. Bankers' acceptances may be sold to investors in the open market, resulting in short-term financing for importers and exporters. For these parties, acceptance financing is similar to issuing short-term private paper, although the administrative cost of acceptance financing is far less than issuing private paper.

Bankers' acceptances can be created either from the letter of credit transactions or from time drafts drawn independently of a letter of credit.

A typical example of a bankers' acceptance occurs when an importer draws a draft on his or her bank to finance imported merchandise arranged for under a letter of credit payable at sight, a collection, or a purchase on open account. By drawing a draft on the bank, independent of the letter of credit, the importer receives financing to pay for the imported merchandise. The revenue from the sale of the imported merchandise sholud then be used to pay the acceptance at maturity.

For example, Board of Governors of the Federal Reserve system regulates the bankers' acceptance market in the U.S. by modification of the definition of eligibility from time to time, by restrictions on the types of transactions from which eligible acceptances may arise, and by restrictions on amounts banks may create for individual customers and in the aggregate.

Acceptances are generally clasified as:

1. Eligible for discount at the Federal Reserve
2. Ineligible for discount at the Federal Reserve

Eligible for discount

Acceptances that are eligible for discount at the Federal Reserve are sold at more favorable rates in the acceptance market than ineligible acceptances, providing importers and/or exporters witk lower-cost acceptance financing. Currently, the basic criteria for eligiblity are as follows:

- the term of the draft cannot exceed six months
- the shipment must be „current", that is, the acceptance must be created within a reasonable time (usually 30 days) after shipping date of the goods
- the underlying transaction must fall into one of the following categories:
- the import or export of goods, either from the U.S. or between foreign countries.
- the domestic shipment of goods within the U.S. crossing state borders or travelling a minimum of 25 miles from point of origin.
- *the storage of readily marketable staples in the U.S. or a foreign country, provided the bank possesses a warehouse receipt or other such documents conveying the security title to the goods at time of acceptance until maturity. A readily marketable staple is defined as an article of commerce, agriculture or industry, of such use to make it the subject of constant dealing in ready markets with such frequent quotations of price to make:*

1. the price easily and definetly ascertainable
2. the staple itself easy to aquire by sale/purchase at any time.

Ineligible acceptances

Acceptances which are not eligible for discount by the Federal Reserve are defined as ''ineligible'' acceptances. The Federal Reserve requires that, unlike eligible acceptances, ineligible acceptances are not exempted from the definition of deposit and as such an ineligible acceptance is subject to reserve requirements.

The result is that the rates on ineligible acceptances generally are less favorable to importers or exporters than those on the acceptances that are eligible for discount. Despite this, ineligible acceptances can be less expensive than other short-term financing instruments and in some cases still provide attractive financing options.

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LA PROTECTION ET LA SECURITE DES TRANSACTIONS DANS UNE RESEAU INFORMATIQUE INTERBANCAIRE

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Les transactions électroniques deviennent de plus en plus complexes, grâce au système qui se développe de manière permanente, aux technologies d'équipements et aux logiciels, ainsi qu'à l'environnement virtuel dans lequel ils opèrent (Internet ou Réseaux à Valeur Ajoutée). La valeur de l'information s'appuie sur son intégrité et, dans le cas où le système de sécurité ne permet pas la réalisation de cette demande, l'information va perdre sa signification.

Les institutions financières utilisent des jetons d'authentification générateurs de mots de passe pour identifier les clients commerciaux afin de permettre l'accès à distance au système des opérations via Internet. L'infrastructure de clé publique (PKI) peut incorporer des cartes à puces intelligentes qui contiennent l'accréditation de l'utilisateur et un certificat numérique

Keywords : sécurité électronique, l'information, e-banking

La sécurité électronique est définie par certains experts comme « les politiques, recommandations et actions nécessaires afin de minimiser le risque afférent aux transactions électroniques, risque qui se réfère en particulier aux créneaux dans le système, des intrusions ou vol ». autres la définissent comme « tout moyen, technique ou processus utilisé pour protéger le volume d'information d'un système ». La valeur de l'information s'appuie sur son intégrité et, dans le cas où le système de sécurité ne permet pas la réalisation de cette demande, l'information va perdre sa signification. Dans ce contexte, les spécialistes de la Banque Mondiale considèrent que la sécurité représente une modalité de créer de la plus valeur, devenant ainsi une préoccupation majeure de l'institution pour laquelle doit s'implémenter.

Ainsi, la Banque Mondiale recommande un système de sécurité des opérations bancaires déroulées via Internet, qui soit structuré sur 12 niveaux : le responsable avec la sécurité, l'authentification, firewalls, le filtrage active du contenu, le système de détectage des intrusions, les logiciels antivirus, le cryptage, le teste de la vulnérabilité, l'administration adéquate du système, les applications de gestion de la politique bancaire et le plan d'action contre les incidents. Les aspects-clé du fonctionnement d'un système de sécurité sont : l'accès, l'authentification, la confiance, la non- rejection, la confidentialité et la disponibilité.Les banques prendront des mesures adéquates pour vérifier et authentifier le niveau de l'autorisation des clients qui font des opérations d'e-banking sur leur propre réseau bancaire. L'authentification comprend deux processus : l'établissement de l'identité des nouveaux clients et l'autorisation des nouveaux clients ou de ceux qui existent déjà. La vérification de l'identité fait référence aux procédures, aux techniques et aux processus employés pour établir l'identité d'un client lorsque celui-ci ouvre un compte. L'autorisation fait références aux procédures, techniques et processus utilisés pour déterminer si un client ou un employé a le droit d'accès à un compte bancaire ou l'autorisation d'effectuer une certaine transaction sur ce compte bancaire.

Dans toute opération, il est essentiel de confirmer si un certain canal de communication, une transaction ou une demande d'accès est légitime dans le contexte de sécurité donné. Dans ce sens, les banques développeront des mesures de vérification de l'identité et d'autorisation des nouveaux clients, de la même manière et avec les mêmes procédures que pour les clients existants au moment de l'initiation des transactions électroniques. La vérification des clients pendant la déclaration du compte d'utilisateur est très importante, réduisant les risques de validation d'identités frauduleuses d'accès aux applications de scannage et de vol des comptes d'accès. Les erreurs d'une banque dans l'authentification des clients peuvent avoir des effets très graves, des fraudes contre la banque, de l'atteinte à l'image de celle-ci, des écoulements d'informations confidentielles et jusqu'à l'implication de la banque dans d'autres opérations de fraude d'autres entreprises ou à la transgression des normes financières locales.

Les banques utiliseront des méthodes d'authentification des transactions pour ne pas rejeter et pour enregistrer les opérations sur les comptes des clients via e-banking. Le fait de ne pas rejeter les opérations garantit l'intégrité de l'origine des transactions du point de vue de l'expéditeur. De cette façon, l'expéditeur de la transaction électronique est empêché de rejeter la réalisation de la transaction. Il est possible également de vérifier si la transaction n'a pas été altérée à une date ultérieure. A cause du risque assez élevé dû aux difficultés d'identification et d'autorisation des entités en cours de négociation, il est possible que les transactions ayant subi des altérations ou des détournements puissent être l'objet de réclamations des clients afin de les rejeter.

Pour réduire ces effets, les banques doivent faire des efforts considérables afin de s'assurer que :

- Les systèmes e-banking ont été prévus afin de réduire le nombre de transactions mal transmises, et les utilisateurs comprennent les risques associés à toute transaction qu'ils réalisent ;
- Toutes les entités impliquées dans une transaction sont clairement identifiées et autorisées, et la communication se fait sur un canal sécurisé. Le système e-banking devra garder le contrôle de la sécurité du canal de transmission en cours de transaction ;
- Les transactions financières sont protégées contre les possibles altérations qui, si elles surviennent, doivent être détectées.

La modalité pratique pour réaliser tout cela est d'utiliser les certificats numériques par une infrastructure de clés publiques ou de signature électronique, technique reconnue légalement dans plusieurs pays du monde.

Les Étapes dans l'établissement des politiques de sécurité

• **Établir les objectifs de sécurité**. En planifiant les conditions requises pour la sécurité d'un système, il faut tenir compte d'une série d'objectifs :

- confidentialité – il s'agit de protéger l'information contre une lecture ou un copiage par des utilisateurs qui ne sont pas explicitement autorisés à ce faire ;
- intégrité des données – protège les données contre les altérations ou les pertes accidentelles ou voulues ;
- disponibilité – impossibilité de désactiver un service sans droits octroyés en ce sens ;
- contrôle – définit l'accès au système, en protégeant le système contre l'accès non autorisé des utilisateurs ou des programmes ;
- audit – permet l'identification des problèmes apparus et met en relief les dommages subis. pour cela il faut qu'il existe des enregistrements (journaux) des activités du système. Cet objectif en milieu bancaire est plus important que la confidentialité ou la disponibilité.

• **Définir les risques**. Cette étape impose l'analyse de tous les risques existants, après quoi peuvent être panifiées des politiques et techniques adéquates de protection.

L'analyse des risques peut se faire par l'intermédiaire de plusieurs méthodes, l'une tournée vers le volume des risques, les autres vers le volume des coûts :

- **MARION** – est une méthode utilisée dans le milieu bancaire et des affaires, développée en plusieurs sous ensembles, comme suit :

MARION-AP	pour l'analyse des risques pour les ordinateurs séparés	IBM PC/APPLE
MARION – RSX	pour l'analyse au niveau des grands réseaux	main frame
MARION – PMS	pour l'analyse des petites affaires	IBM PC/APPLE

MARION – H	pour la gestion des ressources humaines	main frame

- **CRAMM** – méthode se préoccupant des risques et non les coûts ;
- **NIST** (National Institute of Standards and Technology) et NCSC (National Computer Security Center), apparues aux États-unis, ont mis au point un ensemble d'applications pour le développement de la recherche dans le domaine des méthodologies et des techniques de maîtrise du risque.

• **Calculer la faisabilité.** Est composé de deux éléments :

a) le coût de production, qui doit tenir compte des coûts des réparations/remplacements, des arrêts de travail, de l'image de la société bancaire, etc. En général, ces coûts sont estimés sur une échelle de coût minimal et maximal ;

b) le coût de la prévention, qui doit évaluer, en argent, les coûts imposés par les techniques destinées à contrecarrer chaque menace. Évidemment, plus la solution de sécurité est complexe, plus son coût est élevé.

• **Réaliser les politiques de sécurité, en concordance avec les objectifs**. Au cours de cette étape, est définie une politique générale de règles destinées à l'ensemble des services ou sous-domaines, suivie de politiques particulières pour divers biens protégés.

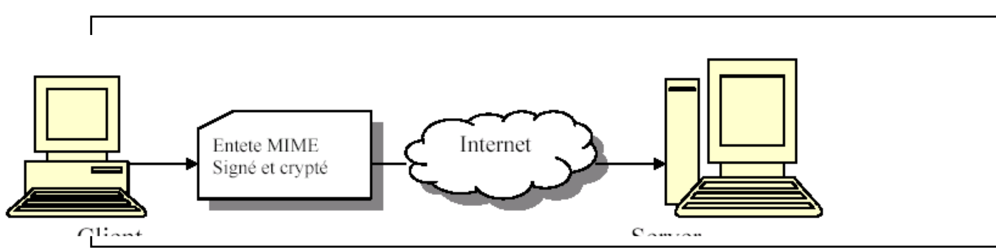
• **L'audit et la qualité des mises en application**. C'est une étape très importante, vu qu'au cours de cette étape il peut être constaté si la politique de sécurité fonctionne et sur quels paramètres. C'est une activité continue ayant le rôle de réglage de la politique de sécurité.

La sécurité dans les systèmes d'Internet Banking

Les créateurs de la version initial du protocole HTTP se sont proposés de créer une méthode de communication des informations multimédia (graphique, vidéo, audio). mais ils se sont vite rendu compte que HTTP deviendra la colonne vertébrale d'un incroyable nombre d'applications commerciales. Au fur et à mesure que le Web ait commencé a être utilisé de plus en plus pour des raisons commerciales, tant les entreprises que les utilisateurs particuliers ont reconnu la nécessité de la sécurité des transactions de type « end-to-end », en défit des transactions pas assurés de type « hop-by-hop ». Afin de répondre aux demandes de plus en plus accentuées pour des standards de sécurité sur le Web, Internet Engineering Task Force a lancé une demande de proposition en 1994. S-HTTP a été conçu par Entreprise Integration Technologies (EIT) comme résultat de cette demande.

S-HTTP (Secure Hypertext Transport Protocol) est une version modifiée de HTTP (Hypertext Transport Protocol) qui inclue des facilités supplémentaires de sécurité.

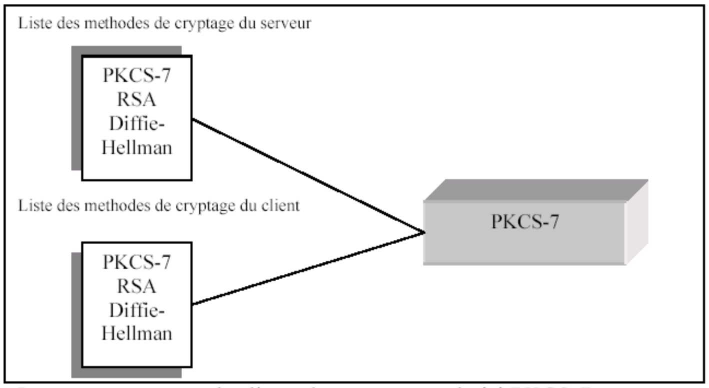
Les implémentations S-HTTP comprennent le cryptage des documents Web envoyés par Internet, et le support pour les signatures digitales. S-HTTP permet au client (browser) la capacité de vérifier l'intégrité des messages Web en utilisant un code d'authentification des messages (Message Authentification Code – MAC). S-HTTP éteint le modèle de transaction HTTP et les caractéristiques d'une transaction pour implémenter en HTTP le support de sécurité. La conception S-HTTP offre des communications sures entre un client et un serveur HTTP. Le but principal de S-HTTP set celui de permettre des transactions commerciales entre différentes types d'applications. Les différentes méthodes utilisées par S-HTTP pour assurer la sécurité du message comprennent une méthode de signature, une méthode de cryptage, un utilitaire de transmission des messages et des vérifications de la signature.



ajoute
us de
à HTTP

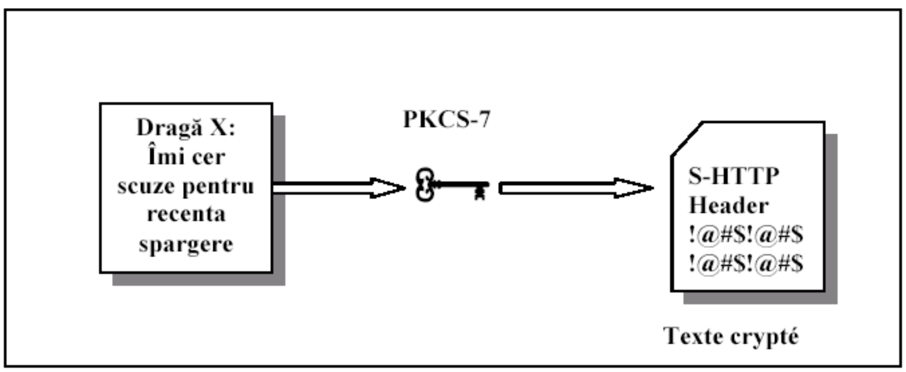
Les messages HTTP contiennent deux éléments principaux : l'entête du message (indique au destinataire la modalité du traitement) et le corps du message (par exemple, un entête qui indique le fait que le MIME du corps du message est de type Text/HTML demande au récepteur de traiter le corps du message comme un doc HTML (Hypertext Markup Language).

Afin de créer un message HTML< le serveur combine ses propres préférences de sécurité avec celles du client. Par exemple, si le serveur est défini comme Public key Encryption Standard 7 (PKCS-7) et la liste de cryptage du client comprend PKCS-7, le serveur va crypter le message utilisant PKCS-7, comme suite :

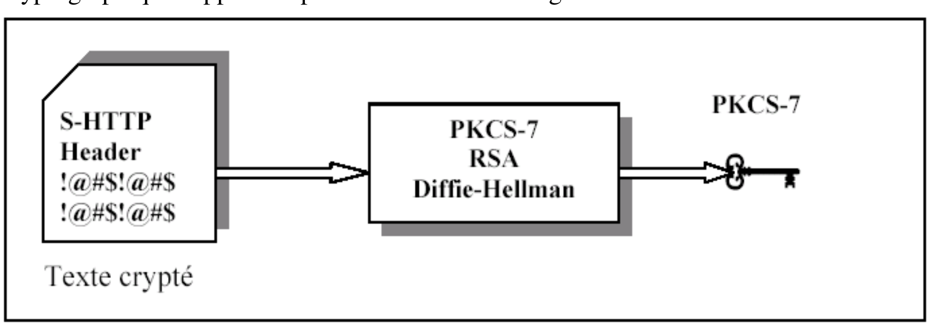


Le serveur compare les listes de cryptage et choisi PKCS-7

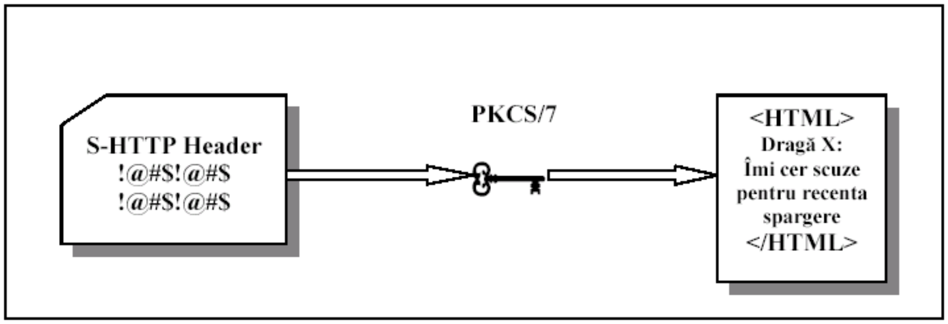
En appliquant une méthode de cryptage acceptée tant par le client que par le serveur, le serveur va crypter le message de type simple texte afin de créer le message S-HTTP. n continuation on représente la modalité de cryptage d'un message par le serveur et la création du message cripté.



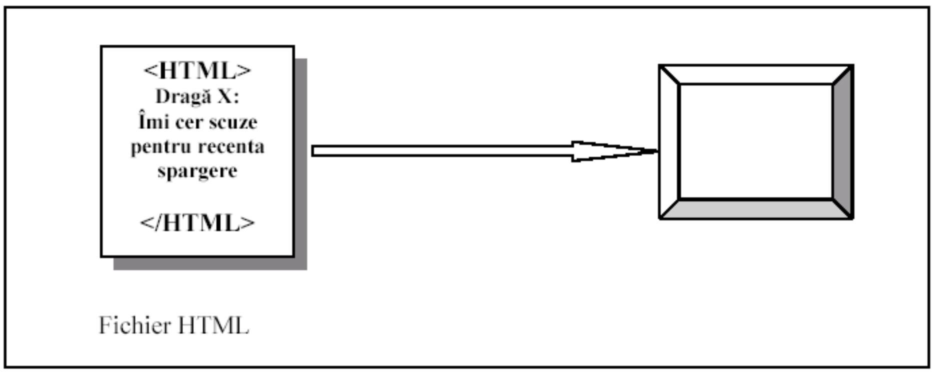
S-HTTP utilise trois données d'entrée pour créer un message HTTP : la transmission du texte simple, les préférences de cryptage du client et celles du serveur. A son tour, le destinataire du message (le client) utilise trois données d'entrée similaire afin de décrypter le message S-HTTP et pour accéder au texte du message. Pour décrypter le message S-HTTP, le client doit lire l'entête pour découvrir les transformations cryptographiques apportées par le serveur au message :



Apres avoir identifié le standard du cryptage indiqué dans l'entête du message par comparaison avec un des systèmes de cryptages connus, le client décrypte le message utilisant une certaine combinaison entre le matériel des clés de l'émetteur et celui du récepteur. Dans la suivante schéma, le client appliquera au message S-HTTP sa propre clé privée pour décrypter le message :

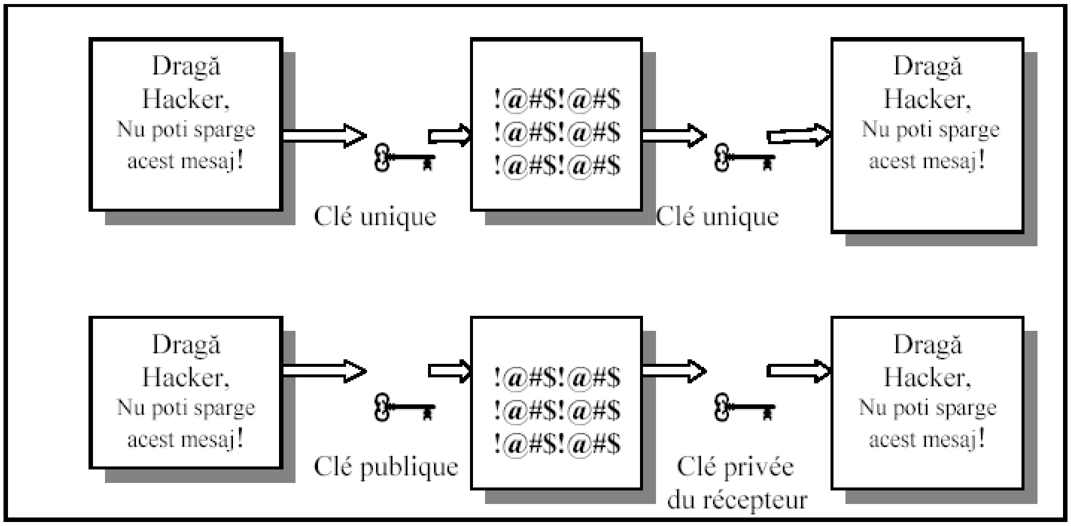


Après avoir décrypté le message, le client va lister les données HTTP encapsulées ou les autres données dans son browser :

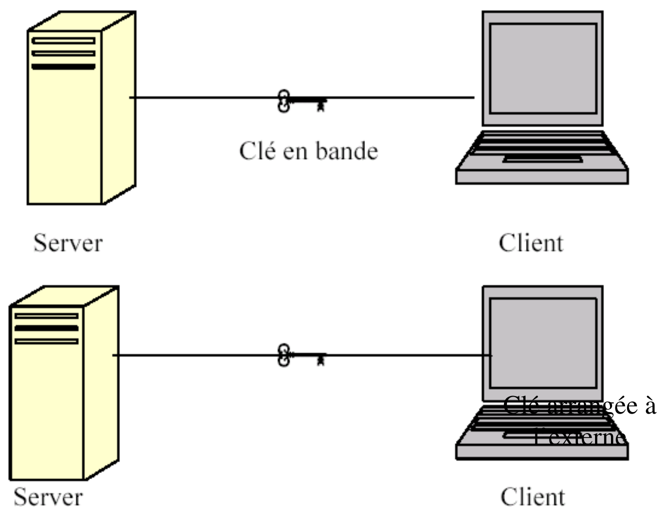


Dans un crypto système avec clé symétrique, les 2 parties utilisent la même clé pour crypter/décrypter les messages. En utilisant S-HTTP, les seuls qui connaissent la clé sont le client et le serveur, fait qui contribue à assurer la confidentialité. Le crypto système avec clé asymétrique dispose de 2 clés distinctes : une clé publique (à disposition de tout le monde) et une clé privée, qui diffère selon l'utilisateur. Pour transmettre un message confidentiel en utilisant un crypto système avec clé asymétrique, l'émetteur utilise la clé publique du récepteur pour crypter le message. Le crypto système avec clé asymétrique assure une totale confidentialité puisque uniquement le récepteur dispose de la clé privée nécessaire (propre) avec laquelle on peut décrypter le message.

Les crypto systèmes avec clé symétrique et asymétrique :

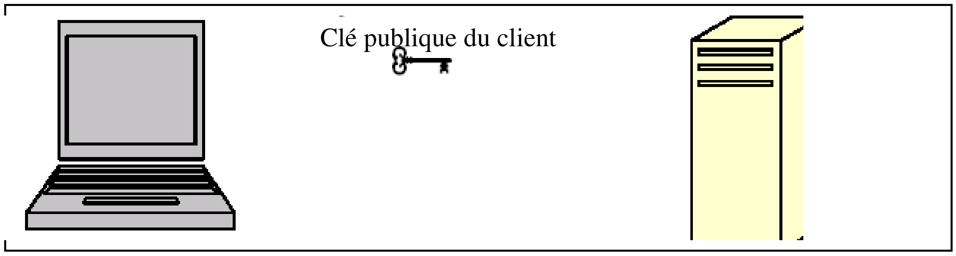


S-HTTP a défini deux mécanismes différentes de transfert/utilisation des clés. Le premier transfère la clé publique « en bande » et l'autre utilise des clé arrangées à l'externe. Dans le premier cas, le serveur crypte la clé privée en utilisant la clé publique du client et la renvoi à celui-ci. Dans la deuxième méthode, utilisée plus largement dans les systèmes Intranet des entreprises, le client et le serveur réalisent le transfert des clés manuellement. Etant donné que la plupart des utilisateurs ont accès aux clés via le WEB, la première méthode est utilisée dans la grande majorité des cas.

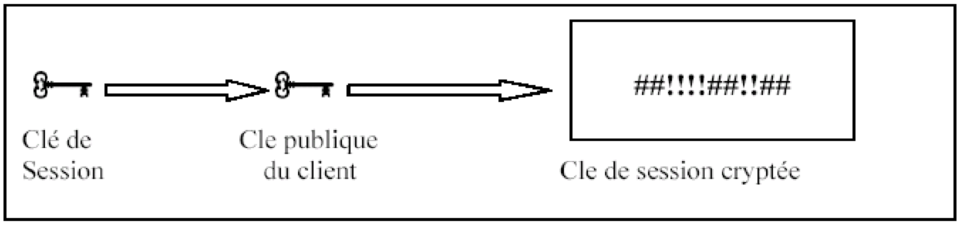


Pour mieux comprendre le transfère « en bande », voyons la modalité dans laquelle le client et le serveur interfèrent au moment où le client visite un site Web sure. La transaction HTTP se réalise dans les suivantes étapes :

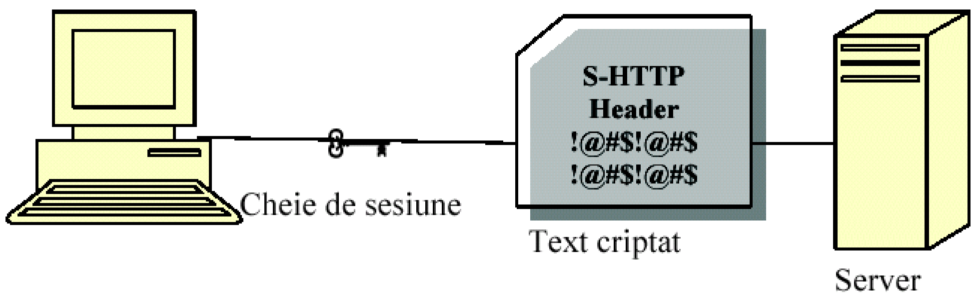
- quand le client visite le site Web S-HTTP, il envoi une demande de connexion vers le serveur pour initier la transaction. A son tour, le serveur va toujours répondre avec un message « Connexion réussite » (Connection Successful).
- Après avoir reçu ce message, le browser du client va transmettre au serveur sa clé publique et le crypto système dans le cadre duquel le client s'était fait créer sa clé publique (RSA, PKCS-& etc) :



– Après réception de la clé publique du client, le serveur consulte la liste des crypto systèmes acceptées, pour vérifier s'il peut accéder ainsi à la clé publique du transfert :



Après avoir établi une connexion réussite avec le serveur, le browser du client crypte chaque transmission adressée au serveur en vertu de la clé de session :



Appart S-HTTP, les serveurs utilisent d'habitude aussi un deuxième protocole, Secure Soket Layer (SSL) – pour assurer une communication sécurisée avec les clients.

A mentionner aussi que S-HTTP accepte une large variété de mécanismes de sécurité pour les clients et les serveurs HTTP.

Conclusion

Établir clairement les spécifications du système e-banking dans le but d'organiser des flux de données et des procédures de travail pour chaque système bancaire (bases de données ou applications). La division des attributions entre les sous systèmes est une mesure de contrôle interne, prévue pour réduire le risque de fraude dans les processus opérationnels, assurant l'autorisation correcte, l'enregistrement et la conservation en sécurité des transactions électroniques. Cette méthode est importante afin d'assurer l'exactitude et l'intégrité des données, mais aussi en tant que méthode de prévention de la propagation des transactions frauduleuses à tous les niveaux du système. Si les attributions des sous systèmes sont bien déterminées, une possible fraude produira des dommages uniquement lors de la tentative de pénétration dans le système, sans affecter les autres niveaux.

Vu l'ingéniosité des personnes ou des organisations malveillantes pour dissimuler de fausses transactions, cette méthode de sécurité doit également faire l'objet d'entretien et d'adaptations continuelles.

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THE DEVELOPMENT OF FACTORING SERVICES IN ROMANIA. ANALYSES, EVOLUTIONS, POSITION IN EUROPE

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Abstract: Romania's adhesion to the EU has lead to changes in the economy and implicitly in the banking system. The steps prior to adhesion consisted in adapting the Romanian banking system to the European norms. The Romanian factoring market has developed by several credit institutions. The advantages of factoring for the adherent and factor recommend this service as a modern financing, crediting and risk management tool. The present study is an analysis of the evolution of factoring in Romania, starting from the worldwide and European tendencies. By comparisons there will be established the position of Romania on the EU factoring market. The sources of the data processed in the research are Factor Chain International and publications of Romanian financial institutions. By its outcomes, the research is useful to the participants on the financial and credit market, to the academic environment and to economists concerned in this field.

Key words: internal factoring, external factoring, regress factoring, debts management.

1. The Importance and Usefulness of Factoring Services

For many companies, selling on an international market represents a true challenge. It is true that this activity can prove to be a very profitable one, but business success implies risks taking. Different habits, currency systems, laws and language, continue to create obstacles in front of commerce, in a world where communications and information technology allow for processing orders regarding foreign relations within seconds.

One of the biggest problems confronted by exporters is the increasing insistence of importers for the exchange to be made under commercial credit conditions. Therefore, the counter-value of the merchandise is cashed weeks or even months after the deliver. On the other hand, many organizations consider that granting such buyer credits can generate severe problems regarding cash-flow management. Moreover, problems can occur in case the importer postpones the payment after the initially stipulated term or worst if he makes no payment whatsoever for insolvability reasons.

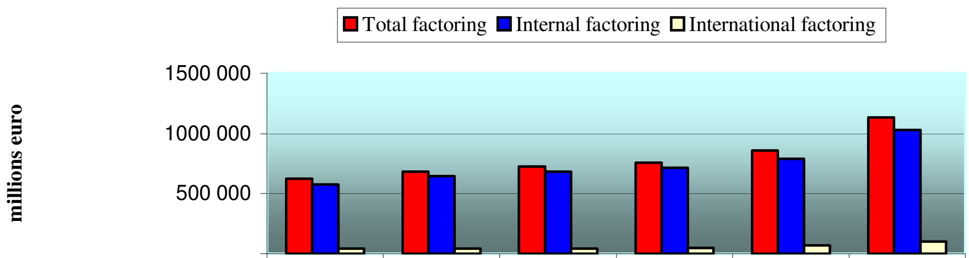
International factoring provides a simple solution, regardless if the exporter is a small company or a large one. The role of factoring is to collect the amounts due from abroad, by calling for importers in their own country, in their own language and upon local usages. Thus, the distance, cultural, economical and hour differences are no longer a problem. Moreover, factoring ensures protection against non-payment to exporters. The credit institutions' (factors) promoting factoring services represents a current problem worldwide. The advantages of international factoring have proved to be very attractive for the participants to international exchanges. Today, the form of financing by factoring is considered to be an excellent alternative to other traditional financing forms. This means that the conditions for international factoring can be regarded as favorable in all countries, not in the developed, but also in the developing ones.

Romania's adhesion to the European Union brings in new players on the financial market as a whole and in the banking system in particular. This increase of competition, as well as the correlation with the prudential norms and good practices of the European Union increases variety in the financing offers and in the services provided by credit institutions. It is upon this view that we will analyze the features of the Romanian factoring market.

2. Analysis of the Factoring Evolution Worldwide

Although Romania is an insignificant financial market on world level, we consider that an overview image over the factoring worldwide will allow us to make a more relevant identification of this product's place in Romania.

In respect with the evolution of the total factoring volume worldwide, we can notice that throughout 2000-2006 such increased by 80%, which demonstrates an increase of the interest for this financing form, both of the users and of the financing institutions. Given the fact that the factor takes over non-payment risks in the case of external factoring and only in some cases for the internal one, it is interesting that worldwide internal factoring has the largest share in the total (graph 1).



	2000	2001	2002	2003	2004	2006
Total factoring	623 840	685 682	724 197	760 392	860 215	1134 288
Internal factoring	578 997	644 659	681 281	712 657	791 950	1 030 598
International factoring	44 843	41 023	42 916	47 735	68 265	103 690

Graph1. Factoring Structure Worldwide

There can be seen that in the analyzed period international factoring increased with approximately 130% in 2006 compared to 2000. This demonstrates that we assist to a major development of financing by international factoring. Also, signals exist that more and more businesses adopt this product as a way of shifting from letter of credit based sale to open account sale. Importers demand more favorable payment conditions, and factoring allows for exporters to accept open account payment, upon commercial credit conditions, without worrying about "overdue debts", or problems regarding the cashing of external invoices.

In respect with the geographical distribution of the operations, the FCI reports show that the most developed factoring market is in Europe, holding 71% of the world volume. Following in the top there are the Americas and Asia-Pacific area with equal shares of 13% in the world volume. During the past years a strong increase was noticed of financings by factoring, especially in expanding economies in the Central and Eastern Europe. As shown bellow, this tendency is also felt in Romania.

3. Factoring in Romania

The opening of Central and Eastern Europe to the international financial and credit market has brought factoring operations into participants' attention. Even though the factoring market is still emerging, an increase is noticed in the interest for this financing modality in many Central and East European countries, Romania included.

Factors Chain International (FCI) is an umbrella organization for independent factoring institutions worldwide and has become today the largest international factoring network. Upon its establishment in 1968 internal factoring services were available only in North America and a few European countries. The concept of international factoring was still new and limited in sense, due to lack of geographical coverage. The founding members of FCI noticed the existent potential for international factoring, also acknowledging the need and opportunity for such an organization. The organization's main purposes were to introduce factorings in countries where it didn't exist and to create an institutionalized members' collaboration framework. In respect with its relation to Romania, on April 1, 2007 five members activated in Factors Chain International: BCR SA, BRD Group, Unicredit Romania, Factoring Company IFN SA and ING

Commercial Finance IFN SA, yet annual reports refer to the activity of more institutions. In 2006 such performed factoring operations amounting to euro 750 millions. The amount doesn't seem important if compared to the European level, but the increase by 30% compared to year 2005 is significant. There can't be noticed that Romania is placed last among Central and Eastern European countries, yet its market is a lot more developed than the Bulgarian one (euro 35 millions in 2006). Last years' increase in the factoring volume in Romania demonstrates an opening of the participants to international trade for this financing form (Table 1).

	1998	2000	2002	2003	2004	2005	2006
Total Europe, out of which	**295 778**	**414 383**	**522 851**	**546 935**	**612 504**	**715 486**	**806 983**
Bulgaria	0	1	0	0	0	0	35
Croatia	0	0	0	0	28	175	340
France	44 255	52 450	67 398	73 200	81 600	89 020	100 009
Germany	20 323	23 483	30 156	35 082	45 000	55 110	72 000
Hungary	115	344	580	1 142	1 375	1 820	2 880
Italy	75 319	110 000	134 808	132 510	121 000	111 175	120 435
Netherlanders	17 702	15 900	20 120	17 500	19 600	23 300	25 500
Poland	609	2 085	2 500	2 580	3 540	3 700	4 425
Portugal	5 545	8 995	11 343	12 181	14 700	16 965	16 886
Romania	20	60	141	225	420	550	750
Slovakia	179	160	240	384	665	830	1 311
Slovenia	14	65	75	170	185	230	340
Spain	9 936	19 500	31 567	37 486	45 376	55 515	66 772
Great Britain	84 255	123 770	156 706	160 770	184 520	237 205	248 769
TOTAL (worldwide)	**456 506**	**623 840**	**724 197**	**760 392**	**860 215**	**1016547**	**1134288**

Table 1. Volume of factoring operations in Europe (selection)

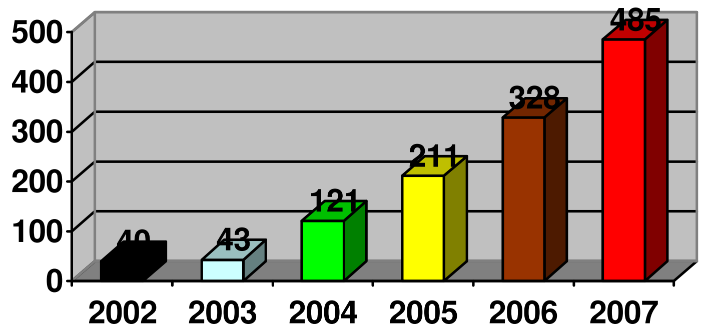
In the current period there can be said that the Romanian factoring market is a well organized one, even though these products and services have been brought in relatively recent and the factoring operations volume is not too large. The most used factoring services are the internal factoring type ones and external factoring without regress. The most important factors are commercial banks, yet some non-banking institutions also exist, out of which the most active is the Factoring Company.

4. Study on the Evolution of the Factoring Volume and Structure in BRD Group

BRD Group Societe General was established in 1923 along with the constitution of the National Company for Industrial Credit. In time, it has undergone a series of changes. The initiation of factoring services in Romania took place in 1992, yet the important step was made in 1993 by the affiliation to Factors International Chain, BRD being the first banking institution of full member statue in this organization. In the BRD factoring products portfolio there can be found both internal and international factoring (export and import). The bank provides its clients with factoring product in the versions with or without regress upon the client. Depending on the situation, clients can access the entire factoring services package: invoices financing, debt management, collection, coverage of non-payment risk, or a combination of at least two of them.

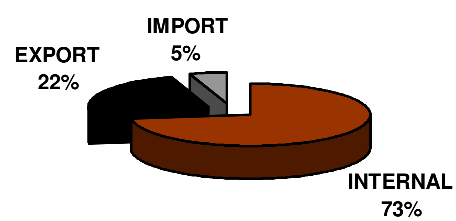
By analyzing the period 2002-2007 there can be noticed that in the first years the level of factoring operations performed by the Group was of approximately euro 40 millions. As such is due to the fact that the product was less known to the economic environment, as well as to the fact that the crediting activity was spreading. Starting 2004 BRD factoring has significantly increased, the bank reaching its factoring market leader position. By the end of 2005 a new boost was registered, by 75% from one year to the other.

In 2006 the bank obtained euro 328 millions turnover from factoring, representing an increase of 55% compared to 2005. The value of the operations performed in 2006 provided the bank with a very strong position on the market, as the volume of euro 328 millions represented approximately 40% of the total factoring in Romania (euro 750 millions in 2006).



Graph 2:BRD factoring volume (millions of euro)

In 2007 the total volume of the factoring operations reached euro 485 millions, by an increase in the operations of 47% compared to 2006 (graph 2). In respect with the operations' structure, in 2006 internal factoring had a share of 73% of the total, external factoring 22% and the rest of 5% was represented by import factoring. There can be noticed that internal factoring holds the highest share in the factoring operations portfolio, while the rest is divided between export and import factoring. Import factoring is a less used product in the local banks' offers. In the structure of the operations, the largest increase of approximately 50% was registered by internal factoring operations, which reached a level of euro 357 millions, whilst the volume of international (export and import) factoring volume increased by 47% compared to 2006. It is interesting to study if these annual increases are correlated to the dynamics of adherents or if a similar number of clients are using factoring more.



Graph 4:Factoring structure in 2006

From the data disclosed by the bank it results that in 2006 BRD was managing by factoring a portfolio of over 360 clients and 700 debtor clients or BRD non-clients. Compared to the same period of the previous year, the number of clients calling for factoring had increased by 40%, representing over 100 new companies enlarging the initial portfolio. In 2007, the number of clients increased again up to the level of 496, corresponding to a portfolio of over 1000 debtors and over 180.000 administered invoices.

By correlating the data regarding the volume of factoring operations to those regarding the number of clients calling for BRD factoring services, an increase trend can be noticed at both, yet the increasing rhythm of the clients' portfolio is smaller compared to the increase of the factoring volume. It seems that the understanding of the product, the development of the Romanian business environment and a more enhanced promotion of factoring services have lead to the increase of the number of users thus increasing the factoring volume. The same trend was also registered in the case of other factors. In order to provide a complete image of the Romanian factoring market we will briefly refer to the activity of other factors.

In the case of BCR group the initiation of factoring operations was made in 1998 by external factoring. The internal factoring product was introduced later on in 2001. BCR's market share for factoring operations is of approximately 33%. The significant boost period started in 2005, when BCR became a full member of the Factor Chain International. The BCR factoring turnover for factoring in 2005 slightly exceeded euro 130 millions with an increase of 51% compared to 2004.

In the case of ING group, the factoring operations are made by ING Commercial Factoring. The institution mainly addresses to small and medium enterprises, focusing on internal factoring. This is due to the fact that ING Commercial Finance is not yet a member of Factor Chain International. ING's factoring offer includes internal factoring with or without regress, external factoring without regress, as well as a portfolio of services such as: invoices financing due from 7 to 90 days, on-line reporting system, debtors monitoring, risk coverage in external and internal factoring, collection services. ING's factoring products are destined to enterprises registering a turnover of at least 1 million euro a year. The market covered by ING is of 5% of the total.

The Factoring Company is an institution specialized in factoring services, member of Factors Chain International. It was established in October 2006 and its shareholders are Transilvania Bank and Intermarket Bank Austria. Products portfolio is comprised of a series of factoring products; internal factoring is provided in Factoring, Plus factoring, Premium factoring and Total factoring. What differentiates these products is that they comprise one or more factoring services. For instance, Factoring only provides the services of invoices financing, Premium factoring includes besides invoices financing the debtors' risk of non-payment, while Total factoring includes besides the two said ones the debts management service.

The Factoring Company also provides external and import factoring services, yet in this case the way of achieving the products portfolio is not the same, as external and import factoring can be found in a particular product each, including all factoring services. In respect with operations volume, Factoring Company achieved in its first months of existence a turnover of euro 12946, and the turnover for 2007 was of euro 116 millions.

All these examples refer to an increasing factoring operations market. It can be noticed that more and more participants to the international commerce have understood the benefits of the factoring services. Using factoring is of immediate impact over the client's cash-flow, transforming due cashing into open cashing. Thus, factoring allows for business development without immobilizing assets in real guarantees and for an efficient debts management.

5. Conclusions

The factoring package comprises integrated services both for internal factoring operations and for export ones, as debts financing, debts administering and management and, as the case might be, taking over insolvability risk. The product provides a financing alternative to companies undergoing their business development phase, to those in their maturity phase, and especially to those having debts from exports and/or internal deliveries.

Compared to the European market Romania can hardly be seen as a share in the total operations (0.092% in the total in 2006). However, there can be noticed good growing rhythms from one year to the other. The comparison with other Central and Eastern European countries in the European Union is most cases unfavorable to our country: in 2006 the total factoring volume was of euro 1311 millions in Slovakia, 2880 in Hungary and 4425 in Poland, compared to euro 750 millions in Romania. Nonetheless, our country overcame countries such as: Bulgaria, Croatia, Slovenia. It is important to underline that although less numerous, the financial institutions active on the Romanian factoring market undergo an impressive activity, although some have been operating only for a few years. The present research demonstrates that Romania faces a considerable diversity of factoring products (internal, external, export, import, with or without regress), which indicates rapid adaptation to the market's needs. There can be said that on the Romanian financial market the factoring services are fairly sophisticated and thorough.

Considering the growth rhythm of the factoring operations' volume throughout last years, we consider that a tendency exists for potential users to open to such sort of financing. Nonetheless, we consider that the product is not yet accessible to small sizes exporters on one hand due to the fact that factoring services are not known, and on the other hand due to relatively high costs. We believe a mediating campaign from factors would be welcomed and could help increasing the performances of factor-banks, and also to the development and fluidization of national territory and upon export. Also, it is our opinion that the use of international factoring services provides a financial safety climate to any company, allowing it to enter new markets upon European competitiveness conditions.

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LOAN SYNICATIONS

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Syndicated credit agreements are those in which more than one bank agrees to provide a common borrower a credit facility on common terms and conditions. Syndicated lending is among the largest and most flexible sources of capital in the world. There are several types of syndicated credit facilities: revolving credit facility, term loan, bridge loan, standby credit facility, standby letters of credit, hybrid facilities and project financing.

Main factors that influences the credit syndication market are: bank policies (early 1990s banks were under pressure to rebuild capital positions and ensure adequate returns on assets) and cost comparisons (demand for syndicated medium term bank credit facilities is very much driven by comparisons with the cost of alternative source of funding in the public debt markets – bonds issuing). The participants in the loan syndication market are as follows: sovereign borrowers, financial institution, corporations and LBO (leveraged buy out) deal sponsors/funds.

Key words ***:****Syndicated credit, revolving credit facility, term loan, borrowers pricing, bank ,sharing of credit risk.*

DEFINITION: Syndication credit agreements are those in which more than one bank agrees to provide a common borrower a credit facility on common terms and conditions governed by a single legal document. A " bilateral " credit agreement, on the other hand, exists between one bank and a borrower.

As a distinct asset classes, the investor base has now expanded beyond commercial banks to include institutional investors such as insurance companies, finance companies and mutual funds. While commercial banks remain the dominant players in originating, structuring and distributing bank credit facilities, syndicated credits are now being arranged by investment banks (and borrowers themselves in same cases). Given the additional liquidity of bank loans, investors are now better able to evaluate relative –value among investment opportunities as such distinction between public and private debt securities and bank loans is blurring.

TYPES OF SYNDICATED CREDIT FACILITIES

Revolving Credit Facility :A credit facility which offers a borrower a specific commitment but under which amounts may be drawn, repaid and re-borrowed during the life of the agreement. The commitment may be structured to reduce over the life of the credit facility (amortize).

Term Loan :Term loans are usually drawn down in one lump sum or in various amounts (tranches) over a specific period of time (drawdown or availability period) and mature in more than year. Repayments may be scheduled at various intervals, in varying amounts, or with a single payment at maturity (bullet maturity). Unlike a revolving credit, once repaid, amounts may not be re-borrowed. Bridge LoanBridge loans can be used as part of acquisition financing to provide short term funding, if necessary, during the tine gap when an acquisition closes and the sale of bonds in the high yield bond market. Investment funds are now often set up for this purpose.

Standby Credit Facility:Standby credit facilities are similar to revolving credit facilities but are expected to remain undrawn, in reserve, in order to provide liquidity enhancement. The facility is typically used to support commercial paper or medium-term note financing. If the issuer is unable to roll over his commercial paper, for example, he could drawdown under his standby credit facility.

364-day facility:Standby credit facilities with an expiration date of not more than 364-days fall outside the Bank for International Settlements (BIS) capital adequacy guidelines requiring banks to hold capital against undrawn commitments of one year or more. As a result, for investment grade borrowers, these credits are often priced with lower fees than for a longer term commitments. Capital required on amounts outstanding is the same, regardless of term, so pricing in recent years on 364-days credits is now more in line with multi-year facilities. Multi-year standby commitments backing commercial paper, however, allow for the commercial paper outstanding to be classified as " Long term Debt".

Swingline:Standby credit facilities can also be "swinglines". Swinglines are typically authorized as sub-facilities within the overall commitment used for very short term funding needs, i.e. less than 30 days.

Standby Letters of Credit:Standby letters of credit (SBLC's) can serve to enhance the credit of the borrower in relation with a third party by adding the credit rating of the banks in the syndicate to support that of the borrower. It enables the borrower to get funding from sources that are not prepared or are unable to accept the credit risk of the borrower on his own.

Examples:

Uses of SBLC's for credit enhancement include private placements and commercial paper programs. Standby letters of credit are also used in project financing and in export financings to support bids, performance and work completion, as specified in the underlying commercial contracts.

Hybrid Facilities:Various funding options are included in one credit facility, available for use at the borrower's discretion. These facilities have included: bankers' acceptances, multi-currency options, " competitive bid option" short term notes, all of which can be offered under longer term commitments. These come under acronyms such as MOF's (Multi Option Facilities), and NIFs (Note Issuance Facilities).

Derivatives:A complex form of financing where expected cash flow from a completed project is looked to as the source of repayment, with no or limited recourse to the project sponsor, so as to have minimal impact on the sponsor's balance sheet or creditworthiness. The cash flow and assets of the project are usually supported by direct or indirect guarantees via instruments such as take-or-pay contracts, tolling contracts, or long term operating contracts combined proven underlying assets.

Sponsors and lenders:Project or " off balance sheet " financings are often sponsored by companies in capital intensive industries such as utilities, transportation, heavy manufacturing, construction, and energy production and processing. These companies have a variety of motives for segregating a financing as a project financing – credit, accounting, tax, expanded sources of financing, etc.

Banks and institutional investors who have the analytical and technical expertise to understand and evaluate a project's risks are in best position to structure the project financing necessary to meet the objectives of the sponsor, lenders and/or leasors, and equity investors. Project credits can be either funded and/or unfunded.

Projects with strong undertakings and explicit guarantees of investment grade sponsors or other third parties have a broader array of capital markets (public and private) instruments available to them than do transactions without this support.

MARKET CHARACTHERISTICS

Syndication lending is among the largest and most flexible sources of capital in the world. In the United States, syndicated credit volume has grown from only USD 137 billion in 1987 to USD 1.O17 billion in 1999, up from USD 872 billion in 1998. As a comparison, in 1998 syndicated loan volume in Europe was about USD 300 billion.

The market has been moved from being driven by LBOs in the 1980s to being dominated by investment grade borrowers refinancing existing credits, arranging commercial paper back up credit facilities, and for financing acquisition-related deals in the 1990s. However, investment grade opportunistic refinancing died in 1998, leveraged lending and acquisition finance picked up much of the slack.

In the early 1990s, banks were under pressure to rebuild their capital positions and ensure an adequate return on assets on any new lending. Consequently, banks tightened lending policies and pricing went up. In an environment, of strong capital bases and high liquidity, banks aggressively seek loans and the volume of new deals increases, with severe pressure on loan fees and margins, lengthening of maturities and relaxation of covenants. Capacity to make loans can dry up quickly in the face of a global crisis such as occurred in the half of 1998 or more recently the sub prime crises occurred in 2007.

Demand for syndicated medium term bank credit facilities by higher-quality borrowers is very much driven by comparisons with the cost of alternative sources of funding in the public debt markets. Bank credit facilities tend to be more expensive, therefore are often used for bridge acquisition financing and as standby facilities when attributes like speed and flexibility may be considered more important than cost.

Investment grade companies also normally obtain short term financing in the commercial paper market more cheaply than from a ban loan. However, concerns about the risk of rolling-over maturing commercial paper usually make the support of a medium term committed bank standby facility a prudent part of corporate treasury management. Therefore, as the need for working capital increases, the need for bank lines increases.

Acquisition and LBO-related loan transactions are dependant on the overall volume of M&A activity and institutional investor demand for debt of non – investment grade issuers, i.e. the high-yield bond market.

PARTICIPANTS IN THE LOAN SYNDICATION MARKET

Users of Syndicated Credits

Sovereign borrowers

1.Governments

2.Government agencies

3.Supranational borrowers

Financial institutions

Corporations

LBO deal sponsors/funds.

Credit Quality

Borrowers can be investment grade, below investment grade, or non-rated. The market was dominated by large LBO transactions in the late 1980s but is now dominated by investment grade borrowers rated A or BBB. However, discretionary refinancing by high quality borrowers dropped in 1998, leveraged loan volume increased from USD 194 billion in 1997 (17 % of the market) to USD 273 billion in 1998 (31 % of the market). Perceived credit quality varies within the ratings categories.

For example, the BB-rated, near investment grade, market segment is a broad category. It can include companies which have high leverage but good cash flow as well as non-leveraged companies with strong capital positions but volatile earnings, small size, or even negative net worth. As in all rating categories, pricing within a particular rating varies by industry or by individual companies within any industry. For example, media or communications companies may fall into a higher risk category (along with leveraged recapitalizations) than an industrial with similar leverage and fixed charge coverage ratios.

The major rating agencies have initiated a system of rating bank loans. Unlike bond ratings, this is not intended to rate the risk of default but the risk of ultimate loss. Most banks, however, have been using numerical ratings systems and is not clear that institutional investors have strong demand for the service.

BENEFITS OF LOAN SYNDICATIONS FOR BORROWERS

Deals can be tailored to a specific borrower's needs, arranged and committed in a matter of weeks, even days. Type of transactions can include standby and working capital facilities, acquisition financings and project financings, and be funded in one or more currencies. Different tranches can have different maturities and repayment schedules.

It is relatively easy to arrange and negotiate with an agent bank to structure one comprehensive credit agreement rather than separate bilateral agreements with many individual banks, especially with complex or " story " transactions. No lengthy SEC registration is required.

More competitive pricing, terms and conditions (that might be available from bilateral agreements) may be obtained. In an environment where banks are aggressively seeking new loans, the cost of credit facilities may also compare favorably with other capital market products.

Bank credit agreements usually have more rigorous financial covenant than public debt issues. However, generally more of a relationship exists with bank lenders than with institutional or retail investors, making the initial structuring and any subsequent amendments to the transactions easier (than a private placement, for example).

Substantial amounts of committed funding can be obtained in the bank loan market, on relatively short notice due to the many participants in the market. It may also be the primary or only source of medium term capital available to non-investment grade borrowers.

BENEFITS FOR LENDERS

ENHANCE RELATIONSHIP

A bank may use its ability to arrange syndications to enhance its relationship with a borrower and cross-sell other business opportunities. To finance an acquisition, a bank may, for example, provide a leveraged loan syndication, a bridge loan, a high-yield bond underwriting and the derivatives for managing the interest rate risk, i.e. " one-stop shopping ". Top tier banks get most of a client's business.

SHARING OF CREDIT RISK

The overall size of a transaction may be too large to book within one institution or a bank simply wants to limit its concentration of exposure to any borrower, industry or country. A top tier bank usually must make the largest underwriting commitment, this is only possible if the bank has good secondary market distribution capabilities.

YIELD ENHANCEMENT

A bank may be looking to enhance return on risk assets by arranging the transaction and taking a disproportionate share of associated up-front fees, relative to the amount of the credit facility or loan retained on its books.

SOURCE OF EARNINGS

It may be a source of earning assets to a bank or other investor that may otherwise be unavailable for them.

FINAL CONSIDERATIONS

In the western mature markets, syndication lending represents one of the largest and most flexible sources of capital (funding) in the world. In Romania, only a few syndicated loans were raised so far. In general the issuers were very large companies, either with local ownership or local subsidiaries of large international corporations. The local subsidiaries of foreign companies we re the most active players in this field as they are already familiar with the benefits associated with syndicated loans.

In the coming years, the local market will see more and more syndicated deals, both with local (the participants are only banks that are active on the local market) and international (banks without local presence will participate as well) execution. The main driver behind this development is the local companies.

Local companies (domestic players) have grown tremendously in the last years. Some of the major local companies have reached levels of business that require a more sophisticated approach in managing their capital structure. Their needs for funding are quite high and the best solution for them is to seek syndicated loans rather than negotiating bilateral credit agreements with several financial (bank) institutions.

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POSSIBLE MODEL FOR THE PORTOFOLIO RISK EVALUATION

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Possible model for the portfolio risk, is the novelty element brought data necessary for the constitution, correction and systemic processing of risk information by the bank's specialists, such that at their basis they could appreciate the relevant values of the variables associated to the risks and determinant activities.

Cuvinte cheie: matrix instrument,modeling, portofolio risk

The financial-banking system knew, in the last decades a complex expansion process, an institutional, instrumental, and procedure diversification and differentiation. The banking products and services were multiplied and adjusted to the conditions generated by an economy oriented towards globalization, informatization and liberalization. Within this context it was registered the relative rupture of the financial-banking flows and operations from the real economy's processuality, the functional and behavioural autonomization of the financial-banking entities, as well as the induction of a volatility and un-predictibility in the evolution of the parameters and monetary and financial characteristics of the real economy. It was evidenced, in the dynamics of the financial-banking system, the extension and intensification of uncertainties and risks associated to them, which became defining characteristics of the financial-banking environment, the risks having a determination exogeneous to the financial system. The expansion of the activites of the banking institutions on the internationalized financial markets have generated and amplified and maintained, a complex network of risks, of different intensities' nature, individualized or generalized on the financial-banking markets, induced and propagated in the economic and social systems of different dimensions.

Operating with innovating and volatile products, in a strongly informatized and de-materialized environment of services, the banking and financial institutions are oftenly using instruments and procedures oriented towards high banking efficiencies and towards the constitution of a financial-banking configuration-strongly polarized, forming and directing the demand of the clients for banking products and services towards investitional combinations and „puzzles" bearers of uncertainties and risks.

The protection against risks, their effect diminution, effects measured by the losses generated, the coverage and the insurance for the financial institutions, confronted with the risks' diversity has led to the continuous improvement of the risk management, to the innovation and diversification of the management instruments.

The banking regulations, the derivative instruments, the techniques for portfolios' diversification, the norms and modalities for resource, deposits and capital protection, are ways through which these institutions are trying to control the effects, often devastating, of the financial risks impact.

The global and formal approach of the impact of risks on the banking activities, particularly on the quality, the value of the assets managed by the bank—these being the primary source of gains—and, why not, on the losses of the bank, can be achieved by applying the matrix instrument.

The matrix offers the possibility of underlining, determining, and interpreting the causal interdependencies, determinative among the risks—which affect the banking assets in an insecure economic-financial environment—and possible and expected profits from assets managed by the bank, the level of these profits being determined by the winnings or probable losses of the bank.

The matrix reveals the network configuration of these interdependencies between profits and risks, making possible the statistical presentation of the *matrix co-variations* between the assets managed by the bank and, through these, the determination of the correlation between the assets, depending on the risks simultaneously affecting them.

Establishing the Model

It is obvious that the matrix interprets the *assets portfolio* of the bank as a *unitary asset*, with a value, a profit, determined by the global and interactional impact of risks on the assets included in the portfolio, viewed as its integrative elements, their relationship with the portfolio being one of intrinsic codetermination.

The matrix model for global evaluation of the risks, with which the financial entity is being confronted, in our case the bank, takes into account the following *categories of variables*:

*Factorial variables, F.V.***,** which underline the factors generating the risks the bank is confronted with; they fall into two categories:

Exogenous variables, G.V., environmental, they are related to the quality of the economic, financial, social and political environment of *being favorable or not* to the banking activity in question, and it reflects the external factors, which are not generated and cannot be controlled by the bank;

The States, S, of these variables are dual:

P = favorable, permissive (1)

A = unfavorable, aggressive (0)

Endogenous variables, D.V., active, they underline the qualities and abilities of the bank in disposing or not of the possibilities of properly accomplishing the banking activity in question.

The States, S, of these variables are dual:

F = the bank disposes of the ability to complete the activity (1)

N = the bank encounters difficulties in completing the activity (0)

The combination of these four states results intro the following factorial states of the bank:

11 = the bank holds an excellent, permissive, and aggressive active and environmental state

10 = the bank shows a favorable environmental state, but it lacks the ability of capitalizing its environmental advantage, displaying liabilities;

01 = the bank disposes of an unfavorable environmental situation, being confronted with a hostile environment, provided that it disposes of the necessary capacity of performing its activity, displaying an adequate action situation;

00 = the bank has an adverse environmental situation and a contractive action situation. (Table 1).

Environmental variables Action variables	1	0
1	11	10
0	01	00

Table 1: The combination of two factorial variables of Matrix Model for the Portfolio Risk Evaluation:

The four factorial states form the *factorial states vector, FSV, made up by factorial coefficients, CF*, with values between 0 and 1, their total being 1:

Action variables, A.V., which reveal the *banking activities* taken into account by the model, these activities being materialized into banking products managed by the bank, as its *assets*, characterized by differential *profitability*, with its levels affected by risks. The suggested simplified model has taken into consideration the following *categories of assets, C.A.: credits, C; titles, T; derivatives, D; currencies, V; cards, R.*

The assets are characterized by two defining attributes in relation to the bank:

- *the asset importance, A.I.*, which depends on the bank's specialization, on the clientele's traits, on the available technology etc, the importance being the *intensity attribute, IA*, of the asset. The values of this attribute oscillates between 1 and 5;

- *the asset profitableness, A.P.*, depends on the conjecture, the life cycle, the economic and social environment, representing the income or loss expected by the bank after making a transaction with the asset, forming the *extensional attribute, EA*, of the asset, its values depending on the banks characteristics, being both positive and negative.

- the risk variables, R.V., underline the specific risks with which the given banking activities are being differentially confronted, the suggested model taking into consideration the following *categories of risks: C.R.*:

1. *non-payment risk, N.R.*, represents the possibility of actually not cashing in the fluxes of income expected by the bank at the time limit, also being a credit risk;
2. *rate of interest risk, I.R.***,** represents the possibility of unfavorable variations in the rate of interest with an impact on the bank's performances;
3. *currency risk, C.R.*, represents the possibility that the volatility of the financial assets prices be able to affect the currency transfers and therefore the bank's profit;
4. *portfolio risk, F.R.*, represents the possibility of registering losses by the bank due to an unfavorable composition of the portfolio of owned assets;
5. *price risk, P.R.*, represents the possibility that the volatility of the financial assets of the bank be able to negatively affect the bank's profit, through induced losses.

The risk variable, as the action variable, is defined by two attributes:

- *the risk intensity, R.I.*, reveals the level of impact the risk has on the bank, on its importance for the bank, the very intensive risks having a determinant contribution in diminishing the bank's interest in that particular asset. This attribute's values will oscillate between 1 and 5;
- *the risk probability, R.P.*, underlines the possibility, the eventuality of the risk manifesting itself in the case of the given asset, the percentage values oscillating between 0% and 100%.

Determining the profitability of the assets and the probabilities of the risks involves the bank specialists' systematic, correct, and operational integration, gathering, and processing of the information on income and risks, so as to be able to appreciate the expected and relevant values of the two attributes associated with assets and risks.

Based on the six variables, states, and attributes presented, the matrix model for risks evaluation (MMRE), synthetically presented in the (table 2) chart, can be elaborated

V.A.			V.R.			V.F.
C.A.	I.A.	R.A.	C.R.	I.R.	P.R.	
C			R.N.			
T			R.D.			
D			R.V.			
V			R.P.			
R			R.F.			
$\sum$			$\sum$			

Table 2: The matrix model for risks evaluation (MMRE)

The Methodology and Manipulation of the Model

The essence of the matrix model lies in the global and punctual liaison of assets categories, A.C., with risks categories, R.C., and, based on the values of each of their attributes, as well as on the binary values of the factorial variables, the determination of an aggregated risk of the portfolio of the five assets in question is attempted.

In what follows, the methodological stages of building the matrix model, as well as the hypothetical practicality of the model, are presented.

1). The evaluation of the *factorial coefficients, F.C.*, used to determine the *vector for the factorial coefficients, VFC,* which are hypothetical in the case of the proposed model; the states vector, which applies to the ensemble of the bank's portfolio, is presented in the table 3.

factorial states	11	10	01	00
factorial coefficients	0,10	0,30	0,40	0,20

Table 3: The states vector (factorial states, factorial coefficients), which addresses the ensemble of the bank portfolio

2). The evaluation of **the** ***profits matrix, PM*****,** of the 5 assets of the portfolio in the 4 factorial states (Table 4).

State Asset	11	10	01	00
C	X1	X2	X3	X4
T	X5	X6	X7	X8
D	X9	X10	X11	X12
V	X13	X14	X15	X16
R	X17	X18	X19	X20

Table 4: Profits matrix PM

3). The evaluation of the assets *importance vector, AIV,* meaning the importance of every asset, evaluated on a scale from 1 to 5, for the bank: *AIV =(i5 i2 i3 i4 i1)*

4). The *assets value matrix, AVM*, in its 4 states, is determined by the multiplication of AIV by PM, the matrix cell, AVC, underlining the value of each asset in each factorial state: AVM = AIV x PM

5). The risks-assets interaction allows us to develop a first matrix, the *identification matrix, IDM,* which underlines the existence, represented by *, or the non-existence of the impact of risk on the asset, this matrix selecting, identifying, and enumerating the individual risks which affect the assets portfolio, the matrix presenting itself as follows: Table 5.

VA VR	C	T	D	V	R	$\sum$
RN	*	*	*		*	4
RD	*	*	*	*	*	5
RV		*	*		*	3
RP		*	*		*	3
RF		*	*	*		3
$\sum$	2	5	5	2	4	18

Table 5: Identification matrix IDM

The matrix underlines the fact that, from a total of 25 possible individual risks, PIR, the portfolio is affected by 18 risks, IFR, the intensity of the impact being measured with the aid of the *infliction rate, IR.*

$$rf = \frac{RAF}{RIP} \times 100$$

The analysis shows that the most frequent risks are the rate and the currency risks, with 5 *points of infliction* each, and the most affected actives are the credits, with 4, and the titles, with 5 points of infliction.

6). The matrix of probabilities in risks associated with assets, MPA, is drawn with j representing the assets in columns, and, on the rows, is stands for the probabilities of associated risks. The filling in of the matrix cells starts from the matrix of identification, the numbers in the matrix cell, N.P., representing the difference between the 100% certain situation, and the possibility of risk occurrence, R.P., according to the identification, the evaluation of probability being either subjective, based on experience, flair or expert consulting, or empirical, objective, based on the history of probabilities proper to other banks, the banking system etc. In order to obtain the risk probability, R.P., a subtraction is done as follows: P.R. = 100 – N.P.

For example, in the case of credits, C, the probability of risk for the rate of interest, RI, is 65%, the corresponding cell in the matrix having the value of 35% = 100% - 65%. In the table 6, an hypothetical situation of this matrix is presented.

Risc / Activ	C	T	D	V	R
P(RN)	Y1%	Y2%	Y3%	Y4%	Y5%
P(RD)	Y6%	Y7%	Y8%	Y9%	Y10%
P(RV)	Y11%	Y12%	Y13%	Y14%	Y15%
P(RP)	Y16%	Y170 %	Y18%	Y19%	Y20%
P(RF)	Y21%	Y22%	Y23%	Y24%	Y250 %

Table 6: The matrix of probabilities of the risks associated with the actives

$$\sum_{i=1}^{5} k_i = 1$$

i = risk

7) The *vector of risks intensity, VRI,* is evaluated; the elements of the VRI vector represent the *intensity coefficients, k*, with values ranging from 0 to 1, according to the bank's perception of risks, these coefficients being specific to each bank, with the definition rapport being:

8) The *matrix of the risks impact, MRI*, is determined, in association with the portfolio assets, by multiplying VRI by MPA:

9) The *matrix of the risks portfolio, MRP*, is determined by multiplying AVM by MRI.

The cell of the MRP matrix underlines the conventional value of each of the 5 portfolio risks, in each of the 4 factorial states, which we call the *value of the state risk, VSR*.

10) The portfolio's expected values of risk are determined, being called the *expected value of risk, EVR*, as an average of the values of state risks, according to the following formula:

$$\overline{EVR} = \frac{\sum_{s=1}^{4} VSR_s}{4}$$

Apply the formula to the 5 categories of risks.

11) Determining the deviation of each VSR from EVR, thus obtaining the *median deviation of risks, MDR*, for all risks and states, according to the MRP matrix, deviations which form the *median deviations matrix, MDM*, presented below: $MDR_{is} = VSR_{is} - EVR_i$

Where I = the risk, s = the factorial state.

12) The *squares of median deviations of risks, SMD*, are determined by elaborating the *matrix of squares of median deviations, MSD*.

$$SMD = (MDR)^2$$

13) The *variation* of each category of risks which affect the portfolio, $\sigma^2(R)$, is determined by adding up the SMD of every risk according to the following formula:

$$\sigma^2(R_i) = \sum_{s=1}^{4} SMD_{is}$$

14) The intensive variation of the portfolio, IVP, is determined by adding up the results form multiplying the risks variations, $\sigma^2(R)$ by the risk intensity coefficients, k(R), according to the formula below:

$$IVP = \sum_{i=1}^{5} \sigma^2(R_i) \times k_i$$

15) The *standard portfolio deviation*, $\sigma(PF)$, is determined.

16) The *portfolio risk, PFR*, is determined by dividing the portfolio deviation by the number of the risks.

$$RPF = \frac{\sigma(PF)}{5}$$

The models for the selection of efficient portfolios have the crucial benefit of objectively assessing the curve of investment opportunities (the efficient frontier) in risky assets. This is the «production» curve which the financial market can offer to the capital investors.

It can even be stated that this curve is objectively characterized by decreasing efficiency. The marginal ratability rate decreases as the risks assumed are higher and higher until they reach the maximum limit, when the rate becomes equal to zero. Beyond this «saturation point» of the risk, the marginal profit rate becomes negative and makes the continuation of the investment irrational.

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LIQUID ASSETS ADMINISTRATION – AN ESSENTIAL ELEMENT OF BALANCE SHEET EQUILIBRIUM

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ABSTRACT: One of the most important tasks of the management of a bank is to estimate and properly cover the bank's need of liquid assets. On long term, the profitableness of a bank may be negatively affected in case the bank detains in its portfolio too many liquid financial assets as compared with its needs; yet, on the other hand, fewer liquid assets may determine severe financial problems, especially for small banks, and may generate even bankruptcy.

KEYWORDS: asset, banking system, investments, liabilities.

One of the most important tasks of the management of a bank is to estimate and properly cover the bank's need of liquid assets. On long term, the profitableness of a bank may be negatively affected in case the bank detains in its portfolio too many liquid financial assets as compared with its needs; yet, on the other hand, fewer liquid assets may determine severe financial problems, especially for small banks, and may generate even bankruptcy.

Bank liquids represent the object of administrating banking liquid assets and liabilities having various degrees of liquidity. They represent banks' ability of assuming their financial obligations and express the assets capacity of being rapidly changed into money, with minimum expenditures.

An improper level of liquids may determine, in case of certain unforeseen diminishing of cash money, the necessity of contracting supplemental resources implying higher costs, a fact that diminishes profitableness and affecting solvability.

At the same time, a excessive liquids diminish the assets' profitableness determining the getting of poor performance.

One of the main tasks of bank management is to estimate and completely cover the needs of bank liquid assets.

The need of liquid assets and the capacity of the bank to foresee such needs is hard to be measured as the deponents' perception and trust (both of the present and of the potential ones) in the bank and the monetary market are quite important as well as hard to be estimated.

The risk of liquids may result in the credit institution's impossibility of making payments towards its clients as a result of changing the ratio between the long term credits and the short term credits and of non-correlating with the structure of liabilities.

Long term investments are generally higher than the credit institution's long term resources; as a result of such circumstances banks have to face two situations:

- They may be not able to assume their short term contracts;
- They may have short terms of payment while their investments might have long term payments.

In order to avoid liquids risk banks should do a proper correlation of their liquid assets and their liabilities regarding the duration of mobilization and use of resources.

The problems that may determine a liquid crisis are both external and internal. Accordingly, the external causes that determined the two important liquid crises during the time are the following: the economic crisis of the 30s, unexpected stock exchange crashes such as the "black month" of October 1987, the macro-economic policies promoted by the government that either reduce liquid assets in economy or diminishes the trust in the banking system and national currency.

The internal causes that determine the starting of a liquids crisis are due to the credits' losses and other non-performing investments that may cause a lack of balance in banks' cash flows, the diminution of the business potential of the banks and, as a consequence, of their incomes, as well as the diminishing of the trust in the banking institutions materialized in an increased rhythm of funds withdrawal.

The diminishing of the bank's rating may, as well, determine the decrease of the clients' trust in that banking institution having as a result the diminution of the incomes coming from commissions and interests, the improper diversification of funds resources (of the financing sources).

On the other hand, liquid risk may result out of two reasons: one of them is connected with the assets of the bank's balance sheet, the other one is connected with liabilities. The risk connected with the bank's liabilities appears each time the deponent clients want to immediately and suddenly operate the withdrawal of their money; under such circumstances the bank have to borrow supplemental funds or to sell certain liquid assets.

The most liquid asset of a bank is cash money, the bank primarily resorting to it in order to meet its clients' demands of withdrawal. Nevertheless, banks exhibit a tendency of minimizing cash money detaining as they practically bring them no profit. In order to get incomes out of interests, the majority of the banks invest fewer cash money in liquid assets and/or with longer term maturity.

The majority of the assets may be changed into cash money at a certain moment; yet the immediate change into cash money may sometimes be done at extremely high costs. The price the owner of such assets has to accept in case of an urgent sell may be much lower than in case he/she would have at hand a larger time interval during which the price might be negotiated. Accordingly, certain assets may be liquidated only at lower prices, called "fire-sales prices", subsequently threatening the bank's solvability.

The administration of liquid risk implies a distinct approach of short term administration, of treasury administration, and of long term administration.

Short term administration implies the precise measurement of the bank's liquids risk.

Treasury administration implies the determining of an optimum structure of the bank's assets in order not to register losses whenever assuming the liquids risk.

Long term administration of liquid risk helps the bank elaborate its crediting policy as it is well-known the fact that liquids are a constraining factor of crediting activity.

A useful tool employed by the management in predicting the net income out of short term interest is GAP analysis done with a view of profiling the difference between the investments and the term ressource at certain time intervals. Such gaps specific to each interval of maturity may determine the elucidation of certain aspects connected with short term liquids as well as with long term liquids.

The goal of such an analysis consists in the identification of the potential problems that might appear within the liquid assets of a financial and banking institution. The gaps accordingly determined should be diminished in order to reduce liquids risk.

A gap represents the difference between the assets and the liabilities due during the same interval of maturity. This value is also known as liquid's position.

A liquid's position is defined as follows: for a class of terms of payment it is the difference between the assets and the liabilities. It is accordingly calculated for each class, being a sum, duration and term index of the changes operated by the bank. The level of this index emphasizes the discrepancies between the term of payment and the types of maximum funds with which the bank is going to deal with, time after time.

$$Lp_i = ASSETS_i - LIABILITIES_i$$

$ASSETS_i$ = assets of i class term of payment

$LIABILITIES_i$ = liabilities of i class term of payment

- *The gap is positive* when the due assets > than the liabilities due during the same interval of maturity; accordingly, during this interval there are enough resources to make the payments demanded by the clients. One should assume that only those clients whose resources are due during this interval of maturity are supposed to withdraw their sums and the afferent interests.

- *The negative gap* may be a problem especially in case it is registered during close maturity intervals. The resources due during this interval cannot be covered out of investments due during this interval; the banking institution is forced to use before the term of payment other liquid assets with a view of creating the needed liquids.
- *The cumulated gap* during several maturity periods represents the algebraic sum of the gaps during those intervals. The significance of this index: it gives the banking institution the possibility of correlating the resources and the due investments until a certain date in order to face the payments demanded by the clients.
- *The gap index* synthesizes the size in a relative value of the difference between the investments and the resources due during the maturity interval, namely compared with the total assets. Important levels (over 10%), especially the negative ones, should be quickly improved with a view of diminishing the risk of liquids. The gap positive indices having significant values may point a lack of balance of correlating the investments maturity with the resources employed, a gap that might grow (towards negative values) during those maturity intervals.

In order to illustrate by examples the gap analysis in a bank we have chosen the structure of the assets and liabilities on December 31st 2007, classified according to residual maturity (the time interval calculated beginning with the analysis date – that can be quarterly, monthly, weekly or daily – and the date of the effective term of payment of the assets/liabilities element) – Table 1

The level of the assets and liabilities on December 31st 2007

Gap, cumulated gap, gap index (%)

(Lei) Table 1

	Up to 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total
Assets					
Cash money and short term funds	18680.9	-	-	-	18680.9
Sums received from Central Banks	106336.4	4147.9	98,5	-	110582.8
Treasury certificates	57879.	76608.7	8296.1	438.2	143222.4
Sums to be received from other banks	102177.4	15193.7			117371.1
Credits and advance payments given to the clients	27649.0	73596.6	32214.4	5742.0	139202.0
Participations	-	-	-	7687.4	7687.4
Fixed assets	-	-	40000	45440.1	85440.1
Other assets	37622.3	-	1320.8	860.3	39803.4
Total assets	350345.4	169546.9	81929.8	60168	661990.1
Liabilities					
Deposits from other banks (drawn)	63841.6	9113.9	17769.9	27959.1	118684.5
Clients	319251.4	121783.7	52019.1	-	493054.2

deposits					
Other obligations and provisions	10018.6	5830.6	4101.7	30300.5	50251.4
Total liabilities	393111.6	136728.2	73890.7	58259.6	661990.1
Liquidity net gap	(42766.2)	32818.7	8039.1	1908.4	
Cumulated gap	(42766.2)	(9947.5)	(1908.4)		
Gap index (%)	(12.2%)	19.35%	9.81%	3.17%	

The following conclusions may be drawn out of the analysis of the above GAP Table:

- On a up to 3 months term (remaining maturity) resources attain their term of payment more quickly than investments ; this fact may be a potential problem for the credit institution when all resources attaining their term of payment are not prolonged anymore;
- The negative gap up to 3 months shows the fact that the liabilities due during the period 31.12.2006 – 31.03.2007 overpass the assets due during this period; in case due resources are not renewed, the credit institution should sell assets that do not attain their payment term in order to face withdrawals; within the internal market, the large majority of the assets' sales are done through State titles (REPO operations or sales on secondary market);

Among the measures banks should pay attention to we can notice the following ones:

- Drawing of supplemental resources on at least 3 months term;
- The investment of supplemental resources in liquid investments having a up to 3 months payment term;
- The re-modeling of the longer terms investments policy with a view of diminishing the share of more than 5 years payment term investments.

The methodology of liquids management should deploy according to three co-ordinates: the establishing of the profile of the bank's liquids, the establishment of the desired level of liquids of the assets and the analysis of the cash flow during various periods of time.

The getting of the desired level of liquids has in view the noticing of certain minimum demands regarding reserves; accordingly:

- -Monetary authorities require banks to keep a certain part of the total sum of their deposits at the Central Bank;
- -Compulsory reserves are required in order to discourage banks to extend their investments;
- -In a lot of countries the level of the reserves varies according to the type of the deposit (transit deposits require higher liquid demands than term deposits).

The main strategies of liquids management that improve the structure of the assets are the following:

- The extension of credits and overnight investments;
- The extension of inter-banking credits;
- The acquiring of short and medium term negotiable titles;
- The repayment of due credits;
- The securing, namely the change of credits into titles;
- Few investments into fixed assets.

The following strategies improve liquids due to the change of the structure of accounting liabilities:

- The diminishing of inter-banking deposits;
- The emission of long term negotiable titles and deposits;
- The prolongation of the medium duration of liabilities portfolios;
- The emission of capital as subordinated debt or the emission of ordinary or preferential stocks;

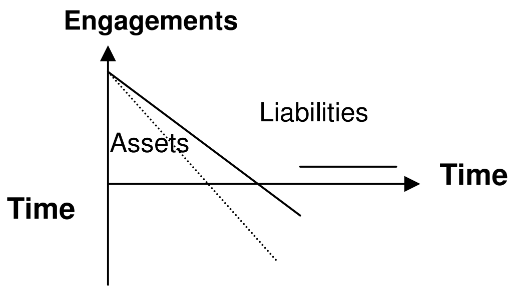
– The obtainment and maintaining of a high credit rating.

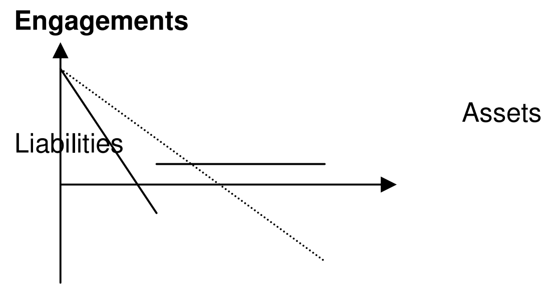
Whenever immunization lacks the size of the gap between the payment term of the engagements and the resources determines, for a certain period, a global perspective of liquids, namely of its “consolidation” degree.

Accordingly:

– The balance sheet is over-consolidated (Fig.1), in case the existent assets are more rapidly paid off than the existent resources. The exceeding resources resulting with the lapse of time are available in order to finance new operations.
– The balance sheet is under-consolidated (Fig.2), in case the assets are more slowly paid off than the resources. New financing is necessary in order to cover the gap.

Fig. 1 – Over-consolidated balance sheet ***Fig. 2 – Under-consolidated balance sheet***

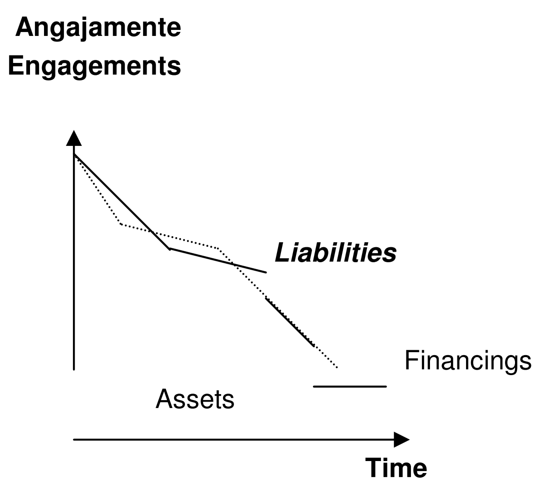


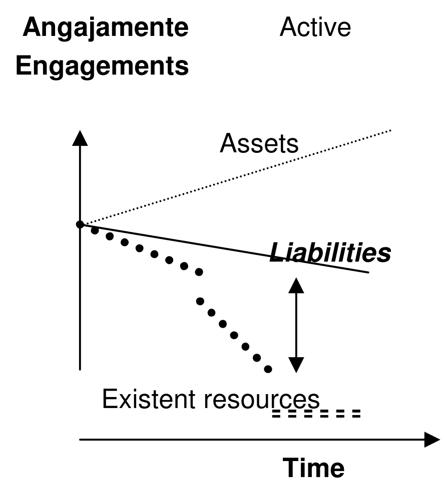


– The balance sheet is perfectly consolidated (Fig.3) when future financing needs are equal with the new resources.

In case the profile of the resources includes both the existent resources and the new financings the bank employed, the graph is quite different (Fig. 4)

Fig. 3 – Perfectly consolidated balance sheet ***Fig. 4 – Profile of new financings***

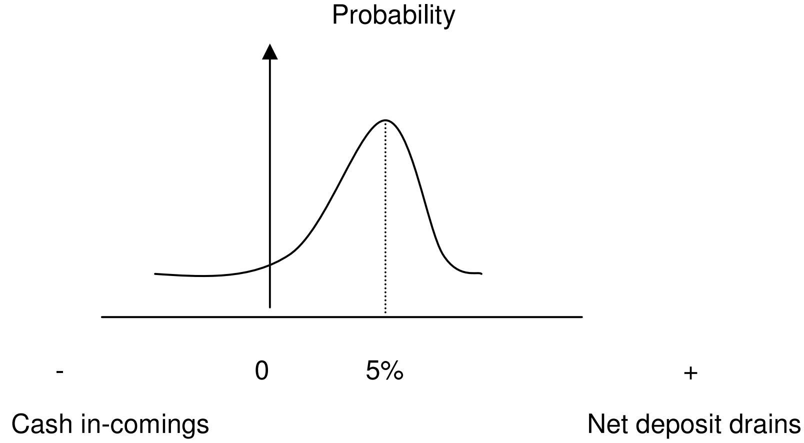




In time, the management of a bank may predict the distribution probability of the net deposit drains every normal banking day.

Net deposit drains = Cash deposit withdrawals – Cash deposit in-comings

Let’s take into consideration the following possible distributions:



Distribution has its higher level at 5% net cash drains, a fact that implies that the bank expects that about 5% of its funds represented by deposits might be withdrawn every banking day having the highest probability. The bank is going to receive accordingly new deposits in order to counteract the effect of cash withdrawal. In order to determine a growth of the banking field, net medium deposit drains of the majority of the banks should reflect higher funds in-comings than the clients' accounts withdrawals.

This optimum level might be possible when the maximum level of distribution probabilities is placed on the left to 0.

At such a level, for example of –2%, the bank has net cash in-comings.

In practice, the administration of liquids risk mainly consists in the following:

- The giving in, mortgage or pledge of due titles of the bank's portfolio without excessive losses;
- The identification of new resources with marginal costs inferior to the medium profitableness of the bank's investments.

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CHANGES IN BANKING ACTIVITY IN THE CONTEXT OF THE DEVELOPMENT OF FINANCIAL DERIVATIVES MARKETS

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Abstract: In the last years,in the context of financial globalization, it has been registered a significant development of the financial markets, but also an increase of the instability of the interest rates, of exchange rates, of prices in general, that determined the creation of new instruments and of protection markets against risks. Within those, one should mention from the point of view of the spectacular development and of the economic implications, the derivative financial products and markets on which these are negotiated.

The paper analyses the role of financial derivatives in managing financial risks in the process of financial globalization and their implications on the systemic risk, on the banking activity, and on the monetary policy.

Key words: financial globalization, financial markets, derivatives markets,banking activity, monetary politics, systemic risk, risk management.

1. Introduction

In the last two decades, the financial systems of the majority of the world states were marked by profound transformations. The process of deregulation, subdivision and non-intermediation, the financial innovations, the new informational and telecommunication technologies determined the financial globalization process and influenced significantly the financial systems both of the developed countries and of the ones in course of development. Thus, these are characterized by the free circulation of the capitals, the creation of liquid financial and inter-connected markets, the intensification of the competition between markets, as well as between the financial institutions.

Under these changes, it has been registered a significant development of the financial markets, but also an increase of the instability of the interest rates, of exchange rates, of prices in general, that determined the creation of new instruments and of protection markets against risks. Within those, one should mention from the point of view of the spectacular development and of the economic implications, the derivative financial products and markets on which these are negotiated.

2. Recent Developments in the Global Derivatives Markets

The derivative financial products allow the protection against the risks regarding the currency, the interest rates, credit etc., but they are used also for performing arbitration and speculation operations. The main derivative products are represented by the forward contracts, futures contracts, option contracts, and swap contracts and from 1990 a major innovation is brought by the credit derivatives.

By means of the derivative products, the participants from different markets can be protected against the fluctuations of the interest rates, of the exchange rates or of other prices of the assets.

In the last thirty years the use of derivatives and the range of products available for companies have grown spectacularly worldwide. According to the estimations made by the Bank for International Settlements (BIS) in its statistics about the evolution of the volume of traded derivatives, the total market value of derivatives increased from 94.253 billions of US dollars in 1998 to 613.089 billions of US dollars in June 2007 as figure 1 shows.

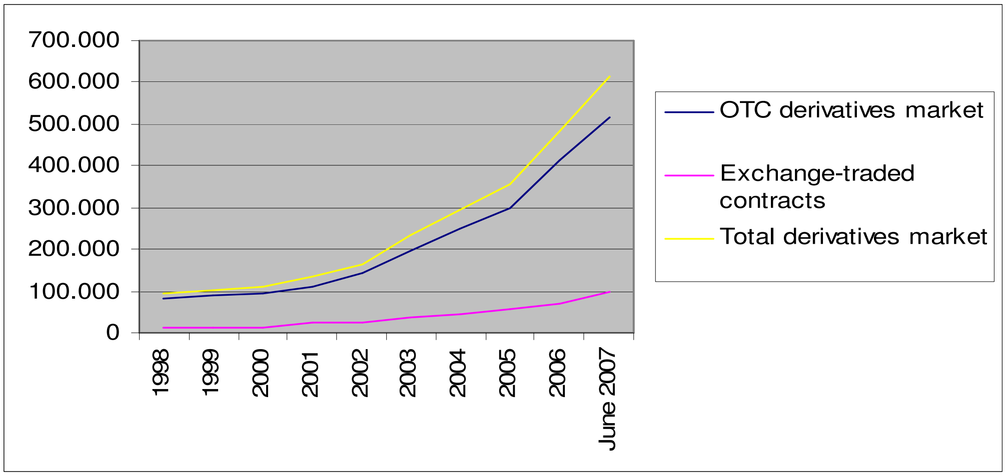

Figure 1 Evolution of global derivatives markets in 1998-2007 (notional amounts in billion of US dollars)

Source: Bank for International Settlements, www.bis.org

In June 2007, the total amount of derivatives traded over-the-counter was \$516.407 billions, from which 52.64% represents interest-rate swaps. In 1987, the notional amount of interest-rate swaps outstanding was \$865 billion; 20 years later, it was \$271.853 billion, implying growth at an average annual rate of 15 percent. The growth of interest rate contracts was mainly due to market participants' changing perceptions about the future path of policy rates. Consequently, the increase in turnover was greatest in derivatives on short-term interest rates, both futures and options, whereas activity in long-term bonds contracts declined slightly.

In terms of outstanding, however, OTC markets are five times bigger than organized markets. In fact, it is not possible to compare the statistics for the amounts outstanding in the two types of market because the figures for organized markets reflect open interest only (i.e. positions not offset by countervailing transactions).

The notional amount of exchange-traded derivatives (options and futures) grew from \$13.935 billion in December 1998 to \$96.682 billion in June 2007. By far the most commonly traded derivatives on organized markets are interest rate contracts, accounting more than 50% of the total number of contracts in the last five years. The international derivatives market CME Group continues to expand its position as the world‘s largest derivatives exchange with record open interest on the exchange.

3. The Influences Exercised by the Significant Usage of the Financial Derivatives

The financial derivatives have as main function the risk's transfer; they allow to stand a risk considered bearable and to transfer the undesired risk part towards other operators that accept it due to their position opposite to the respective risk or from the desire to perform speculative operations.

The transfer of the risk by means of the derivative products can be accomplished due to their capacity to establish prices for risks and to separately negotiate different elements of the price risk for the support-assets, on the one hand; on the other hand due to the lever effect of these products, allowing the users to negotiate the risks without being necessary to acquire or sell the support-assets [4, p.100]. The leverage effect of the derivative products allows the users of these products to achieve a considerable volume of operations with limited expenditures and with reduced transaction costs. For example, the futures agreements allow the opening of positions, immobilizing only a low level of liquidities under the form of the guarantee deposit. In a similar way, the option agreements allow the opening of positions if the option's buyer pays a bounty that can be modified according to its expectations of gain.

The leverage effect that characterizes the derivative products stimulates the performance of speculation operations that are much easier to be achieved on the derivative markets in comparison with the markets of the support-assets, a fact that explains the considerable growth of the speculative positions and of the volatility of the markets, but also of the losses if the anticipations do not come true. Thus, the derivative products can constitute also a factor of instability for the markets.

The main function of the derivative of protection against risks allows the reduction of the incertitude by using these products so that one can better appreciate if he/she contributes to the creation of a more favorable climate for the development of international transactions and investments.

The development of the derivative financial products can also contribute, under normal conditions (where no tensions appear on the markets), by stimulate of the transactions from the support-assets markets. This is due to the fact that the derivative products facilitate the coverage of risks, stimulates the investors to acquire support-assets and this allows the development of the respective assets' markets, the amelioration of the liquidity and their efficiency. For example it was observed that the derivative markets facilitate the issuance of securities of the public debt because they allow the agents that buy them to protect themselves against the interest rates' risk.

In the context of financial globalization, the accentuated development of the financial markets and especially of the derivative financial products' market has significant implications also over the activity of the bank institutions. As a result of the deregulation, subdivision and non-intermediation process, it was registered an intensification of the competition between the bank financial intermediates and the non-bank ones, the diversification of the bank institutions' activities and, at the same time, the reassessment of the role of the banks in the economy.

In respect to the derivative financial products' markets it was established a considerable involvement of the bank institutions on these markets, aiming to improve the financing conditions, the administration of the own risks but also of the clients' risks. The banks take part on the derivative markets both as dealer of derivative financial products as well as users, being at the same time the main intermediates on the markets, according to the agreement. Thus in some countries where the process of bank non-intermediation is accentuated (for example in Great Britain or USA), the operations with derivative products performed between the banks hold the predominant share from the total number of transactions from the derivative markets.

The increase of use of the derivative financial products at the level of bank institutions, in the context of bank non-intermediation has contributed to the development of their operations on the financial markets that means the diversification of bank activities and of income resources.

At the same time, it can be observed the fact that, in the event in which the bank institutions develop activities with derivative financial products without complying with the bank caution, there appear errors in the bank system that can determine the manifestation of a system crisis.

Another significant influence of the fast development of the derivative financial products is the one of the monetary policy. The accentuation of the financial innovation process in general and the increase of the usage degree of derivative financial products in particular have determined the growth of the monetary policy's complexity and the difficult evaluation of its impact over real economy.

Since the turn of the millenium, the amount outstanding of futures and options on short-term interest rate has grown significantly. Statistics and econometric evidence show that there is a the relationship between turnover in this market and changes in policy rates operated by central banks, both actual and expected [3, p.1]. The volume of trading with interest rate derivatives appears to respond mainly to changes in expectations of future interest rates.

The outlook for monetary policy promoted by the central banks represents an important driver of activity in the derivatives market. Even if central banks control only the short-term interest rate, their actions have an impact on the whole spectrum of yields and on other asset classes. A study conducted by the Bank for International Settlements on the G3 economies (SUA, Japonia şi UE) show the existence of a relationship between monetary policy and turnover in exchange-traded derivatives [3, p.1]**.** The market participants' changing perceptions about the future path of policy rates tend to have to have an important impact on activity in most exchange-traded money market derivatives. In the same time, anticipated changes in spot rates have no effect on the turnover in most exchange-traded money market derivatives. Increased uncertainty about future central bank actions is also associated with higher turnover.

The development of derivative financial products influences the transmission speed of monetary policy decisions, supposing that they can attenuate their efficiency [5, p.109]. For example, using swap agreements on the interest's rate could delay or accelerate the impact of the directive interest rates' modifications performed by the central banks over the debtor economic agents, in the following manner: the economic agents that anticipate the decisions of restrictive monetary policy and owe a variable interest rate have the possibility to limit the impact of these rates over the financing plans by modifying the loan's characteristics, respectively by transforming the initial loan (contracted at a variable interest rates) in a loan with a fix interest rate. Under a reversed situation, the economic agents that anticipate a relaxation of the monetary policy can accelerate its effects over the financing plans by transforming the debts, employed at a fix interest rate into debts at a variable interest rate. But such an influence of the derivative products is limited and manifests itself on the short term if we take into consideration the fact that the anticipations can be incorrect. Moreover, even in the case in which the anticipations prove to be correct, not all economic agents can act in the same manner and so some of them will be eventually affected by the modification of the directive interest's rate.

Another aspect regarding the implications of the derivative financial products over the monetary policy aims the influence over the transmission mechanisms of this over the real economy. For example, the use of derivative products can attenuate the role of the exchange rate's mechanism. This is due to the fact that the economic agents that perform foreign trade activities can protect themselves against the fluctuations of the exchange rate by means of the derivative financial products (especially by means of swap agreements on currencies, futures and currency options). But, on the long term, the fluctuations of the exchange rate influence the price level and, consequently, the production decisions of the economic agents.

The development of derivatives markets influences also the structure of monetary aggregate. The low cost of hedging or the low interest rate risk of T-bonds have determined a reduction oh the risk associated and transform them in alternative to banking deposits, which represents components of monetary aggregate.

The markets of the derivative financial products offer new information to the monetary authorities, regarding the anticipations of the participators on the markets over the prices' future evolutions of the support-assets. Such information can be used by the central banks for a better grounding of the monetary policy decisions.

After the 1990s, the crises registered on stock exchange and real estate markets of numerous countries reflect the important role of the price of real estate shares and goods within the mechanisms of transmission of the monetary policy as their value is sensitive to the fluctuations of the interest rates. What is more, the practice shows that the prices of real estate goods grow significantly in comparison to the share prices, in the context of the excessive relaxation of the crediting conditions in a country.

The problem of the derivative financial products that has been discussed for a long time in the literature, regards their impact over the stability of the financial systems and their role in the occurrence of the systemic risks. Although it is well known the fact that the main function of the derivative financial products is to offer protection against financial risks, one should never forget that, at the same time, they build an instability factor due to the leverage effect that allows the opening of significant speculative positions (for example the case of Long-Term Capital Management). The practical experience highlights the fact that the derivative products can, during periods of tension, amplify the instability of the prices and emphasize their fluctuations.

In respect to the role of the derivative financial products in the occurrence of the systemic risks, some specialists in this field are frequently invoking, as an example, the case of the credit derivatives. The market of the credit derivates has registered in the last years a very fast development and the value of the transactions with credit derivates are significantly increasing, according to the estimations of the International Regulations' Bank, from 180 billion USD in 1997 to 42.580 billion USD in June 2007. [1, p. 104]. Although the market of the credit derivatives is much more restricted in comparison with other markets of derivative products, the accentuated development of the transaction with credit products would reflect the fact that the credit risk is considered much more important in comparison with the exchange rate risk or interest risk.

Credit derivative products appeared in the early 90s in USA and represent a new instrument of protection against the credit risk, used on large scale by the banks. By means of the credit derivatives, the bank institutions transfer the credit risk to some investors, such as insurance companies, mutual funds or hedge funds.

The fast development of the credit derivatives markets can determine the apparition of financial crisis (for example, the recent USA crisis from the bank and real estate market that had significant implications also over other countries, including over our country), because the transfer of the credit risk is performed mainly towards the investors much less capitalized and that are not bound to some strict regulations. At the same time, these markets are "Over the Counter" markets that through their nature are less transparent. Moreover, the significant implication of the bank institutions in the transactions with credit derivatives highlights the use of these products without complying with the bank cautiousness; a fact that can determine can determine the manifestation of instability at the level of the bank system and even the apparition of the systemic risk.

4. Conclusions

In the last years, in the context of globalization, the financial systems from the majority of the world states register significant economic transformations, especially through a very fast development of the markets of derivative financial products (especially of the credit derivatives) and through the intensification of the hedge funds activity. In this context, the financial systems have become more complex and less transparent so that the monetary authorities confront themselves with difficulties regarding the evaluation of potential risks that threaten the financial stability.

The financial crisis that manifest themselves in the context of financial globalization (especially the crisis from the Asian markets and the recent crises from USA) have determined the intensification of the preoccupations of the monetary authorities from different countries, including of some international institutions (The International Monetary Fund, The Bank of International Settlements) so that they evaluate the implications of the speculative derivative financial products (hedge funds) over the financial stability. Such preoccupations have at least two reasons. On the one hand, a large proportion of the transactions with derivative financial products are being performed by the banks and, consequently, the use of those products that don't comply with the bank cautiousness could determine the instability. On the other hand, the intensification of the direct relations between the bank institutions (especially between the most important banks) and hedge funds can be the source of financial instability of systemic type.

The disastrous effects of the financial crisis, manifested in the context of financial globalization, impose the preoccupation of the monetary authorities for the rigorous analysis of the relationship among the prices of the shares, of the real estate and the economic activity, as well as for the outline of the monetary models that include the prices of these assets for the orientation and the evaluation of the monetary policy.

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THE CHALLANGES OF RURAL LENDING - RISKS AND COSTS -

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Abstract: Urban and rural areas differ in many aspects. One of them is the relevance of agricultural in rural areas. Agricultural is distinct from other sectors because of the seasonality, geographic limitations, price volatility and dependence on natural conditions. Moreover, the rural populations are often poor and have great difficulties in managing risk, coping with shocks and accessing consistent cash-flows. These differences may affect the characteristics necessary for the success of the financial institutions operating on rural markets.

This paper outlines the various risks of rural finance, discusses the cost involved in agricultural lending and presents techniques for risk and cost reduction.

Key words: rural lending , credit, agriculture, financial institutions,risk, costs

The Risks of Rural Lending

Moral Hazard

As in any lender-borrower relationship, there is a general problem of moral hazard that is the result of specific personal characteristics and decisions of each individual borrower. In this regard, rural population do not differ from any other borrower group in terms of information, incentives, monitoring and enforcement problems associated with the lending process.

Production and Yield Risk

Agricultural yields are generally uncertain, as natural hazards such as the weather, pests and diseases and other production calamities impact on farm output. Even slight changes in weather conditions - less rain than usual - can seriously impact on farm production. Pests and diseases may spread quickly, leading to a loss of part or all of the crop's produce. The soil quality of the plots as well as their location also significantly influence productivity and yield risk. Seasonality of agricultural production provides an additional risk.

For all these risk management techniques, the experience of the small farmer is the core requirement for good results. Accordingly, prudent lending decisions need to be based on an assessment of the management capacity of the farmer.

Price and Market Risk

Price uncertainty due to market fluctuations is particularly significant where market information is lacking or scanty, or where markets are imperfect – features which are prevalent in many developing countries. The relatively long period of time between planting a crop or starting livestock activities and the realization of farm output implies that market prices may change from

what has been projected. This problem is particularly relevant for longer term agricultural activities, such as perennial tree crops like apples or citric culture, as several years lie between planting and first harvest. Price fluctuations may be particularly severe in export markets. Over-production, however, may also considerably influence domestic market prices. In many countries, price uncertainty has increased with liberalization of agricultural marketing. Market risk also includes the potential losses involved in marketing agricultural products. Transportation, as has been pointed out earlier, is a major challenge in many rural areas. Substantial losses may also occur due to a lack of appropriate storage facilities.

Lack of Diversification

Price and market risk, as much as production and yield risk, is higher for farmers concentrating on a single crop or livestock activity. Accordingly, many farmers apply risk diversification techniques to reduce these risks. Complementing market-oriented production with subsistence farming is one particular safety-net arrangement, which provides survival measures once yield, production, price and market risks diminish the profits made. Besides this, many farm households incorporate in their overall diversification strategy also non-farm activities.

Lack of Collateral

Most small farmers possess little to no assets. Even fewer small farmers possess land titles or goods which are traditionally used as loan collateral by banks. The most accepted asset for use as loan collateral is land, because it cannot be removed but can generally be transferred at a specific market price. Small farmers' land, however, may also have a very limited value if there is no land market. Land titles may also be unavailable or costly to obtain. Finally, land registration is often imperfect in many countries.

Political Risk

Political interference in agricultural markets is a common feature to be found in many developing countries. Price intervention in agricultural markets, for example, is popular, as low food prices are in the interest of urban consumers. On the other hand, fixed prices for agricultural produce are also a frequently used political tool to ensure a certain level of income for small farmers. Agricultural lending has a long-standing history of political intervention and distortion, which substantially contributed to the disinterest of commercial lenders in this business.

The Costs of Rural Lending

Lending to small farmers can be a costly endeavor. As a matter of fact, lending in rural areas is generally more expensive than lending in urban areas. Clients are widely dispersed, and long distances have to be traveled by loan officers and/or customers. Lending in small amounts is, in general, more costly than lending in bigger amounts, as the cost of assessing, monitoring, and following up on loans does not decrease with the size of the loan. Rather, substantial parts of administrative lending costs are of a fixed nature.

The key cost driver in lending is the necessity to obtain substantial information about the potential borrower and to be able to do a close monitoring. Information is vital in assessing and managing risk.

Dispersed Clients

Low population density coupled with dispersed location of rural clients make the provision of formal financial services costly. Both from the lender's and borrower's perspective, the long distances between communities and the inadequate rural transportation facilities in many developing countries increase the costs of loan appraisal, loan monitoring and enforcement of loan repayments.

Limited Existing Information Base on Potential Customers

There is a general absence of credit histories as few financial institutions offer the possibility to generate a track-record with them. Beginning a relationship between the agricultural lender and a client is particularly costly and involves substantial "start-up" information costs. The lender must capture key first-hand information from the borrower, which requires time and experienced staff. After establishing a track record with the agricultural lender, the information costs diminish.

Limited Written Documentation to Base Credit Assessment On

Small farmers usually show a low level of formal education and are not used to manage written documents or keep records. Consequently, the loan appraisal must often be based on capturing first-hand information by interviewing the potential borrower.

Complexity of Economic Activities of Rural Households

This diversity in farm and non-farm income-generating activities of rural households requires better knowledge of the farm household financial situation. This can extend the bank staff time (and expenses) needed for loan appraisal. It may also require the setting of individual loan repayment terms. It is likely to increase the costs of training agricultural loan officers.

Demand for Variations in Lenders' Institutional Capacity

As agricultural production, the agricultural lending business is largely seasonal. Given the fact that seasonal agricultural activities are very time-sensitive, credit appraisals must be carried out within a short period of time and timely loan disbursements must be ensured. Consequently, the institutional capacity of agricultural lenders must adjust to these variations of credit demand during the year. There might be a need for additional, temporary staff in financial institutions during peak periods while in other months a reduced workload in agricultural lending must be off-set by other lending activities. Cost-effective planning for adequate staff and institutional capacity (liquidity requirements) is therefore a challenging endeavor.

Risk and Cost Management in Rural Lending

Given the complex risk structures and high administrative costs, efficiency is essential in agricultural lending. Thus, implementing streamlined policies, procedures and tools is a must. However, standardization in agricultural lending has to deal with the challenge of a high degree of heterogeneity of the farmer clientele and the complexity of economic activities within each farm household.

Risk Management

In order to reduce **production, market and price risks**, the following measures can be taken:

- An assessment of the specific risks that are associated with different agricultural production activities in different areas is essential in determining the potential risk exposure of lenders.
- Loan appraisal should include a thorough assessment of the borrower loan repayment capacity and his creditworthiness; also external risk factors of farm production should be taken into account.
- Individualized loan products and loan repayment schedules that are set in accordance with the loan repayment capacity of the borrower reduce the risk of loan default
- Collaboration with organizations which know farmers well reduces client information costs and risks of lenders.
- Rural lending should start in production zones that present low risks; operations can then gradually be expanded to more risky areas.
- The loan term and repayment installments are tailored to the estimated net cash flow of the prospective borrower. Farmers who rely only on farm production activities normally pay back their loans in one installment after selling their farm produce. Others are capable of repaying their loans in periodic installments. These farmers have a more diversified income base with relatively stable monthly income flows from non-farm activities and salaries or remittances from other family members.
- Loan portfolio diversification serves to protect rural lenders against covariant risks. Rural lenders should diversify their loan portfolio by financing a mix of loans with different lending purposes, loan terms and loan repayment schedules. Still, rural lenders need to set ceilings on the share and volume of total farmer loans by zone.
- Managing of external risks through insurance (single-peril crop insurance, multi-peril crop insurance, crop-revenue insurance, livestock insurance, equipment insurance, house insurance, health insurance etc).
- Staff incentives systems motivate staff and effectively increase their lending productivity. The loan portfolio growth and loan portfolio quality should be an important reference point in performance-based incentives for loan officers.

In order to reduce **moral hazard related risks**, the following measures can be taken:

- Clear information should be given to borrowers on the financial conditions of loans and loan repayment obligations (interest rates and fees, collateral requirements, loan repayment terms and contractual loan obligations). The objective of client education is to promote a positive credit culture and to foster mutual respect between the lender and the borrower.
- Co-signing of loan contracts and moral persuasion are effective means to enhance good credit discipline. Sometimes, both husband and wife sign the loan contract. This extends the lender-borrower relationship to the whole household and it deepens the sense of obligation by the borrower.
- Close contacts between the lender (loan officers) and the borrower are conducive for an atmosphere of mutual trust that improves credit discipline.
- Partnerships with agricultural products processors in well integrated marketing chains can significantly reduce the risks (and costs) of rural lending. The intervention can be applied in the selection process: processors' field agents know the producers and can make a pre-selection based on their personal knowledge of the producers' morality and ability; this contributes to greatly reducing the intermediation expenses for the lender; in order to ensure that the pre-selection process done by the agro-processors is done seriously, it is preferable that they carry a portion of the risk.

Risks from changes in domestic and international policies can be alleviated through the following measures:

- Rural lending institutions should be free of political interference in their daily management.
- Rural lenders regularly need to monitor policy and market changes that affect their rural (especially agricultural) clientele.

Collateral substitutes replace more conventional types of loan guarantees and can provide important loan repayment incentives. These types of collateral have a more psychological than actual market value. Among the various types of collateral substitutes we can mention:

- Group guarantee in case of group lending. Even if all financial transactions are conducted directly between the bank and the individual group members, peer group pressure, however, is activated at the time when loan repayments are due, as new loans will be only provided when all members of the group have fully repaid their loans.
- Pledge assets. In the case of small loans to low income borrowers, the assets involved have a limited market value, but they are highly valued by their owners who would have difficulty in replacing them. Typically, these goods include household appliances and furniture as well as farm equipment.
- "Symbolic" forms of loan collateral. These can include the physical possession of land title documents by the bank during the course of the loan. Pledges of future crop harvests and household savings are also accepted, although they are not legally enforceable.
- Co-signers or guarantors. Two types of guarantors can be used: i) "moral guarantors", who have a close relationship with the borrower household, are required for small loans. They are used mainly as prevention against moral hazard. ii) "personal guarantors", on the other hand, are appraised in the same way as the borrower and, in the case of loan default, they are responsible to meet all the loan obligations.
- Guarantee funds available in different countries.
- Lending risk insurance. Banks can contract global non-payment insurance with an insurance company for all its rural loans. The costs of this insurance are worked in the interest rate charged to each individual customer; the insurance replaces other collateral requirements.
- Partnership schemes agricultural products processors in well integrated marketing chains. The intervention can be applied in the recovery process, by deducting installments directly from the processors' payments to the producers that would be assigned to the bank; this arrangement requires signing a three party agreement.
- Partnerships with agricultural equipment suppliers in order to facilitate liquidation of collateral in case of need.

Cost Reduction

Rural lending is a costly business because it serves a **dispersed rural clientele**. Many of the cost reduction strategies, as outlined below, involve heavy initial overhead costs. This implies that they do not produce a return in a short period of time and an assessment should be made of their long-term cost effectiveness. Main strategies to reduce the financial transaction costs include the following:

- Adopting a cluster approach: choosing larger villages with good agricultural potential and with a village headman who is willing to participate actively in lending activities such as spreading information and organizing meetings.
- Using innovative information and communication technology (various forms of branchless banking-model)
- Decentralization of lending decisions to branch staff and loan officers.
- Delegation of parts of the appraisal, disbursement and monitoring procedures to other groups that are in close contact with the borrowers, e.g. community groups/associations, business development centers etc.
- Applying appropriate route-planning to avoid excessive traveling and reducing transport costs.
- Investing in qualified, well trained and highly motivated field staff in order to have has a positive impact on the lending productivity.
- Using a standard loan appraisal form with standard loan assessment indicators, which are computerized.
- Using simplified loan appraisal procedures to reduce the time required for loan processing, loan approval and loan disbursements.
- Defining borrower pre-selection criteria to sort out borrowers with an insufficient repayment capacity or unwillingness to repay at the earliest stage possible of the loan appraisal.

Limited existing information on potential clients as well as **limited written documentation** can be reduced by the following measures:

- Close contacts with local organizations and networks provide relevant client information.
- Loan officers with agricultural knowledge, good communication skills and well accustomed with the local region can significantly reduce the time and costs of collecting information and to prepare the credit files.
- Effective management information systems provide crucial information (appropriate client information system and a comprehensive database which tracks customer performance and economic activity profiles).

Seasonality and complexity of activities in rural households require specialized and well trained loan officers. The productivity of rural (agricultural) loan officers, in contrast with urban lending activities, is subject to seasonal fluctuations. Diversification of the rural loan portfolio in terms of location and lending purposes helps to balance the uneven staff work load due to the seasonality in agricultural lending. At the same time, the skills, knowledge (background in agronomy, farm management, rural economy) and personal qualities of the loan officer are prerequisites for efficient loan appraisal.

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COUNTRY RISK FROM ROMANIA AND BULGARIA AFTER UE INTEGRATION

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ABSTRACT:Country risk is a relatively new concept in economical reasoning, that has entered in researchers attention only in 70es. The assessment of country risk by the international financial institutions, has extended in the same time with the increasing of external activities of private commercial banks in course of development.

KEYWORDS: country risk, economic growth, banking system, budget deficit

Most of the human actions present a certain dose of uncertainty and risk, due to the man, and also because of environmental elements.

Country risk is a relatively new concept in economical reasoning, that has entered in researchers attention only in 70es. The assessment of country risk by the international financial institutions, has extended in the same time with the increasing of external activities of private commercial banks in course of development.

The assessment of country risk has as an aim pointing out the difficulties that can occur in paying the bonds by a certain country that comes with its external affairs. Until the 70es, losses because of country risk factors had been neglected, reason for which private banks granted loans way to much over the prudence limit, especially to rich natural resources countries from Latin America. As a consequence, debt crisis from 80es has unbalanced the entire international financial system, causing great losses to external creditors. Then it became obvious that ignoring country risk is a source of uncertainty and risk that can lead to eliminating firms from the market. The only way to reduce the ambiguity is to know very well the economical, political and social external conditions, exactly what is wanted to know with evaluating the country risk.

In the next tab we have a presentation of the assessment of country risk, elaborated with Euromoney method, for Romania and Bulgaria. It contains the period between 1993 – 2005, and the changes in two respectively five years.

Assessment of country risk for Romania and Bulgaria. between 1993 – 2005

Country	**1993-2005 (%)**	**1993-2005 (%)**	**1995-2000 (%)**	**2000-2005 (% modificated)**
BULGARIA	28,65%	8,59%	0,47%	17,92%
ROMANIA	-5,33%	14,68%	-42,50%	43,58%

Romania joined the EU on 01.01.2007, but this accession was coupled with strict supervision is numerous areas. The EU will continue to monitor Romania’s progress in meeting these requirements and may invoke so-called safeguard clauses up to three years after accession. The accession treaty provides for safeguard clauses in the areas of economic integration and common market as well as justice and home affairs. Possible sanctions in this respect are export barriers for foodstuffs and a reduction in EU structural and agricultural funds. In addition, transition periods have been established for the free movement of Romanian workers. The Commission may also introduce measures to ensure the correct administration of EU policies. This concerns the areas of food safety, air traffic safety, agricultural subsidies, the judicial system and the fight against corruption.

Economic growth in 2006 was driven primarily by domestic demand, which was supported by higher wages, an increase in private credits and a loosening of fiscal policies. Growth is forecast to slow somewhat in 2007 due to lower real wage increases, a more restrictive fiscal policy and declining foreign demand.

Economic success has led to a weakening in the balance of foreign trade, but the negative effects of this development were moderated by strong confidence resulting from EU accession and a high pace of investment activity. However, the exchange rate risk may increase over the medium-term if the budget deficit and current account deficit rise and income from privatizations declines at the same time.

The textile industry has become one of the most important sectors of the economy, employing more than 20% of the workforce. In addition, the role of Romania as a location for automotive component suppliers is growing. Strong development is expected in the foodstuff production and processing sector as well as waste disposal, technology and energy.

Despite this overall impressive economic performance, there is considerable need for reforms in many areas. Excessive red tape, persistent legal uncertainty, a deficient infrastructure, widespread corruption and the fact that 35% of the total workforce is employed in the agricultural sector reduce Romania's attractiveness to foreign investors. FDI reached a record level of EUR 8 billion in 2006, but a decline is forecasted for 2007.

Economic relations with Austria are considered excellent, with more than 3,500 Austrian investments registered in Romania since 1990. Goods with a value of more than EUR 1.8 billion were exported to Romania in 2006, which represents an increase of 30% compared to 2005. Exports from Romania to Austria amounted to EUR 800 million in 2006. This makes Romania a very important trading partner for Austria, more important than some EU countries and equal to Russia.

Selected Indicators 2003 to 2008 for Romania

Key Data	**2003**	**2004**	**2005**	**2006**	**2007**	**2008 (f)**
GDP (real in %)	5.2	8.4	4.1	7.1	6.3	5.5
Consumer prices (%)	15.3	11.9	9.0	6.5	5.3	4.5
Gross fixed capital formation (real in %)	9.1	10.8	13.0	12.5	13.0	13.4
Unemployment (%)	7.2	6.3	5.9	6.1	6.3	5.2
Budget deficit (in % of GDP)	-2.2	-1.1	-0.8	-0.9	-3.1	-2.4
Merchandise imports (million EUR)	22,200	30,200	37,300	52,000	60,000	55,400
Merchandise exports (million EUR)	17,600	23,500	27,700	36,600	40,800	36,000
Current account (million EUR)	-3,100	-5,700	-7,800	-13,800	-18,200	-13,200
FDI (inflow, net in million EUR)	2,000	5,100	5,200	8,700	5,600	5,500
Gross foreign debt (in % of GDP)	39.6	41.0	37.4	48.1	54.2	n.a.

(f) forecast

n.a. not available

Sources: WIIW, CBR, CNS RO, Bank Austria Creditanstalt Konzernvolkswirtschaft, Coface S.A

During the third quarter of 2006, GDP growth rose by a real 6.7% over the comparable prior year period. This represented the strongest quarterly development since the start of transition as well as a slight increase over the real growth of 6.6% recorded for the previous quarter. The structure of GDP components on the demand side point to a slight improvement in the pattern of growth, whereby the gap between positive effects of domestic demand and the negative effects of net exports declined moderately compared with both 2005 and the first half of 2006. Consumer spending increased by a strong 7.4%, as individuals grew more confident in their capacity to earn and spend more.

The high pace of economic expansion will continue in 2007, supported by favorable external conditions and solid growth in domestic demand. Although only a marginal decline in inflation is expected, private consumption should remain resilient. Forecasts also indicate a positive short- to medium-term outlook for investments. Accession to the EU has highlighted Bulgaria's advantages as a low-cost location for businesses and this, in turn, has created additional stimulus for the inflow of foreign capital. In addition, the more than four-fold increase in the potential volume of EU grants will contribute to GDP growth over the short run.

After years of self-imposed constraints (to keep the large current account deficit in check), access to the structural and cohesion funds is likely to spur capital expenditure in the public sector during 2007. During debates over the new federal budget, the Minister of Finance underscored the plans of the ruling coalition to press ahead with the implementation of several large infrastructure projects. The new budget reflects an increase of 22% in spending over the base year to a level of EUR 1.3 billion (or 5.3% of projected GDP).

The seasonal decline in inflationary pressure during the summer came to an end in September. Inflation accelerated during the last three months of the year to a level of 6.5% in December and 7.3% on average for the whole of 2006. The general increase in the price level resulted primarily from a sharp rise in food prices.

The most recent statistics provide a mixed picture of external economic performance. The current account deficit – which is viewed as the major weak point in the economy – increased from 9.4% in 2005 to 12.9% of GDP during the period from January to November. However, the foreign trade deficit has remained essentially unchanged at roughly 20% of GDP for more than a year. Merchandise exports were 27.4% higher in year-on-year comparison at the end of November, and thereby exceeded the 24.2% increase in imports.

Selected Indicators 2003 to 2008 for Bulgaria

Key Data	**2003**	**2004**	**2005**	**2006**	**2007**	**2008 (f)**
GDP (real in %)	4.5	5.7	5.5	5.8	6.0	6.3
Consumer prices (%)	2.3	6.1	5.0	7.6	6.8	4.7
Gross fixed capital formation (real in %)	13.9	13.5	19.0	21.0	16.5	12.0
Unemployment (%)	12.7	13.0	12.0	10.0	9.2	8.5
Budget deficit (in % of GDP)	-0.4	1.5	2.3	3.0	1.0	1.5
Merchandise imports (million EUR)	8,900	11,000	13,800	17,400	21,400	25,000
Merchandise exports (million EUR)	6,700	8,000	9,500	11,300	13,400	15,000
Current account (million EUR)	-1,600 -	-1,600	-2,400	-3,100	-3,900	-3,400
FDI (inflow, net in million EUR)	1,800	1,600	2,300	3,800	3.900	3,200

Gross foreign debt (in % of GDP)	67.2	70.2	63.4	66.4	62.6	83.5

(f) forecast

Sources: Bank Austria Creditanstalt Economics Department, BNB, NSI, Coface S.A

GPD growth accelerated during 2006 and is expected to peak in 2007. EU accession has underscored the positive attitude of international investors and will keep foreign direct investment above 10% of GDP for the fifth year in succession. The pace of economic development will also be supported by an increase in capital expenditure by the public sector and strong growth in private consumption. However, opportunities for reducing the current account deficit will be limited because rising fuel prices and higher demand for investments will absorb the positive effects of the steady increase in exports. The strengthening of the country's competitive ability remains a key priority of economic policy, but will require the continuation of structural reforms. The government agenda for 2007 will be focused on preventing the activation of safeguard clauses and ensuring the maximum possible utilization of EU grants.

In 2006 Coface Romania has made public Romania's rating emitted by Coface Group. Romania has been been included for the first time in the A category of country risk, being assessed with the A4 mark. Coface emits ratings for 151 countries, analyses 44 million companies from all around the globe and it's a global leader in export loan insurance, and has a quotation of 25%.

If in 2005 Bulgaria had been been evaluated by Coface with B+ while our country had B, Romania ascended another level in the hierarchy, to A4, instead Bulgaria maintained its rating. The rating is reflected also in indicators like life standards purchasing power, that in Romania are better comparing with other countries in course of development. For example, according Coface analysis, in Romania exist 69 computers per 1000 inhabitants, while in other countries in course of development is 37 (the regional average is 84 computers per 1000 inhabitants).

The main consequence of A4 country rating for Romania is that it will enhance the access on international markets and the credit limits of Romanian companies for commercial credits, from their external partners, other international creditors or from financial risk insurance companies. This will lead to an increase of commercial relations volume especially in EU countries and enhancement of Romanian business environment credibility on international scale.

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RECENT MODIFICATIONS TO THE DEBIT PAYMENT INSTRUMENT IN ROMANIA: A COMPARATIVE SYNOPTIC APPROACH

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Abstract: This study is aimed to describe the actual stage and the developing opportunities for settlement of the debit payment instruments in Romania. We present the settlement system of the debit payment instruments during the period 1999 until present. We underline the actual stage of the compensation of the debit payment instruments through Transfond and comparatively with the description of the automatic process of the debit payment instruments. We examine the technical ways to preparing the debit payment instruments, especially the two proposals for operating the debit instruments through truncation – the truncation at the source and the flexible truncation method.

Key Words: Debit Payment Instruments, Automated Processing Solutions

Introduction

Among the banks' operations we identify the banking specific operations carried out directly by the banks, pertaining to the essence of the banking activity, like issuing and administering payment instruments and making payments. The operative and efficient functioning of the national banking payments system leads to a more frequent utilization of this system by the population and the economic entities.

In such an economic context, the interest of banking societies and of the national banking authority – National Bank of Romania – is to develop and maintain viable payment systems. Otherwise, National Bank of Romania carries out operations with banking companies and other credit institutions, consist of regulate and supervise payment systems, ensure services of compensation, depositing and payment. The involvement of the National Bank of Romania in building a modern national banking payment system is obvious. We affirm that relying on the structural changes at the level of banking payments, sustained by National Bank of Romania.

We chose the debit payment instruments as the object of the study, because from 2007 in Romania there is a project to automated processing of the debit payment instruments. Initially, this new system had to be operational starting at 1 April 2008, according to the agreement between national authorities and the World Bank. But this date was impossible to respect, especially because of the delays in the primary legislation adoption which modifies conditions for the debit payment instruments. From the moment of the legal framework adoption it is foreseen that it would be needed an almost 4 months transition period from the present processing way, manually towards an image processing method. In the 11-th of April 2008 were published the modifications of debit payment instruments legislation in the Official Gazette of Romania, which will be applied in 30 days from their publishing. Then in a 30 days term, the National Bank of Romania must elaborate norms for the primary legislation application.

The processing of the debit payment instruments through Transfond

The study of the settlement of the debit payment instruments did not make without the presentation of the role of Transfond society. In the year 1999 the Romanian National Bank decided to externalize the funds transfer operations and the compensation operations, and in the year 2000 is created according to the engaged settlements to the European Union, the National Company of Funds Transfer and Settlements Transfond SA, as an operator of the national payments system and the majority stockholders are the National Bank of Romania (33,33%) and the main banks that are operating in the Romanian banking system (66,67%). In the year 2001, became operational the externalizing the payments activity decided by the National Bank of Romania towards Transfond SA (excepting the funds transfers related to the State

Treasury). The Transfond SA company took the old locations of the National Bank of Romania (42 locations) where the compensation took place and the payments instruments circuit with or without cash or paper support, meaning that the payment document had to appear in physical shape at the payer, not being possible the electronic circuit of the payment documents (as well as for the less and unequal development of the banks infrastructure, as well as for not existing the needed legal settlements).

The Transfond SA Company had as main purpose for its activity financial intermediations and auxiliary activities of the financial institutions, as it follows:

- Operating the funds transfers realized as net or gross shape between the banks, State treasury and other financial institutions through settlements accounts or other types of accounts and irrevocable and no conditioned settlements of these transfers in the current accounts and the evidence accounts maintained through law by National Bank of Romania, including agent for the central bank;
- Recording and the transfer for the property over the state creations through evidence accounts of these ones opened in the name of owners recorded and maintaining its evidences, including as agent for the central bank.

The national payments system in the Transfond SA situation functioned in Romania until the year 2005 and during its functioning supported many changes at the procedural level. The credit payment instruments are settled into the elements of the SEP – Electronic Payments System, which function from 2005. But, in April 2008 the debit payment instruments are still settled up classically by Transfond.

In the framework of net settlements of the debit payment instruments through Transfond Company, each day of labour of the year had an imposed compensating session of the inter-banking payments, in its units in territory (41 units) and the central of Transfond (country capital city Bucharest), in special rooms prepared for this, in the morning. The compensatory session is lead by a compensation inspector. Each unit participating names an agent to represent it in the sessions, agent who has the task of preparing the compensation session and of participating as a representing of the banking unit in this session. The preparation of the compensation session is developed outside of the territorial units Transfond. The debit payment instruments are grouped on destination bank (receiving). Between the compensation agents of all banking units that participated at the session, the envelopes are exchanged, envelops that contained the debit instruments packages and compensating centralized dispositions and their annexes, available for the debit payment instruments. After receiving of the envelops with the packages of compensatory instruments where meant for banking units that represented them, each agent verifies them, assures them and goes back to its banking unit. The debit payments instruments are divided between the valid paying instructions and the refuses for the justified cases. These refuses are presented to the correspondents banking units in the second part of the compensatory session.

An overview on the future of the debit payment instruments

To understand the special case of the debit payment instruments in their quality of means of payment, we present the main characteristics of the debit payment instruments. *The bill of exchange* is the document through which a person, the drawer or the issuer, gives an order to another person, the drawee, to pay at maturity, an amount of money to a third person, the payee, or upon his order. *A promissory note* is a document through which the issuer undertakes to pay to the payee, or upon his order, an amount of money, at maturity, in a certain place. Consequently, the promissory note intervenes between two persons, and not three, as is the case of the bill of exchange. Unlike the bill of exchange, it does not contain the payment order addressed to another person, but only the acknowledgment of his own payment obligation. *A check* is a document through which a person, the drawer, gives an unconditional order to a bank, the drawee, in which he or she has available funds to pay, upon the presenting of the writ, an amount of money to another person, the payee. The payee can be the drawer himself (check of withdrawal). The debit payment instruments shall take the form in writing and the document shall comprise the mandatory mentions stipulated in the Law no. 58/1934 and no. 59/1034.

These mentioned regulations did not essentially modify from 1934 and their elements are inadequate to the development of the actual banking area. It is imposed the change of the national regulations. More precisely, the Romanian legislation said that the payments using debit payment instruments are conditioned by their physical transmission between the banking societies involved, so this kind of payments is not made by electronic compensation nowadays. In this circumstances there is a need to change the existing banking regulations (which imply the physical circulation of the debit instruments) because in present the banking settlements with payment debit instruments, being intra or inter banking, are marked by the physical transmission of the debit instrument by postal circuit. In this way we have an unjustified increase of the duration of settlements with payment debit instruments. Also, there is the risk of losing the debit payment instruments.

All the time after ’90 years, in Romania was very important to change the banking regulations which imply the physical circulation of the debit payment instruments. This need became acute in the last years, after 2005, because the banking settlements with payment debit instruments, being intra or inter banking, are marked by the physical transmission of the debit instrument by postal circuit. In this way we have an unjustified increase of the duration of settlements with payment debit instruments.

In December 2007, National Bank of Romania sent to European Central Bank a request for an opinion on two draft emergency ordinances amending Law No. 58/1934 on bills of exchange and promissory notes and Law No. 59/1934 on cheques. In February 2008, the European Central Bank delivered the opinion. The amendments proposed in the draft emergency ordinances are follows: to regulate truncation; to define the concept of signature on cheques, bills of exchange and promissory notes more clearly; to eliminate post-dated cheques, the *allonge* and data/references to data on the back of cheques, bills of exchange and promissory notes; and to introduce a single period for presenting a cheque for payment, regardless of whether it is payable in the city where it was issued.

European Central Bank approved an opinion - advice of payment - on two draft emergency ordinances amending Law No. 58/1934 on bills of exchange and promissory notes and Law No. 59/1934 on cheques. Based on opinion gift by the European Central Bank, were elaborated two law projects, which are on the order list of the Romanian parliament starting with the year 2008. The legislation modification on the cheques, bills of exchange and the promissory notes was necessary for the implementation of the new project of automatic process of the debit payments instruments.

After the first components of the SEP since 2005 (ReGIS, SENT and SaFIR), at the level of the National Bank of Romania of the Romanian Association of Banks and TransFonD began the project named PAID 07-The Automatic Process of the Debit Instruments (Palade, 2007). The project will assure the transition to the un-centralized way of processing characterized by the physic exchange of the debit payment instruments to a centralized way, based on the transmissions of the electronic payment imagines and messages and the electronic compensation of the last ones thought the SENT system.

So, after lot of years of primary changes, in March 2008, the two Government Emergency Ordinances No. 38 and No. 39 amending the debit payment instruments framework – Law No. 58/1934 on bills of exchange and promissory notes and Law No. 59/1934 on cheques. Until now, in Romania the debit payment instruments – the cheques, bills of exchange and promissory notes - are still settled up classically on paper support in the daily compensation meeting at Transfond. The technical aspects of the reimbursements based on the debit payment instruments must make the object of the second legislation given by National Bank of Romania this thing being foreseen for the first part of the year 2008.

The automatic process of the debit payment instruments is supposed to immobilize and un-materialize the instrument at the unit of the beneficiary where is presented for the first time for the settlement. The un-materialization means to capture and transfer all the information’s owned by the physical instrument, together with the scanned picture of this, in a standard electronic message, which is given by the beneficiary bank in the SENT system and then to the bank unit of the payer for checking and compensation. The electronic message process is realized based to a procedure similar applied to the direct debit instructions in the SENT system. The electronic message scurried by the electronic signature, has the same legal value as the physic instrument. The solution assures the process automation creating the possibility of the integrated process of those instruments and assures a low process time. In order to apply such a solution is necessary the legal frame modification regarding the cheque the bill and the order ticket which foresees the compulsory to present the physical instrument of payment.

Changing the debit instruments’ processing implies the removal of paper support circulation by truncating the debit instruments at the beneficiary’s bank, the electronic transmission of the debit payment instruction and of the image, the payment’s validation based on the debit instrument’s scanned image protected by using the digital signature techniques and the guarantee of a high security and automation degree for operating the debit instruments, with low costs and quicker processing.

The truncation of a payment instrument consists of catching the payment information on electronic support and stopping the paper support circulation, the further operating of the payment instruction-taking place only in electronic field. The new image processing technologies allow the payment validation using the digital image of the payment instrument. The automatic operation of the debit payment instruments through the Electronic Payment System would means:

- The truncation of the debit instruments takes place at the beneficiary's bank where the debit instrument is firstly presented for payment;
- The payment instruments are caught on electronic support using specialized machines and will be sent to ACH in MT104 folders, XML format, similar to the direct debit messages;
- The both sides image of the debit instrument is obtained by its scanning either with machines specialized for catching the payment instruments or with usual scanners. The banks will use digital signature techniques for certifying the accordance between the electronic image and the paper support original of the debit instrument and for the further image's legalization;
- The paper support payment instruments won't be sent on interbanking circuit, they will be archived at the entrance in the banking system where the truncation operation takes place, at the beneficiary's bank;
- The debit instruments will be electronically presented for payment through the automatic compensation house SENT as follows: the debit payment instrument and the digital image of the payment instrument are sent from the beneficiary's bank to the central of the bank, from there to SENT where they are registered and sent further on at the payer's bank through his central bank
- The validation of the payment is realized on the debit payment instrument's scanned image at the payer's bank;
- The compensation of the debit payment instruments will take place through SENT similarly to the direct debit operating - the "exception" method, through which the payment confirmation is implicit (the system considers to be accepted for payment all the debit instruments for which it wasn't received a denial from the payer's central bank);
- The debit instruments' images will be kept in three locations: the beneficiary's bank where the truncation took place, the payer's bank and Transfond as a trusted party, so the possible disputes would be quickly solved;
- The participants at the debit instruments operation through truncation will obey the rules referring to the compulsive maximum durations of settlement for debit instruments which will be imposed by regulations.

There are two proposals for operating the debit instruments through truncation the truncation at the source and the flexible truncation variant. In the first way, the truncation will take place at the beneficiary's bank using specialized technology for catching the payment information and the images; the process has been previously briefly described.

The flexible truncation method is the same as the other one, the distinction being that both the location for truncation in the beneficiary's banking structure and the level of specialization for the technology used is decided by each bank, according to the volume of debit instruments operated in the territorial units and to the amount of investment that the bank wants to realize for this purpose. The banks can make a technological mix using less specialized machines for reading the bare code and usual machines for scanning the debit instruments. The truncation flexibility does not imply derogations from the maximum terms of operation, which will be mentioned in regulations.

Conclusions

For the automatic operation of the debit payment instruments there was a need for some changes in this domain, both at the regulation level and at the territorial network level of each bank. The regulations regarding the debit payment instruments had to be adapted to permit the debit instruments' electronic presentation for payment. National Bank of Romania will elaborate the technical norms regarding the debit payment instruments. Banks must adopt a bare code for the debit payment instruments, which would be personalized by the issuer's bank (drawer or subscriber) by completing the codes' line. For this purpose, when delivering the notebook with debit instruments the bank would imprint a bare code on the white band of each leaf of debit instrument with the following information: the issuer customer's IBAN, the number and series of the debit instrument and the transaction code (payment instrument type). There is also necessary the numbering, giving series and keeping the promissory notes and bills of exchange' evidence in the same way as for the cheques' issuing in order to uniquely identify each debit instrument.

For facilitating the automatic processing of the debit instruments and for increasing the accuracy degree of the beneficiary's dates taken from the electronic support at the bank's counter there is recommended the encashment note's personalization by the bank, writing the IBAN code of the name of the account on the encashment note which will be used when he is in the position of beneficiary.

The increase in the volume of data to be transmitted on the internal communication network of each bank especially determined by the transmission of folders with scanned images of the debit instruments brings the need for adapting this increase to the volume of debit instruments, which are truncated by each territorial unit. The machines and the software for imprinting and reading the bare code, for catching and operating the images are another investment decision depending also on the encoding standard which will be adopted (one-dimensional or bi-dimensional bare code) and on the truncation variant chosen by each bank, truncation at the source or flexible truncation.

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THE BEYOND BOUNDARIES BANKING INTEGRATION. FOREIGN BANKS' PART IN THE CONSOLIDATION OF THE BANKING SYSTEMS

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The paper approaches the merchant banks activity in the context in which the financial markets integration degree and the political boundaries have become less and less relevant to the banking institutions due to the globalization, to the banks international opening, to the financial and techonological innovations, to the deregulation and the process of European integration.

Key words: foreign banks, banking integration, banking performances, financial stability

1.Introduction in the foreign banks activity

The banking activity often acquired an international dimension which outlined itself for the first time in the Renaissance period, moment in which appeared the first banks that unrolled an international activity, such as the Doctor's Banks from Florence. The process continued in time, so that the industrialized world undergoes nowadays the third wave of banking internationalization. The first wave includes the international movement of the capitals, which took place from 1870 until the beginning of the First World War, a period in which the English colonial banks owned the supremacy. The second wave took place, as temporal setting, between the two World Wars, being underlined by the distinctive feature of theAnglo-American financial rivalry and by the New York's supremacy over London, a tendency stopped by the economical crisis from 1929.

At the beginning of the 60's of the last century, the American big commercial banks initiated the third wave of banking internationalization. As their activity was constrained by a very rigid national regulation from the ending of the 19'th century, strengthened after the stock crash on the Wall Street, in 1929 which hindered their inside activities development and diversification, the American banks established themselves in London City, which enjoyed a free banking legislation. This situation led to the creation of a real offshore market, of the Eurodollars, situated in London. The big American banks could therefore help the development of the American multinationals, by assuring the capitals necessary to the investment financing in Europe. The example was rapidly copied by their homologues from the British colonies, by the Japanese, French, who yet did not manage to prejudice the American banks reputation. At the beginning of the 80's of the last century, the banking internationalization process acquired a new shape due to the indebting crisis of the developing countries and to the deflation which caused the decrease of the nominal interest rate and which allowed the resuming of the bond markets' activity to the prejudice of the international banking mediation. This process brings forward in the international stage foreground the American investment banks, the English merchant banks and the Japanese title banks, and constrains the commercial banks to modify their international strategy. With this respect, the commercial banks strengthen their position on the capitals international market, developing activities specific to the merchant banks. This last phase of the internationalization is inseparable to the development of the title transactions and led to the American, European and Japanese banks consolidation. Japan became in the 80's of the last century the first world creditor and Tokyo the second financial world market, its stock capitalization outrunning the one of New York (during 1989-1990).

We add the fact that, if in the 19'th century, the multinational banks branches were highly concentrated in the developing countries, starting with 1960, the multinational banks proved to be much more interested in the already developed countries. Moreover, another characteristic of the contemporary multinational banks is the tendency of giving up to the retail banking activity, existing nowadays the widely spread conviction that it would not be best for a foreign bank to follow up this kind of strategy, excepting the purchasing of a local bank.

In the last years, the financial markets integration degree increased and the political boundaries became less and less relevant for the financial institutions, due both to the rapid increase of the foreign investments in this field in the most part of the world countries, and to the changes occurred in the juridical field, which eased the access on various markets. In this context, the globalization, the markets international opening, the financial and technological innovations, the deregulation and the process of European integration modified in a decisive way the competitive field of the banking institutions, making them up-to-date their development strategies.

2. Considerations regarding the transnational banking activity

The extension of the bank's activity overseas by opening units in other countries than the origin one, has the final purpose of developing the activity and increasing the incomes, but the reasons that can made them act in this sense differ from case to case, as such:

- in order to follow and sustain its big exporting clients (this was the main reason for the developing the activity of the British banks like Overseas Banks and Clearing Banks), the biggest part of the banks activity being related to the national enterprises activity overseas;
- the intention of the banks specialized in certain operations to practise their banking activity in other countries, where these operations are not, or are insufficiently practiced (it is the case of the American merchant banks activity, of the international acceptance activity of the British banks or of the French financial institutions which developed their leasing activities in Italy and Spain);
- the extension in the insufficiently developed countries from the banking point of view (the case of the new industrialized countries or of the countries from Central and East Europe);
- the extension in the countries with an intense financial activity, hoping to easily obtain the profits (the establishment of banks in London at the end of the 19'th century, in New York at the end of the World War II or in Tokyo almost 20 years ago).

Among the factors that contributed to the transnational activity development distinguish the following:

- ▪ the activity's restrictive regulation in the residence country - in this case the bank develops, on the foreign countries, activities that are forbidden on the national market. An example is given by the way in which both the Japanese banks and the American banks got involved in the European capital markets, activities which they couldn't develop on the national markets because of a more restrictive legislation. This factor tends to stimulate the creation of foreign branches in the financial centres where the legislative background is permissive;
- the risk diversification – a strategical factor is represented by the banking activities diversification through the multinational operations. Therefore, the banks can reduce the risks by diversifying the disposals and directing them towards fields which are not correlated one to another, but, in case of a recession, all the markets are affected. By applying the diversification principle at the international level, the banks try to reduce the impact of a recession felt on a country's market, by extending the activity on other markets, hoping that these will not confront themselves with recession periods at the same time with the national market. Yet, the experience of the 1990 years shows that the diversification done by the banks from the developed countries by entering on the markets of the developing countries or on the markets in development, can sometimes lead to the increase of the exposing risk, especially by the increased ratio of the non-performant credits;
- the expansion of the international commerce – in many cases the banks try to provide global services to the clients who develop international operations, by opening branches in the countries in which the big industrial companies extended their activity. The main reason for this attitude is that the value of the transactions unrolled with this type of clients will become significant. The bank will want to maintain its position, therefore, will not want that an operation unrolled overseas by its clients be taken over by another bank, especially if it is a branch of a competing bank;

- the capital export – the activity's extension overseas is caused by the valorization of the capital's offer on the internal market. The banks from the developed countries, such as the United States and Japan, extended their activity overseas as a means of identifying some new investment opportunities. This objective is best accomplished by a continuous presence at the international level, so that the opportunities actively be identified and not just passively accepted in the moment in which they appear;
- the jurisdictional area – the risks afferent to the external credits considerably reduce by creating a new branch in the residence countries of the credit beneficiaries. For example, regarding the credit guarantess, the afferent documents and the creation procedure can be implemented in conformity with the local legislation, a fact that will not raise problems in their carrying out process (if the debtor does not respect his payment obligations). Thus, a branch's costs overseas can be justified by a high level of the redeeming rate, the presence on a foreign country contributing to the improvement of the credit portofolio quality. The reason would be not only the possibility of a better evaluation of the credit request, but also the discouragement of the fraudulent tendencies due to the possibility of easily taking legal proceedings of this kind of documents;
- the participation on the market – many banks extend their activities at the international level in order to participate on different markets that can represent: either sources of additional funds, modalities for the valorization of the available funds, or a combination of the two. In the first case, a bank from a developing country can establish a branch in a developed country in order to absorb funds for investments in the residence country. In the second case, a bank that posesses resources can enter on a flourishing foreign market in order to take advantage of the existent opportunities. Moreover, the banks which have international activity can participate on a foreign market in order to beneficiate of stability and a high degree of liquidities (like the London market of the eurocurrency). In case a bank anticipates the appearance of a future opportunity on a certain market, it will want to be present on that market in adavance, thus many banks open branches overseas.

A banking society, willing to extend itself on foreign financial markets by opening banking unities on the other countries' territories, confront itself with a series of „ barriers", of which the most representatif are the following:

- *the technological barriers:* the establishment of a new banking society implies the alignment to the technologies used by the banks from that country. This aspect is important in the unrollment of the relations with the other banks, by using the existent technologies which refer to: payments, the transfer of the messages of payments made through the existent network in that country, so on. Yet, the technological networks imply high investments, with long term redeeming.
- *the notoriety barriers:* which refer to the resonance that the banking society has or not in the respective banking system*;*
- *the mobility barriers:* these refer to the bank's capacity of penetrating the territory and getting close to the clients, the extension of the network implying yet important costs and a period of establishment, which represents a barrier for the new created banking societies;
- *the strategical barriers*: refer to the bank's development perspectives depending on the respective market's conditions and on the general climate;

3. The functioning of the foreign banks

A bank's modalities representation and functioning on the international markets can take one of the following shapes:

- *The subsidiaries:* - are those banking units implemented by the „ mother bank" in other countries than the origin one and are characterised by the fact that they have juridical personality;
- *The branches* – operate under the mother-bank responsability (without having a separate juridical statute). In the main, the simplicity of this fact is only illusory, because, due to the

fiscal or even administrative reasons, the operations done in a foreign country have to be recorded separately as if it was all about a distinct society;

- *The representation offices or the „ representances*" (known in the United States under the name of Loan Production Offices) – can not unroll transaction activities, being exactly what results from their denomination, that is only a representation centre of the central headquarter in a different country. These collaborate especially with the clients who have businesses in the bank's origin country. The representations' opening procedure is, generally, very simple and does not demand many formalities, often being the prelude of agencies or subsidiaries' opening or of banking acquisitions in the respective country.

In the context the European market opening, a significant number of banks tried to create a beyond boundaries banking network on the European Union territory, this internationalization being followed by an increase of the rivalry and, implicitly, as a response to this one, by a concentration of the banking field.

In France they are considered foreign banks, those banks at which foreigners, and particularly the foreign banks, posess the majority of the capital. At the beginning of the year 2000 there existed more than 165 foreign banks, of which 61 hailed from the European Union. Moreover, in the following period, there were registered requests from many foreign institutions, their increasing number in the French banking system getting close to 300. It is observed at the same time a strong presence of the British banks, a relatively recent implantation of the Italian banks (1988) and a weak presence of the German banks.

The development of the foreign banks' activity ***in Germany*** was tardier and less important than the one in France, due also to the fact that the German banks participate in a great measure at the big enterprises' capital. The foreign banks mostly serve the clients who share their nationality.

The implantation of some foreign banks ***in Italy*** was, for a quite long period of time, very weak, due to the fact that the opening of some new banks was strictly regulated, and also because these ones were subjected to some administrative constraints imposed to the banks. In 1985, after a regulation, the foreign banks were no longer restricted from buying an Italian bank and, also, the foreign banks could open themselves branches in Italy under the same conditions in which the Italian banks could open units in the respective countries, conditions which regarded the balance sheet total, the organization's solidity, the staff's competence, so on. Subsequently, the numebr of the foreign banks' subsidiaries increased, especially of those that have France and Germany as origin countries. After 1987, as a result of the Italian banking system deregulation and passing to private possession which stimulated the rivalry, certain foreign banks withdrew their branches (especially the specialised institutions). Moreover, the big Italian banks underwent a decline period also because they centered only on the big enterprises and did not direct on the retail market too, considering the fact that these big enterprises began borrowing more and more from the finacial market.

Great Britain had always been the most open one to the implantation of foreign banks, which tried to open subsidiaries in this country, especially in London, which knew a permanent prosperity even in the periods in which the country confronted itself with economical difficulties. More, they were also attracted by the stimulating policy of England's Central Bank, regarding the authorization and regulation of the banks' functioning. Later, the centarl bank's control hardened, but the already present foreign banks did not withdraw their subsidiaries. The first foreign bank that opened itself a subsidiary in England was a French one (The Discount National House/Bank from Paris), in 1865, so that, subsequently, the foreign banks numeber increase, due to both the existent facilities on the British market and to some favourable circumstances such as the stock exchange deregulation which stimulated mostly the foreign merchant banks. It can also be underlined the fact that, although the number of the banks authorized as British banks decreased in the last decade at approximately 200, the number of the authorized banks increased, due to the more and more powerful presence of the foreign banks, this fact reflecting the role of Great Britain and London as an international financial-banking system.

The foreign banks access ***in Spain*** was accomplished much later. At the beginning, because the economical development was insufficient for attracting the foreign banks, there existed only three subsidiaries implanted in Spain: Credit Lyonnais (from 1875); The London and South American Bank (from 1916) and Societe Generale (from 1919). A very restrictive legislation (from 1940)was practically blocking all the implantations of new foreign banks, a single derogation of these regulations being given in 1914, for the Banca Nazionale de Lavoro. Later, the restrictions regarding the extension of foreign banks in Spain diminuished, so that, in 1987, a decree stipulate that the regulations be identical, both for the national banks and for the foreign ones, a fact that led to the setting up of many new foreign banks, both through opening subsidiaries and by taking over in share at the Spanish national banks. The foreign banks centered mainly on offering long term loans to the enterprises, due to the Spanish banks' lack of interest for this type of clients, and also on operations specific to the merchant banks, which were practically unknown to the Spanish banking field.

Although the ***United States of America*** banking legislation had always been retrictive towards the foreign banks implantations, these couldn't resist to the need of being present in one of the most prosperous world countries and whose financial centre had become as important as the one in London. Still, the foreign banks, in comparison with the American banks, beneficiated of some competitive advantages. Thus, the foreign banks, although subjected to a double regulation (the ones of the respective state and the ones of the federal government) like the American banks, unlike these ones, they could open subsidiaries in various states, having at the same time the possibility to unroll activities specific both to the investment banks and to the commercial banks, without being subjected to the obligatory supplies system. Due to this fact, there has been voted, at the initiative of the Supply Federal System, an international banking document, by which the foreign banks were obliged to set up the obligatory supplies, to draw deposits superior to the amount of 100.000 USD and to comply with the same limitations in the banking activity as the American banks did. The implantation of the foreign banks in the United States continued to increase, so that, in 1981, by setting up „ The international banking facilities", the foreign banks be receiving some advantages: they were no longer subjected to the obligatory supplies system and the interest were not taxable. Yet, they had to comply with some regulations, like the drawing of deposits bigger than 100.000 USD and on term longer than two days. The only way by which the successful American banks could develop their activities, in the context in which the internal market had reached saturation point, was by opening subsidiaries overseas. This process was considerably sustained by the consolidation of the American dollar's role as a world-wide supply currency. All these facts contributed to the creation of a strong tradition in the multinational banking activity of the big American banks.

The Japanese banking system is very dynamic, the banks extending themselves a lot, especially on the east coast, mainly towards the Asian clients. On the international level, these hold 50% of the activity of all foreign banks, the banks from continental Europe holding only 30% and the British banks 10%. Japan was very restrictive when it came to implanting foreign banks, their authorization being made in a very small number. Because the national clients were devoted enough to the Japanese banks, the process implanting of the foreign banks was more difficult. Later, the Japanese government, as well as other countries too, (the beginning of the 20th centruy in England, in the years 1970-1980 in the United States), had to prove a wider opening regarding the international banking activity, which led to the increasing of the foreign banks' number in Japan. The most numerous foreign banks in Japan are the ones of American, British and French origin.

At present, the cultural and social differences between the countries make that the strategy based on acquisitions in which the local brand is kept, be, at least for a long period of time, the most appropriate one.

4. The foreign banks' role in the Central and East Europe banking system consolidation

The banking scenery in Central Europe changed considerably, as long as the governments continued to encourage the foreign banks to acquire important institutions. In the last years, this tendency strengthened by: taking over the Ceska Sporitelna bank, from the Czeck Republic, by the Erste Bank from Austria; by taking over the biggest retail bank from Czech, Investicni a Postovi Banka by the Nomura International, and Citibank bought Bank Handlowy from Polland; on the other side, the Cesksiovensk Obchodni Banka and the Bank Pekao from Polland were sold to the KBC Belgian bank, respective Unicredito; the Polish bank Zachodni was sold to Allied Irish Bank, as for Hungarian Foreign Trade Bank, this one had already been under foreign property for many years.

More than in any other region on the map, the foreign banks considerably took over the control over the banking system in Central and East Europe and, taking into consideration the massive takings over and thepassings to private possession that are on the point of being finalized, it is doubtless that the foreign banks govern this field.

According to the declarations of the Reconstruction and Development Bank, the share of the total banking actives owned by the banks with a majority foreign share holding was in 1994 of only 5% but in 1998 increased to 32% and due to the big number of transactions in the following years, especially on the biggest banking markets from Polland, Czeck Republic, Hungary and Romania, the experts believe that this share increased to 53% in the year 2000, so that in the following years there be registered shares of approximately 57%. The increase does not stop here, the Romanian example being self-evident – over 90% of the banking system is governed by the foreign banks.

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BANKING RISK MANAGEMENT

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Abstract: General banks, investment banks, and mutual funds have to control and select the risks inherent in the management of deposits, loans portfolios of securities, and off-balance-sheet contracts.

Since the risks that a bank has to manage are diverse, several classifications have been proposed, some of which are standard. Thus, economists have put forward the fundamental distinction between microeconomic or idiosyncratic risks, which can be diversified away through the law of large numbers, and macroeconomic or systematic risks, which cannot. Unlike insurance companies, which essentially deal with microeconomic risks, banks generally have to deal with both types of risks.

The credit activity of banks is affected by default risks, which occur when a borrower is not able to repay a debt (principal or interest).

Liquidity risks occur when a bank must make unexpected cash payments. This type of risk essentially comes from the specificity of the demand deposit contract: unlike the creditors of other kinds of firms, depositors are allowed to demand their money at any time. Consequently, the deposit activity is affected by the risk of an unexpected massive withdrawal by depositors.

Default risks

Defining and measuring credit risk is equivalent to determining how the market evaluates the probability of default by a particular borrower, taking into count all the possibilities of diversification and hedging provided by financial markets. In part, the level of risk depends on the institutional arrangements to which the banks are subject, either through the interbank money market or through specialized institutions created for this purpose.

Clearly the riskiness of a loan will be affected by the existence of:

- collateral
- compensating balances
- endorsement

But other characteristics of the credit market will also be relevant: Do banks share information on their creditors? How is the bankruptcy process settled? Notice that in the process of international competition, as well as in a process of market integration like the one undergone by Europe, differences between these institutions or regulations across countries are fundamental not only because they may represent a barrier to entry, but also because they may tend to concentrate some banking activities in the countries that provide the more efficient institutions and regulations.

Evaluating the cost of default risks

To understand how default risk affects the competitive pricing of loans, this discussion will begin with a simple approach that will justify me use of the risk spread (the difference between the interest rate on a risky loan and the risk less rate for the same maturity) as a measure of the credit risk of an asset.

Indeed, this discussion will show how the risk spread is determined by the boor- Rower's probability of default. It will then proceed to examine a more complete approach based on option pricing (Merton 1974).

A simple interpretation of risk spread

Assuming that default risk is diversifiable and that the bank under consideration can indeed diversify this risk away through a large population of borrowers, the only thing that matters is the probability of default. Credit scoring methods, the analogue of actuarial techniques used by insurers, allow banks to estimate a priori this probability of default based on the observable characteristics of the loan applicant.

From a financial viewpoint, the value of such a loan (subject to a diversifiable credit risk) is nothing but the expected present value of the borrower's repayments. Leaving aside interest rate risk for the moment, assume that the refinancing rate r is constant, and take e^{-r} as the one-period discount factor. Consider now a risky loan, characterized by a series of promised repayments (Ci, Cz,..., Cn) at future dates (t_1, t_2,..., t_n). Assume for simplicity that if the firm defaults, the bank receives nothing. The expected cost of default risk for this loan can be measured by the difference between:

$P_0=\sum C_k e^{-rtk}$ (1)

the value of the loan if there were no default risk, and

$P=\sum C_k p_k e^{-rtk}$ (2)

the value of the risky loan, where p_k denotes the probability that the k-th repayment will not be defaulted, assuming that there are no partial repayments.

In practice, however, the most commonly used instrument for evaluating the cost of default risk is the difference (spread) between the yield to maturity R of the risky loan and the refinancing rate r. R is defined implicitly by the equation

$P=\sum C_k e^{-Rtk}$ (3)

and this determines the value of the spread s = R - r.

Bierman and Hass (1975) and Yawitz (1977) have proved the following simple result:

If the firms' default follows a Poisson process of intensity λ, the spread s is independent of the characteristics of the loan. It is equal to the intensity of the Poisson process:

$s = \lambda$ (4)

Proof`In a Poisson process of intensity λ, the probability of survival at date

$t_{k`}$ is by definition

$P_k=e^{-\lambda tk}$

Combining 2, 3, and 5 yields

$\sum C_k e^{-Rtk}=\sum C_k e^{-\lambda tk} e^{-rtk}$

This equation in R has a unique solution, independent of C_1,..., C_n:

$R=r+\lambda$

Therefore:

$S=R-r=\lambda$

Consequently, if one considers corporate debt of a certain type, the spread can be considered as the instantaneous probability of failure λ. that the market assesses implicitly to the particular class of borrowers under consideration.

For instance, a spread of fifty basis points indicates a failure probability of

$1-e^{-\lambda}$= 0.5 percent per year.

The option approach to pricing default risk

The simple approach just explained relies on three assumptions that are not very satisfactory: (1) the instantaneous probability of failure is constant and exogenous, (2) credit risk is completely diversifiable, and (3) in case of failure, the residual value of the firm is zero. Consider now what happens when these assumptions are relaxed.

When credit risk is not completely diversifiable, a risk premium must be introduced, and the analysis becomes more involved. However, financial markets provide insurance possibilities for banks. Therefore the risk premium quoted by banks must be in line with the ones prevailing in the securities market. This remark will allow development of a model for pricing risky debts following Merton (1974).

Liquidity risk and asset liability-management

The ALM group in a traditional bank is also responsible for the management of liquidity risk. As defined earlier, it is the risk that a bank is unable to meet its liabilities when they fall due. Liquidity risk is normally associated with the liabilities side of the balance sheet when depositors unexpectedly withdraw their financial claims. Assuming the liquidity preferences of a bank's customers are roughly constant, the problem usually arises if there is a run on the bank as depositors try to withdraw their cash. A bank liquidity crisis is normally triggered either by a loss of confidence in the bank or because of poor management practices, or the bank is a victim of a loss of confidence in the financial system, caused, possibly, by the failure of another bank. Contagion and systemic risk are discussed in detail in the next chapter. However, if the bank experiences an unusually high deposit withdrawal rate, and lacks the cash or is unable to borrow the money quickly, it is faced with liquidating its longer-term investments, possibly in a market where other banks and investment houses are also selling, pushing down prices.

A bank can also experience liquidity problems on the asset side of the balance sheet, caused by large numbers of unexpected loan defaults. Banks have also been caught out granting credit lines which they do not expect to be drawn down, but which are subsequently used by the borrowers. If an economy goes into recession relatively quickly, these banks may see firms drawing down their credit lines all at once, which will put pressure on their liquidity. There is also liquidity risk linked to off-balance sheet transactions and to a slow-down or collapse in the payments system.

If a bank does experience liquidity problems, the central bank is usually willing to lend to them at some penal rate, which is costly for the bank. Also, the central bank will have to be reasonably certain that the problem is one of illiquidity and not insolvency. Banks will borrow funds on the interbank markets or from other sources before they approach the central bank, but again, this is costly for the bank, and undermines its profitability.

The objective of liquidity risk management should be to avoid a situation where the net liquid assets are negative. Gap analysis can be used to manage this type of risk. The gap is defined in terms of net liquid assets: the difference between net liquid assets and volatile liabilities. Liquidity gap analysis is similar to the maturity ladder for interest rate risk, but items from the balance sheet are placed on a ladder according to the expected time the cash flow (which may be an outflow or an inflow) is generated. Net mismatched positions are accumulated through time to produce a cumulative net mismatch position. The ban can monitor the amount of cash which will become available over time, without having to liquidate assets early, at penal rates.

The Bank of International Settlements (2000) has outlined a maturity ladder approach, which consists of monitoring all cash inflows and outflows, and computing the net funds required.

The ALM group in a bank is not normally responsible for risk management in other areas, though how risk management is organized does vary from bank to bank. In some banks, the ALM group has been replaced by a division with overall responsibility for risk management, but credit risk continues to be managed separately. Increasingly, 21st century banks have a division with overall responsibility for coordinating risk management.

The management of interest rate risk has moved beyond the traditional gap and duration analysis because banks have increased their off-balance sheet business and the use of derivatives.

At the individual level, liquidity management is not fundamentally different for banks than for other firms. It can even be seen as a particular case of the general problem of managing inventories of any sort.

Liquidity is an important service offered by a bank and one of the services that distinguishes banks from other financial firms. Customers place their deposits with a bank, confident they can withdraw the deposit when they wish, even if it is a term deposit and they want to withdraw their funds before the term is up. If there are rum ours about the bank’s ability pay out on demand, and most depositors race to the banks to withdraw deposits, it will soon become illiquid. In the absence of a liquidity injection by the central bank or a lifeboat rescue, it could become insolvent since it can do nothing to reduce overhead costs during such a short period.

Maturity matching (getting rid of all maturity gaps) will guarantee sufficient liquidity and eliminate liquidity risk because all deposits are invested in assets of identical maturities: then every deposit is repaid from the cash inflow of maturing assets, assuming these also risk-free. But such a policy will never be adopted because the bank, as an intermediary, engages in asset transformation to make profits. In macroeconomic terms, provided there is no change in the liquidity preferences of the economy as a whole, then the withdrawal of a deposit by one customer will eventually end up as a deposit in another account somewhere in the hacking system. If banks kept to a strict maturity match, then competition would see to it that the bank which invested in assets rather than keeping idle deposits could offer a higher returns (and therefore, greater profitability compared to banks that simply hold idle deposits.

At the microeconomic level, the maturity profile of a bank's liabilities understates actual liquidity because term deposits rend to be rolled over, and only a small percentage of a bank's deposits will be withdrawn on a given day. This is another for argument for incurring some liquidity risk. Given that the objective of a bank is to maximize profit/shareholder value-added, all banks will have some acceptable degree of maturity mismatch.

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SETTLEMENT/PAYMENTS RISK

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Abstract: Settlement/ payments risk is created it one party to a deal pays money or delivers assets before receiving its own cash or assets, thereby exposing it to potential loss. Settlement risk can include credit risk if one party fails to settle, i.e. reneges on the contract, and liquidity risk - a bank may not be able to settle a transaction if it becomes illiquid.

A more specialized term for settlement risk is Herstatt risk, named after the German bank which collapsed in 1974 as a result of large foreign exchange losses. The reason settlement risk is closely linked to foreign exchange a market is because different time zones may create a gap in the timing of payments. Settlement of foreign exchange transaction requires a cash transfer from the account of one bank to that of another through the central banks of the currencies involved. Bankhaus Herstats bought Deutschemarks from 12 US banks, with settlement due on 26th June. On the 26th, she American banks ordered their corresponding German banks to debit their German accounts and deposits the DMs in the Landesbank (the regional bank was acting as a clearing house). The American banks expected to be repaid in dollars, but Herstats was declared bankrupt at 4 p.m. German time - after the German market was closed but before the American market had closed, because of the 6-hour time difference. The Landesbank had already paid DMs 10 Bankhaus Herstats, but the US banks had not received their dollars. The exposed US banks were faced with a liquidity crisis, which came close to triggering a collapse of the American payments system.

Settlement risk is a problem in other markets, especially the interbank markets because the volume of interbank payments is extremely high. For example, it can take just 10 days to turn over the annual value of the GNP of a major OECD country - in the UK, it is roughly £1- £1.6 trillion. With such large volumes, banks settle amounts far in excess of their capital. Netting is one way of reducing payments risk, by allowing a bank to make a single net payment to a regulated counterparty, instead of a series of gross payments partly offset by payments in the other direction. It results in much lower volumes (because less money flow-through the payments and settlement systems), thereby reducing the absolute level of risk in the banking system. Netting is common among domestic payments systems in industrialized countries. At the end of each day, the central bank requires each bank to settle its net obligations, after canceling credits and debits due on a given day. If the interbank transaction is intraday, the exposure will not appear on a bank's balance sheet, which is an added risk.

However, settlement risk is still present because the netting is multilateral. The payments are interbank, and banks will not know the aggregate exposure of another bank. Any problem with one bank can have domino effect. If one bank fails to meet its obligations, other banks along the line are affected, even though they have an indirect connection with the failing bank, the counterparty of exchange. Given the large of volume of transactions in relation to the capital set aside by each bank, the central bank will be concerned about systemic risk – the failure to meet obligations by one bank triggers system-wide failures. Most central bank/regulators deal with this problem through a variety of measures, capping multilateral exposures, requiring collateral, passing the necessary legislation to make bilateral and multilateral netting legally enforceable, or imposing penalty rates on banks which approach the central bank late in the day.

Market or price risk

The modem theory of portfolio management has been developed by Sharpe (1964), Lintner (1965), and Markowitz (1952). As such, it is of course interesting for banks, which often hold large portfolios of marketable assets. More importantly, this portfolio theory has also led to another paradigm for banking behavior, essentially developed by Pyle (1971) and Hart and Jaffee (1974).

The idea is to assimilate all assets and liabilities of the bank into securities of a particular sort, and to consider the whole bank itself as an enormous portfolio of these securities. In this approach, the only specificity of the bank's liabilities is that they correspond to short positions in the bank's portfolio.

- *General or systematic market risk* is caused by a movement in the prices of all market instruments because of, for example, a change in economic policy.
- *Unsystematic* or *specific market risk* arises in situations where the price of one instrument moves out of line with other similar instruments, because of an event (or events) related to the issuer of the instrument.
- A bank can be exposed to market risk (general or specific) in relation to:
- *Equity*
- *Commodities* (e.g. cocoa, wheat, oil)
- *Currencies* (e.g. the price of sterling appreciates against the euro)
- *Debt securities* (fixed and floating rate debt instruments, such as bonds)
- *Debt derivates* (forward rate agreements, futures and options on debt instruments, interest rate and cross-currency swaps, and forward foreign exchange positions)
- *Equity derivates* (equity swaps, futures and options on equity indices, options on futures, warrants)

Thus, market risk includes a very large subset of other risks. Two major types of risks are currency and interest rate risk. If exchange rates are flexible, any net short or long open position in a given currency will expose the bank to *foreign exchange* or *currency risk*, a form of market risk.

Interest rate risk

Interest rates are another form of price risk, because the interest rate is the "price" of money, or the opportunity cost of holding money in the narrow form. It arises duet interest rate mismatches. Banks engage in asset transformation, and their assets and liabilities differ in maturity and volume. The traditional focus of an asset-liability management group, within a bank is the management of interest rate risk, but this has expanded to include off-balance sheet items, as will be seen below.

Capital or gearing risk

Banks are more highly geared (leveraged) than other businesses individuals feel safe placing their deposits at a bank with a reputation for soundness. There are normally no sudden or random changes in the amount people wish to save or borrow, hence the banking system as a whole tends to be stable, unless depositors are given reason to believe the system is becoming unsound.

Thus, for banks, the gearing (or leverage) limit is more critical because their relatively high gearing means the threshold of tolerable risk is lower in relation to the balance sheet. This is where capital comes in: its principal function is to act as a buffer by supporting or absorbing losses. Banks which take on more risk should set aside more capital, and this is the principle behind the Basel risk assets ratio. Banks need to increase their gearing to improve their return to shareholders. To see the link, consider the equation below:

ROE = ROA x (gearing multiplier)

Where:

ROE: return on equity or net income/equity

ROA: return on assets or net income/assets

Gearing/leverage multiplier: assets/equity

Operational risk

The Bank for International Settlements defines operational risk as: "The risk of direct or indirect loss resulting from inadequate or failed internal processes people, and systems, or from external events." (BIS, 2001, p. 2 7)

The definition of operational risk varies considerably, and more important, measuring it can be even more difficult. The Basel Committee has conducted surveys of banks on operational risk Based on Basel (2003), the key types of operational risk are identified as follows:

(1*) Physical Capitol*: the subsets of which are: damage to physical assets, business disruption system failure, problems with execution and delivery, and/or process management.

Technological failure dominates this category and here, the principal concern is with bank s computer systems. A crash in the computing system can destroy a bank. Most banks have a duplicate system which is backed up in real time, in a secret location, should anything go wrong with the main computer system. When banks and other financial institutions had their premises damaged or destroyed as a result of "9/11", they were able to return to business quite quickly (in alternative accommodation), relying on the back-up computer systems. More generally, the loss of physical assets, such as buildings owned, is a form of operational risk. However, banks take out insurance against the risk of fire or other catastrophes and to this extent; they have already hedged themselves against the risk. To the extent they are fully hedged, there should be no need to sec aside capital. Problems with physical capital may interfere with process management and contribute to a break down in execution and/or delivery.

(2) Human Capital: this type of risk arises from human error, problems with employment practices or employees' health and safety, and internal fraud. An employee can accidentally enter too many (or too few) zeroes on a sell or buy order. Or a bank might find itself being fined for breach of health and safety rules, or brought before a employment tribunal accused of unfair dismissal. In addition, employees can defraud their bank, but this is discussed in a separate category below.

(3) Legal: the main legal risk is that of the bank being sued. It can arise as a result of the treatment of clients, the sale of products, or business practices. There are countless examples of banks being taken to court by disgruntled corporate customers, who claim they were misled by advice given to them or business products sold. Contracts with customers may be disputed. One of the most recent and costly examples of shoddy treatment of clients is the implicit" admission, in 2003, by all the major investment banks that they failed to control the conflict of interest between research and investment banking divisions. In addition to fines summing up to hundreds of millions, these banks face civil law suits from angry clients who claim they acted on paid advice from research departments to invest in certain stocks, only to find there was no solid research to back the recommendations, but rather, pressure from corporate finance divisions to bid up the price of one or more shares.

(4) Fraud: the fraud may be internal or external to the bank. For example, the looting of his company's pension by Mr. Maxwell affected the banks because they were holding some of the assets he had stolen from the funds as collateral. Another illustration of this form of risk is the Hammersmith and Fulham Council case. This London borough had taken out interest rate swaps in the period December 1983 to February 1989. The swaps fell into two categories, one for hedging and one for speculation. With local taxpayers facing a bill of tens of millions of pounds, the House of Lords (in 1991) declared all the contracts null and void, overturning an earlier decision by the appeal court. Barclays, Chemical, the Midland, Mitsubishi Finance International and Security Pacific were the key banks left facing \$400 million in losses and \$15 million in legal fees. Examples of internal fraud include rogue trading. Nick Leeson brought down Barings with losses of \$1.5 billion, and John Rusnak was convicted of fraud at a US subsidiary of Allied Irish Bank, which cost it \$750 million.

As can be seen from the classification above, factors contributing to operational risk are not necessarily independent of each other. Internal fraud could be classified as a human capital risk. If an employee sues because of breaches in health and safety, it falls in both (he human capital and/or legal risk sub classifications. Certain payment risks may also fall into the operational risk category. For example, in 1985, a major US bank experienced computer problems which prevented it from making outgoing payments. It was forced to borrow \$20 billion from the Federal Reserve to meet these payments. Simultaneously, payments to this bank from other banks could not be made, so they flooded the interbank markets, forcing down the federal funds rate by 3.

Thus, an operational failure created settlement and liquidity risks. Or if a borrower is granted a loan based on a fraudulent loan application and subsequently defaults, it will be recorded as a loan loss, and therefore, a credit risk issue, even though the fraud was the original source of the problem.

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STOCK RETURNS AND THEIR PROBABILISTIC DISTRIBUTION (THE BUCHAREST STOCK EXCHANGE CASE)

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Abstract: Based on a long series of papers analyzing stock returns behavior we can speak generally about the stock exchange as a speculative market in the sense of the stable paretian hypothesis. Still, there are significant differences from a market to another and in many cases biases from normality are too insignificant in order to justify a radical change of approach. This radical change is less needed especially when the aggregating interval of price changes gets big enough, for example if we speak about weakly or monthly returns, cases in which the non normality hypothesis can be accepted in a comfortable way.

Keywords: stock returns, probabilistic distributions, stable paretian hypothesis

The Gaussian hypothesis regarding stock return distributions

There is a long tradition among the specialists from the financial area in considering that in speculative markets financial assets prices (especially stocks) behave in a manner similar to a random walk process. The random walk theory is based on the following hypothesis: changes in stock prices (and indirectly the stock returns) are independent random variables respectively changes in stock prices follow a certain probabilistic distribution. The first one to introduce a certain model for stock prices behavior (but also for commodities traded on designated exchanges) was Louis Bachelier in 1900[261]. The simplest and in the same time the most important model presented by Bachelier is built as following:

If $P_{(t)}$ represents the price of a stock at the end of the t period, then it is assumed that subsequent changes of this form[262] *$P_{(t+T)}$-$P_{(t)}$ are independent random walk variables, which follow a normal law of distribution (Gaussian) with a null mean and a variance proportional with the T interval dimension.*

Despite the fundamental importance of the process presented by Bachelier, model that is now known as "Brownian movement", the financial realities emphasize the fact that this model cannot explain in a satisfactory way the historical trading data accumulated in certain exchanges since the second half of the XIX century and this is due mainly because the empirical distributions associated with price differences such $P_{(t+T)}$-$P_{(t)}$ are too peaked in order to be compatible with Gaussian samples.

Still, in order to advocate the Gaussian hypothesis regarding price changes in financial speculative assets, [Osbourn, 1959][263] used a series of arguments based on the effects of central limit theorem from the probability theory. He rationalized as it follows: if price changes from a transaction to the other are independent and identically distributed random variables (iid) and they have a finite variance and the transactions are uniformly distributed in time, then the central limit theorem assures that price changes along a certain interval (day, week, month, year and son on) are normally distributed, being just sums of changes from a transaction to another. In other words, if the number of transactions gets bigger and bigger, aggregating random variables associated with the corresponding price changes will lead to random variables which tend to follow a normal law of probability.

[261] Bachelier, L., 1900, *Theorie de la speculation*, Gauthiers-Villars, Paris.
[262] This model of Bachelier assumes in an implicit manner that the variance of the differences $P_{(t+T)}$-$P_{(t)}$ is independent from the $P_{(t)}$ value. There are some reasons to expect that the standard deviations associated with ΔP to be proportional with the price level and for this reason mainly, many modern authors suggested that the original condition regarding P(t) differences to be changed with the condition of independence and normality of ln P(t) differences.
[263] Osbourn, M. F., 1959, „Brownian Motion in the Stock Market", *Operations Research*, vol. 7, pag. 145-173.

In this kind of conditions, for the stocks recording an acceptable liquidity (over 300-500 transactions per day) the central limit theorem assures a convergence of daily price changes (or daily returns) towards a normal distribution law. This conclusion is very important because it is validating the initial conditions of many fundamental models in finance, models using usually stock daily returns. Empirical proofs in assessing normality for price changes were offered beginning with the year 1950. Thus, [Kendall, 1953[264]] found that weekly changes of wheat price at the commodity exchange of Chicago and the prices of the most important stocks listed at the London Stock Exchange follows with a certain approximation a normal distribution law while [Moore, 1962[265]] reaches similar results in the case of changes of the price logarithm for a sample of stocks listed at New York Stock Exchange.

The stable paretian hypothesis

Starting with the year 1960, critical opinions related to the normality hypothesis advocated mainly through papers written by Bachelier and Osbourn found a strong argumentation in the person of Benoit Mandelbrot, professor at Harvard University. He considered that the previous empirical studies had unjustified amplified certain correlations between empirical distribution of stock price changes and the normal distribution neglecting in the same time some significant biases from normality. In this direction were brought in debate the empirical studies carried out by Kendall and Moore both of them concluding that the extreme tails of the empirical distributions are higher (they contain a bigger proportion from the total probability) compared with normal distributions. In other words, extreme variations, both the negative and the positives ones, are much more frequent than a normal distribution would imply. Conform to Mandelbrot's opinion these biases are sufficient in order to justify a new radical approach of the random walk theory for speculative financial assets. This new approach, known as the stable paretian hypothesis, is based mainly on two ideas: the variances of the empirical distributions are behaving as they were infinite respectively the empirical distributions are behaving like non-Gaussian members of a limit distributions family that is the stable paretian hypothesis.

From the beginning, the expression of radical changed approach is justified by the fact that the variance of the empirical distributions generally is assumed to be infinite, a hypothesis with very important consequences. Thus, from a purely statistical approach, if the variance associated with the distribution of populations of first order price differences ($P_{(t+1)}$-$P_{(t)}$) is infinite than the variance associated with samples from these populations represents in itself an insignificant measure of dispersion. Moreover, if the variance is infinite than merely all statistical methods which are starting from assumptions of a finite variance will be, in the best case, very weakened from the significance point of view and they might finalize in very misleading answers or results (a fundamental example is running regressions using the least squares method). In consequence, due to the fact that previous empirical researches regarding the speculative financial asset prices were founded on statistical techniques which consider a finite variance, the real value of many of them is thus untruthful if Mandelbrot's hypothesis were to be confirmed by empirical data.

For this purpose, we remind the fact that the first tests of the stable paretian hypothesis were made on a limited number of speculative price changes series and that each direct test on this unprocessed and unsmoothed data found a behavior which was predictable by the paretian hypothesis. Ulterior tests confirmed that in the case of speculative financial assets price changes (and we speak mainly about the stock and cotton prices) first order differences of prices' logarithm follow paretian distributions. A rigorous empirical research of the stable paretian hypothesis was made by Eugene Fama in his renowned article from 1965[266], the resulted conclusions stressing the following:

„[…] in particular, Mandelbrot's hypothesis asserts that the empirical distributions of price changes are fitting better into the category of stale paretian distributions with a characteristic exponent smaller than 2 compared with the normal distributions category (which are after all stable paretian distributions but with a characteristic exponent equal to 2). The conclusion of this paper is that the Mandelbrot hypothesis seems to be sustained by the empirical data. To this conclusion we have reached only after an extensive and complex testing was carried out."

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[264] Kendall, M. G., 1953, „The Analysis of Economic Time-Series", *Journal of the Royal Statistical Society*, vol. 96, pag. 11-25.
[265] Moore, A., 1962, „A Statistical Analysis of Common –Stock Prices", *University of Chicago*, PhD dissertation.
[266] Fama, E., 1965, „The Behavior of Stock Market Prices", *Journal of Business*, vol. 38, pag. 34-105.

Following these serious documentations of stock returns behavior we can speak generally about the stock exchange as a speculative market in the sense of the stable paretian hypothesis. Still, there are significant differences from a market to another and in many cases biases from normality are too insignificant in order to justify a radical change of approach. This radical change is less needed especially when the aggregating interval of price changes gets big enough, for example if we speak about weakly or monthly returns, cases in which the non normality hypothesis can be accepted in a comfortable way.

Still, the existence of too high frequencies in the case of extreme variations impose the consideration of the stable paretian hypothesis in order to be able to intervene on this kind of markets with a certain level of rationality and in the virtue of efficiency thus implied is necessary to known the statistical characteristics of the probability distributions from the stable paretian family and also their influence on stock returns' behavior.

The stable paretian distribution laws family

The starting point of the stable paretian hypothesis is represented by the works in mathematical analysis related to the notion of stable distribution. A certain distribution assumes a conservation of the distribution characteristics when identically distributed variable are summed up. This means that if two variables x and y are distributed according to a stable distribution then their sum x+y is identically distributed. Notable contributions to this field of stable distributions were made by the French mathematician Paul Levy which deducted the characteristic function associated to all stable distributions. The results of his research were materialized in his book "Theorie de l'addition des variables aleatoires" published in 1937, a point which marked the beginning of some future developments mainly in the field of probability theory and statistics.

Not without any interest is the fact that Benoit Mandelbrot, the enthusiastic advocate of the stable paretian hypothesis in the area of speculative markets, represents the continuation of a special series of doctoral advisors – PhD students. Thus, he was the student of Paul Levy at the Ecole Polytechnique of Paris, which was the student of Jacques Hadamard (accidentally Dreyfus brother in law) which was the student of Charles E. Picard, the last two being two of the greatest mathematicians of the last century.

As I have mentioned earlier, the characteristic function associated to all stable distributions was deducted

$$\log f(t) = \log \int_{-\infty}^{\infty} e^{iut}\, dP(\tilde{u} < u) = i\delta t - \gamma |t|^{\alpha}\left(1 + i\beta \frac{t}{|t|} tg \frac{\alpha\pi}{2}\right)$$

by Paul Levy in the specialized literature being used generally under its logarithm form:

From the above characteristic expression it cam be noticed that when defining stable paretian distribution four factors are needed ($\alpha,\beta,\delta,\gamma$) as opposed for example to the case of the normal distribution defined only by two, the mean and the standard deviation. We present the four parameters and their significance.

1. *Location parameter* (δ): if $\alpha>1$, it represents the expected value (mean) of the distribution.
2. *Scale parameter* (γ);
3. *Skewness index* (β): can take values between –1 and 1;
   (a) if $\beta=0$ then the distribution is symmetrical;
   (b) if $\beta>0$ then he distribution exhibits a positive asymmetry and the degree is increasing as β approaches 1;
   (c) analog for $\beta<0$ mentioning that the asymmetry is negative.
4. *Characteristic exponent or stability parameter* ($0<\alpha\leq 2$).

From the above four parameters, the characteristic exponent α is the most important if we are considering comparing the Gaussian hypothesis with the stable paretian because α determines the height (the probability/frequency) of the extreme tails and can take any value within the (0,2] interval. The two hypothesis are identical only when $\alpha=2$[267]. If $\alpha\in(0,2)$ then the extreme tails of the paretian distribution are

[267] The logarithm of the characteristic function for the normal distribution is: $\log\ f(t) = i\mu t - \frac{\sigma^2}{2}t^2$, with $\alpha=2$, $\beta=0$, $\delta=\mu$, $\gamma=\sigma^2/2$.

higher than those of the normal distribution with a total probability increasing with α moving from 2 to 0. A very important aspect is that the variance exists and it is finite only in the case when $\alpha=2$, that is only for the normal law in all other cases being infinite. On the other hand, the expected value exist for any value of $\alpha>1$. In conclusion, the stable paretian hypothesis advocated by Mandelbrot says that for probability distribution associated to the subsequent price changes the characteristic exponent α is situated within the (1,2) interval and as a consequence these distributions have an expected value but their variance is infinite.

Because the conflict between the two hypothesis are concentrated especially near the α value, a rational choice between the two hypothesis at least at a theoretical level can be made only by estimating the true value of the α parameter. But this task is not an easy one because the explicit expressions of the densities for stable paretian laws are known only in three cases: the normal distribution ($\alpha=2$), the Cauchy distribution ($\alpha=1$, $\beta=0$) and the coin tossing experiment ($\alpha=1/2$, $\beta=1$, $\delta=0$, $\gamma=1$). Without the knowledge of any other density functions is very hard to introduce and prove different assumptions related to the behavior of α estimates in the case of samples. Still, significant empirical progresses were made in this matter in [Fama, 1965].

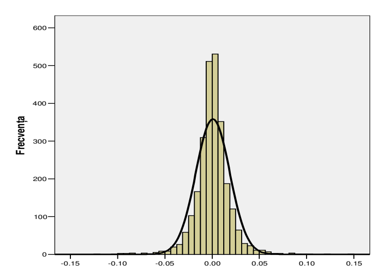
Financial implication of the stable paretian hypothesis at the Bucharest Stock Exchange

In this section e will graphically analyze the probability distribution associated with the logarithmic returns of the two main indexes at Bucharest Stock Exchange (BSE), that is BET and BET-FI as well as two intensely traded stocks, Banca Transilvania (TLV) and SIF Moldova (SIF2). In the same time the main statistical characteristics will be summarized in table 1. For each stock or index we will consider the relation between the empirical distribution and a normal distribution having as parameters the average and the standard deviation corresponding to the observed sample of returns. In the case of the BET index we used a sample of 2,571 daily logarithmic returns in the period 19.09.1997-7.02.2008, a graphical representation of the empirical probability distribution being in displayed in figure 1.

As it can be easily noticed, the empirical returns around the zero value are much more frequent than the normal distribution would imply, this one being marked with a continuing line in the chart resulting the pronounced leptokurtic character. A more detailed view, available in figure 2 reveals also a perspective upon the extreme returns, positive and negative, again much larger than the Gaussian hypothesis would imply. On the other hand, it seems that the asymmetry degree is not so high since the designed coefficient takes a small value of just 0.1 compared to the zero value (see table 1). Still, speaking about all the returns from the sample we can conclude that the distribution of the empirical returns is more peaked and presents extreme tails more preeminent than a normal distribution indicating a rejection of the Gaussian hypothesis and an acceptance of the stable paretian.

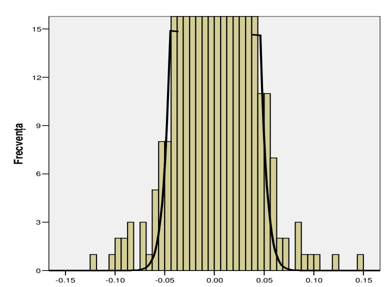
In a similar way, the above conclusions remain valid for the five financial companies index, BET-FI (sample formed by 1.778 returns, observed in the period 31.10.2000 and 7.02.2008), a higher volatility being noticed respectively a kurtosis coefficient more close to the normal distribution.

Figure 1: Histogram of the daily returns in the case of the BET index (1997-2008)



Source: Author's manipulations in SPSS.

Figure 2: Histogram of daily returns in the case of the BET index (1997-2008) (detail)



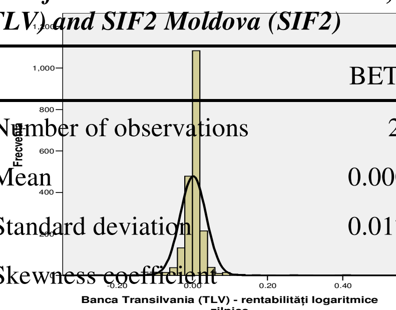
Source: Author's manipulations in SPSS.

Related to this observation, we consider that an intuitive aspect also exists for the relation between the volatility associated to a probability distribution and the high density of the returns around the zero value. For a stock or a market index which is little traded at large periods of time a liquidity problem arises caused mainly by a low interest from the part of the investors for the specific financial asset. In this kind of conditions, the daily average volatility in the case of a sample with an acceptable financial and statistical dimensions (recommendable over five years of trading) will be somehow low because of the days in which the financial asset does not record large price changes or, more sadly, when it is not traded. In such periods, the returns will be very close to the zero value leading to a leptokurtic distribution with high frequencies around the zero value.

When we analyze the empirical distributions of the TLV and SIF2 stocks, we can notice in the first place the significance with whom the individual characteristics of those are exhibited (see table 1). Thus, both stocks exhibit a significant positive asymmetry of 2.59 and 1.47, because the two stocks have recorded high price growth rhythms in this period of time. On the other hand, the kurtosis coefficient records very high values of 45.29 and 38, because the null or very small returns were not compensated by some more volatile evolutions of other stocks like it was the case with two indexes previously analyzed. The two significant biases, related to the asymmetry and the kurtosis as well as an inspection of the associated charts are leading to a rejection of the Gaussian hypothesis. In the same time, it is also empirically verified that the indexes returns are approaching significantly closer to the Gaussian hypothesis than the returns of individual stocks.

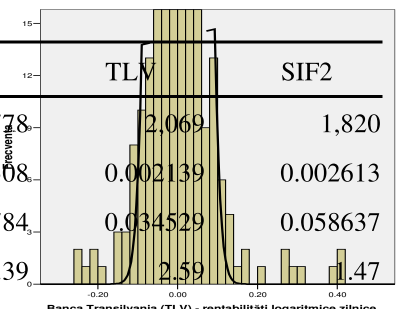
Based on the previous exemplifications we can state some financial implications of the stable paretian hypothesis. Firstly, this hypothesis implies that on the speculative markets the equilibrium prices are formed as a consequence of much more extreme variations compared to the Gaussian hypothesis. This means that a paretian market is inherently riskier than a Gaussian one, aspect reflected by a variation interval associated to the expected value of the return higher respectively a bigger loss probability.

Figure 3: Histogram of daily returns in the case of Banca Transilvania



Source: Author's manipulations in SPSS.

Figure 4: Histogram of daily returns in the case of Banca Transilvania (details)



Source: Author's manipulations in SPSS..

Table 1: Main characteristics of the empirical distributions of he daily returns in the case of the BET and BET-FI indexes, respectively the stocks Banca Transilvania (TLV) and SIF2 Moldova (SIF2)

	BET	BET-FI	TLV	SIF2
Number of observations	2,570	1,778	2,069	1,820
Mean	0.000774	0.002308	0.002139	0.002613
Standard deviation	0.017909	0.023784	0.034529	0.058637
Skewness coefficient	0.10	0.39	2.59	1.47
Kurtosis coefficient	10.46	8.97	45.29	38.00

Secondly, on a paretian market the speculators cannot assure themselves constantly against huge losses using instruments like the stop-loss orders and this is due mainly because while for a Gaussian market a huge variation is likely to be formed by many smaller changes on a paretian market it is very probable that the huge change to be the results of just a few large price changes[268]. This means that if the market will record a downfall in the stock prices, this correction will be very rapidly and not allowing for many intermediate prices necessary for the execution of the stop-loss orders. This aspect could be very easily noticed at Bucharest Stock Exchange (BSE) especially in January-February period of the years between 2004 and 2007 and of course 2008. When during a trading session at the stock exchange, many stocks

[268] The proof can be found in the following article: Darling, D., 1952, „The Influence of the Maximum Term in the Addition of Independent Random Variables", *Transactions of the American Mathematical Society*, vol. 15, pag. 95-107.

record price falls of more than 5% it is almost impossible for the investors to protect themselves through this stop-loss orders or different derivatives instruments.

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FUNDAMENTALS OF PROJECT FINANCING

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In this article we look at all important features of project financing. In a project financing,, lenders initially look to the cash flow from the project being financed rather than the corporation or corporations seeking funding. The moving party in a project is its promoter or sponsor. The ultimate goal in project financing is to arrange a borrowing for a project which will benefit the sponsor and, at the same time, be completely non-recourse to the sponsor, in no way affecting its credit standing or balance sheet. This can be accomplished by using the credit of a third party to support the transaction. Different guarantees and undertakings of different partners may be used in each time frame to provide the credit support necessary for structuring a project financing. Most large projects employ different lenders or groups of lenders because of the different risks involved as the project facility progresses through construction to operation, and the different ability of lenders to cope with and accept such risks.

Key words: project financing, SPV, sponsor, credit, lender.

WHAT IS PROJECT FINANCING?

Structured financing is a debt obligation that is backed by the value of an asset or credit support provided by a third party. The special purpose vehicle (SPV) or special purpose entity (SPE) is the entity that acquires the asset and sells the securities to purchase the assets. Structured finance is used by corporations to fund major projects so that the lenders look to the cash flow from the project being financed rather than corporation or corporations seeking funding. This financing technique is called ***project financing*** and uses the SPV to accomplish its financing objectives. Discussions associated with project financing tend to focus on large complex projects. This might lead one to the conclusion that the project financing principles discussed in this article have little application to smaller, more ordinary financings.

Although the term "project financing" has been used to describe all types of financing of projects, both with and without recourse, the term has evolved and a more precise definition is: *A financing of a particular economic unit in which a lender is satisfied to look initially to the cash flows and earnings of that economic unit as the source of funds from which a loan will be repaid and to the assets of the economic unit as collateral for the loan.* A key word in the definition is "initially." While a lender may be willing to look initially to the cash flows of a project as the source of funds for repayment of the loan, the lender must also feel comfortable that the loan will in fact be paid on a worst case basis. This may involve undertakings or direct or indirect guarantees by third parties who are motivated in some way to provide such guarantees. Project financing has great appeal when it does not have a substantial impact on the balance sheet or the creditworthiness of the sponsoring entity. Boards of directors are receptive to proceeding with projects which can be very highly leveraged or financed entirely or substantially on their own merits. The moving party in a project is its *promoter* or *sponsor*. A project may have one or several sponsors. The motivation of construction companies acting as sponsors is to profit in some way from the construction or operation of the project. The motivation of operating companies for sponsoring a project may be simply to make a profit from selling the product produced by the project. In many instances the motivation for the project is to provide processing or distribution of a basic product of the sponsor or to ensure a source of supply vital to the sponsor's business. The ultimate goal in project financing is to arrange a borrowing for a project which will benefit the sponsor and at the same time be completely non-recourse to the sponsor, in no way affecting its credit standing or balance sheet. One way this can be accomplished is by using the credit of a third party to support the transaction. Such a third party then becomes a sponsor. However, projects are rarely financed independently on their own merits without credit support from sponsors who are interested as third parties and who will benefit in some way from the project. There is considerable room for disagreement between lenders and borrowers as to what constitutes a feasible project financing. Borrowers prefer their projects to be financed independently off-balance sheet with appropriate disclosures in financial reports indicating the exposure of the borrower to a project financing. Lenders, on the other hand, are not in the venture capital business. They are not equity risk takers. Lenders want to feel secure that they are going to be repaid either by the project, the sponsor, or an interested third party. Therein lies the challenge of most project financings. The key to a successful project financing is structuring the financing of a project with as little recourse as possible to the sponsor while at the same time providing sufficient credit support through guarantees or undertakings of a sponsor or third party, so that lenders will be satisfied with the credit risk. There is a popular misconception that project financing means off balance sheet financing to the point that the project is completely self-supporting without guarantees or undertakings by financially responsible parties. This leads to misunderstandings by prospective borrowers who are under the impression that certain kinds of projects may be financed as stand-alone, self-supporting project financings and, therefore, proceed on the assumption that similar projects in which they are interested can be financed without recourse to the sponsor, be off-balance sheet to the sponsor, and be without any additional credit support from a financially responsible third party. It would be a content circumstance if it were possible simply to arrange a 100% loan for a project (non-recourse to sponsors) which looked as though it would surely be successful on the basis of optimistic financial projections. Unfortunately, this is not the case. There is no magic about project financing. Such a financing can be accomplished by financial engineering which combines the undertakings and various kinds of guarantees by parties interested in a project being built in such a way that none of the parties alone has to assume the full credit responsibility for the project, yet when all the undertakings are combined and reviewed together, the equivalent of a satisfactory credit risk for lenders has resulted.

Reasons for jointly owned or sponsored projects

There has been an increasing trend towards jointly owned or controlled projects. Although most corporations prefer sole ownership and control of a major project, particularly projects involving vital supplies and distribution channels, there are factors that encourage the formation of jointly owned or controlled projects that consist of partners with mutual goals, talents, and resources. These factors include: The undertaking is beyond a single corporation's financial and/or managerial resources; The partners have complementary skills; Economics of a large project lower the cost of the product or service substantially over the possible cost of a smaller project if the partners proceeded individually; The risks of the projects are shared; One or more of the partners can use the tax benefits. Greater debt leverage can be obtained. The joint sponsors also select the legal form of the SPV (corporation, partner, limited partnership, Limited Liability Company, contractual joint venture, or trust) that will be satisfying their tax and legal objectives.

Credit exposures in a project financing

To place a project financing into perspective, it is helpful to review the different credit exposures that occur at different times in the course of a typical project financing.

- Project financing risks can be divided into three time frames in which the elements of credit exposure assume different characteristics: - engineering and construction phase; - start-up phase; - operations according to planned specifications. Different guarantees and undertakings of different partners may be used in each time frame to provide the credit support necessary for structuring a project financing.

Projects generally begin with a long period of planning and engineering. Equipment is ordered, construction contracts are negotiated, and actual construction begins. After commencement of construction, the amount at risk begins to increase sharply as funds are advanced to purchase material, labor, and equipment. Interest charges on loans to finance construction also begin to accumulate.

Project lenders do not regard a project as completed on conclusion of the construction of the facility. They are concerned that the plant or facility will work at the costs and to the specifications which were planned when arranging the financing. Failure to produce the product or service in the amounts and at the costs originally planned means that the projections and the feasibility study are incorrect and that there may be insufficient cash to service debt and pay expenses. Project lenders regard a project as acceptable only after the plant or facility has been in operation for a sufficient period of time to ensure that the plant will in fact produce the product or service at the price, in the amounts, and to the standards assumed in the financial plan which formed the basis for the financing. This start-up risk period may run from a few months to several years.

Once the parties are satisfied that the plant is running to specification, the final operating phase begins. During this phase, the project begins to function as a regular operating company. If correct financial planning was done, revenues from the sale of the product produced or service performed should be sufficient to service debt—interest and principal— pay operating costs, and provide a return to sponsors and investor

Some projects are financed from beginning to end with a single lender or single group of lenders. However, most large projects employ different lenders or groups of lenders during different risk phases. This is because of the different risks involved as the project facility progresses through construction to operation, and the different ability of lenders to cope with and accept such risks. Some lenders like to lend for longer terms and some prefer short-term lending. Some lenders specialize in construction lending and are equipped to monitor engineering and construction of a project, some are not. Some lenders will accept and rely on guarantees of different sponsors during the construction, start-up or operation phases, and some will not. Some lenders will accept the credit risk of a turn-key operating project, but are not interested in the high-risk lending during construction and start-up. Interest rates will also vary during the different risk phases of project financing and with different credit support from sponsors during those time periods. Short-term construction lenders are very concerned about the availability of long-term "take out" financing by other lenders upon completion of the construction or start-up phase. Construction lenders live in fear of providing their own unplanned take out financing. Consequently, from the standpoint of the construction lender, take out financing should be in place at the outset of construction financing.

Key elements of a successful project financing

There are several elements that both sponsors and lenders to a project financing should review in order to increase the likelihood that a project financing will be successful. The key ones are: a satisfactory feasibility study and financial plan should be prepared with realistic assumptions regarding future inflation rates and interest rates; the cost of product or raw materials to be used by the project is assured; a supply of energy at reasonable cost has been assured; A market exists for the product, commodity, or service to be produced; transportation is available at a reasonable cost to move the product to the market; adequate communications are available; building materials are available at the costs contemplated; the contractor is experienced and reliable; the operator is experienced and reliable; management personnel are experienced and reliable; untested technology is not involved; the contractual agreement among joint venture partners, if any, is satisfactory; the key sponsors have made an adequate equity contribution; satisfactory appraisals of resources and assets have been obtained; adequate insurance coverage is contemplated; the risk of cost overruns has been addressed; the risk of delay has been considered; the project will have an adequate return for the equity investor; environmental risks are manageable. When the project involves a sovereign entity, the following critical elements are important to consider ensuring the success of a project: a stable and friendly political environment exists; licenses and permits are available; contracts can be enforced; legal remedies exist; there is no risk of expropriation; country risk is satisfactory; sovereign risk is satisfactory; currency and foreign exchange risks have been addressed; protection from criminal activities such as kidnapping and extortion; existence of a commercial legal system protecting property and contractual rights.

The best way to appreciate the concerns of lenders to a project is to review and consider some of the common causes for project failures, which include the following: Delay in completion, with consequential increase in the interest expense on construction financing and delay in the contemplated revenue flow; Capital cost overrun; Technical failure; Financial failure of the contractor; Uninsured casualty losses; Increased price or shortages of raw material; Technical obsolescence of the plant or equipment; Loss of competitive position in the marketplace; Poor management; Overly optimistic appraisals of the value of pledged security, such as oil and gas reserves. In addition, for projects in a foreign country, the following are causes for project failures: government interference; expropriation and financial insolvency of the host government. For a project financing to be successfully achieved, these risks must be properly considered, monitored, and avoided throughout the life of the project.

While the sponsor or sponsors of a project financing ideally would prefer that the project financing be a non-recourse borrowing which does not in any way affect its credit standing or balance sheet, many project financings are aimed at achieving some other particular credit impact objective, such as any one or several of the following: To avoid being shown on the face of the balance sheet; To avoid being shown as debt on the face of the balance sheet so as not to impact financial ratios; To avoid being shown in a particular footnote to the balance sheet; To avoid being within the scope of restrictive covenants in an indenture or loan agreement which precludes direct debt financing or leases for the project; To avoid being considered as a cash obligation which would dilute interest coverage ratios, and affect the sponsor's credit standing with the rating services; To limit direct liability to a certain period of time such as during construction and/or the start-up period, so as to avoid a liability for the remaining life of the project; To keep the project off-balance sheet during construction and/or until the project generates revenues. Any one or a combination of these objectives maybe sufficient reason for a borrower to seek the structure of a project financing. Liability for project debt for a limited time period may be acceptable in situations in which liability for such debt is unacceptable for the life of the project. Where a sponsor cannot initially arrange long-term non-recourse debt for its project that will not impact its balance sheet, the project may still be feasible if the sponsor is willing to assume the credit risk during the construction and start-up phase, and provided lenders are willing to shift the credit risk to the project after the project facility is completed and operating. Under such an arrangement, most of the objectives of an off-balance sheet project financing and limited credit impact can be achieved after the initial risk period of construction and start-up. In some instances, the lenders may be satisfied to rely on revenue produced by unconditional take-or-pay contracts from users of the product or services to be provided by the project to repay debt. In other instances, the condition of the market for the product or service may be such that sufficient revenues are assured after completion of construction and start-up so as to convince lenders to rely on such revenues for repayment of their debts.

Project financing is sometimes called off-balance sheet financing. However, while the project debt may not be on the sponsor's balance sheet, the project debt will appear on the face of the project balance sheet. In any event, the purpose of a project financing is to segregate the credit risk of the project in order that the credit risk of lending to either the sponsor or the project can be clearly and fairly appraised on their respective merits. The purpose is not to hide or conceal a liability of the sponsor from creditors, rating agencies, or stockholders. Significant undertakings of sponsors and investors in projects subject to the Financial Accounting Standards Board must usually be shown in footnotes to their financial statements if not in the statements themselves. Because project financings are concerned with balance sheet accounting treatment, familiarity with accounting terms used to describe or rationalize balance sheet reporting is important. Terms such as contingent liability, indirect liability, deferred liability, deferred expense, fixed charges, equity accounting, and materiality are used to rationalize the appropriate positioning of entries in a sponsor's financial statements and footnotes. Accounting rules for reporting these types of liabilities are under continual review, as the accounting profession grapples with the problem of proper and fair disclosure and presentation of objective information to stockholders, lenders, rating agencies, guarantors, government agencies, and other concerned parties.

Corporations set target rates of return for new capital investments. If a proposed capital expenditure will not generate a return greater than a company's target rate, it is not regarded as a satisfactory use of capital resources. This is particularly true when a company can make alternative capital expenditures which will produce a return on capital in excess of the target rate.

Project financing can sometimes be used to improve the return on the capital invested in a project by leveraging the investment to a greater extent than would be possible in a straight commercial financing of the project. This can be accomplished by locating other parties interested in getting the project built, and shifting some of the debt coverage to such parties through direct or indirect guarantees. An example would be an oil company with a promising coal property which it did not wish to develop because of better alternative uses of its capital. By bringing in a company which required the coal, such as a public utility, an indirect guarantee might be available in the form of a long-term take-or-pay contract which would support long-term debt to finance the construction of the coal mine. This, in turn, would permit the oil company's investment to be highly leveraged and consequently to produce a much higher rate of retur

There are often other side benefits resulting from segregating a financing as a project financing which may have a bearing on the motives of the company seeking such a structure. These benefits include: credit sources may be available to the project that would not be available to the sponsor; guarantees may be available to the project that would not be available to the sponsor; a project financing may enjoy better credit terms and interest costs in situations in which a sponsor's credit is weak; higher leverage of debt to equity may be achieved; legal requirements applicable to certain investing institutions may be met by the project but not by the sponsor; regulatory problems affecting the sponsor may be avoided; for regulatory purposes, costs may be clearly segregated as a result of a project financing; construction financing costs may not be reflected in the sponsor's financial statements until such time as the project begins producing revenue. In some instances, any one of the reasons stated above may be the primary motivation for structuring a new operation as a project financing.

Tax benefits from any applicable tax credits, depreciation deductions, interest deductions, depletion deductions, research and development tax deductions, dividends-received credits, foreign tax credits, capital gains, and non-capital start-up expenses are very significant considerations in the investment, debt service, and cash flow of most project financings. Care must be used in structuring a project financing to make sure that these tax benefits are used. Where a project financing is housed in a new entity that does not have taxes to shelter, it is important to structure the project financing so that any tax benefits can be transferred to parties in a position currently able to use such tax benefits.

Project financings are complex. The documentation tends to be complicated, and the cost of borrowing funds may be higher than conventional financing. If the undertakings of a number of parties are necessary to structure the project financing, or if a joint venture is involved, the negotiation of the original financing agreements and operating agreements will require patience, forbearing, and understanding. Decision making in partnerships and joint ventures is never easy, since the friendliest of partners may have diverse interests, problems, and objectives. However, the rewards and advantages of a project financing will often justify the special problems that may arise in structuring and operating the project.

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COMMERCIAL INFORMATION AND CREDIT ANALYSIS PRESENTED IN A LOAN MEMORANDUM

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For financing corporate companies, banks use own and varied forms of loan memorandums which gather commercial and financial knowledge about the client. Credits granted to companies, whether public or private, generally comprises loans for working capital and for fixed assets, financing such as overdrafts, term loans, syndicated loans, and revolving credit and working capital loans. Banks do analyze a set of basic and additional criteria such as the ability of continuing business, the expected future cash flows, security and collateral, the rate of return to the bank as well as the level of the whole business which the bank has done with them. Credit papers needed for the conclusion of the convention between the bank and a potential client are governed by Law No 58 – the Banking law and procedures issued by NBR. The composition and quality of a bank's loans should be reflected in its loan policy.

Key words: client, loan, analysis, ratios, bank

A loan is the immediate possession of resources in exchange of a future payment promise involving also an interest payment that rewards the lender. Before granting any loan, it is necessary for the lender to know the purpose of the credit same as its legal purpose. On corporate segment, types of credit vary.

Generally, banks have their specific lending policies, which may change from time to time due to the market conditions or government regulations. Their policies are essentially based on the evaluation of the related risks such as the credit risk, interest rate risk and concentrated risk. The lending may be also authorized at a branch level if the branch portfolio allows that. In order to make proper lending decisions, banks purposely observe a set of general lending principles such as age and state of health, stability, integrity and honesty, sources of income, regular expenditure, existing connections, ability to manage financial affairs as well as margin, purpose, amount, repayment capability and security.

As corporations and companies represent the major category of clients, for the corporate lending banks do analyze a set of basic and additional criteria such as the ability of continuing business, the expected future cash flows, security and collateral, the rate of return to the bank as well as the level of the whole business which the bank has done with them. The usual procedures which banks apply in the loan granting to corporate borrowers specifically include submission of the application and required information, evaluation of the information, initial evaluation of the proposed security, negotiation, approval, legal examination of the security, signing of the contract, disbursement of the amount and recovery of the capital and interest. The credit granted to companies, whether public or private, generally comprises loans for working capital and for fixed assets, financing such as overdrafts, term loans, syndicated loans, and revolving credit and working capital loans.

The subjects of a loan memorandum

Overdrafts**:** Overdrafts are usually granted to those companies desirous to use the credit amount not as a whole but rather in accordance with their needs and for a certain period without having to pay interest on the entire amount but on the term agreed for interest calculation. In such cases, whenever the company gets excess of capital it can repay parts of the credit and, consequently, decrease the amount outstanding.

Export Financing: As most major companies deal with exports, banks can offer short time credit to exporters until they recoup the money from importers, upon a collectibles guarantee for the lending bank.

Loans for Fixed Assets Financing: Such loans essentially include short-term, medium-term and long-term loans with respect to maturity. The security for such a lending may be uncovered, covered by cash equivalent, by personal guarantees or mortgage assets, collateral and, according to the type of repayment, it may comprise equal capital amortization, equal installment payment, specific terms, fixed or floating interest etc. When loans in foreign currency are expected to be granted, banks usually tend to hedge their positions in the foreign currency but, very often, they rather speculate.

Syndicated Loans: Unlike the participation loans, the syndicated ones consist of an agreement specifying that two or more banks accept to directly lend to the same borrower or borrowers. In such a case, one of the banks plays the role of the agent bank while the others participate by own portions in the syndicate, the risks being shared by all of them.

The loan memorandum

There are five stages to any new lending:

1. Introduction of the customer;

Lenders always choose their clientele. An important source of new business for most lenders is introductions from professional advisers such as accountants and solicitors. But, a bank has no obligation to lend to customers introduced in this way.

2. The application by the customer;

The application (credit request) can take many forms but should include a plan for repaying the loan and an assessment of the contingencies, which might reasonably arise, and how the borrower would intend to deal with them. It might be in detailed written form, or not.

3. Review of the application;

During this stage all the information must be tested. It is sometimes difficult to remember all the points to be covered during an interview and many lenders use a check list (a mnemonics) including: - character (about the individual's character); - capital; - capability/ability; - purpose/destination; - amount; - repayment; - terms; - security/insurance. Ability - this aspect relates to the borrower's ability in managing financial affairs and is similar to character (about skill, experience of the manager). Amount - Is the customer asking for either too much or too little? There are dangers in both and it is important therefore to establish that the amount requested is correct. The amount requested should be in proportion to the customer's own reasons and contribution. Repayment - It is important that the source of repayment is made clear. Where the source of repayment is income, the lender will need projections to ensure that there is a surplus of funds to cover the repayment after meeting other commitments. Insurance - The canons of lending should be satisfied of available security.

4. Evaluation and

5. Monitoring and control.

Both steps aim to establish the risk involved. Listing the pros and cons of a proposition is helpful.

Under the provisions of the Law No 58 – the Banking law, the credit documentation needed for the conclusion of the convention between the bank and a potential client are the following:

- Credit request;
- Current financial situation of the applicant and of any of its guarantors, including the projected cash flows for the repayment of credit and principals;
- Description of the guarantees for the entire payment of the debt, and if necessary an analysis of the goods representing the guarantee;
- Description of the credit conditions containing the credit value, the interest rate, the repayment procedure, the scope for using the credit;
- Specimen of signature for each person that authorized the credit and the name of the bank;
- Annual Balance Sheet and Profit and Loss Account for the last three years of operation (plus annexes);
- Company's Overview;
- Description of the current activity/ financial info;
- Description of the project proposed for credit granting;
- The cash-flow statement for the entire loan period.

As a summarize, it should be mentioned that before any loan is granted, the following questions must be answered by the customer: how much is required? the purpose of the loan (legal, moral and within the policy of the government and the bank, National Bank of Romania); length of time the advance is requested? (how long the money is required and whether the outstanding debt will be repaid monthly, quarterly etc); the source of repayment. Any customer must have sufficient resources to repay (capital + interest) the bank within the stipulated agreed time. The sources of the repayment could be from wages, dividends, an inheritance and profits and so on.

Credit analysis

Credit analysis is the process of assessing the risk of lending to the business. The so-called credit risk must be evaluated against the benefits that the bank expects to derive from making the loan. The direct benefits are simply the interest and fees earned on the loan and possibly, the deposit balances required as a condition of the loan. Indirect benefits consist of the initiation or maintenance of a relationship with the borrower that may provide the bank with increased deposits and demand for a variety of bank services.

Credit risk assessment has both qualitative and quantitative dimensions; the former are generally the more difficult to assess. The steps in qualitative risk assessment are primarily gathering information on the borrower's record of financial responsibility, determining his or her true purpose for wanting to borrow funds, identifying the risks confronting the borrower's business under future industry and economic conditions, and estimating the degree of commitment the borrower will have regarding repayment. The quantitative dimension of credit risk assessment consists of the analysis of historical financial data and the projection of future financial results to evaluate the borrower's capacity for timely repayment of the loan and, indeed, the borrower's ability to survive possible industry and economic reverses.

The essence of all credit analysis can be captured in four basic factors or lines of inquiry:

- The borrower's character – most bankers agree that the paramount factor in a successful loan is the honesty and goodwill of the borrower;
- The use of loan funds – determining the true need and use of funds requires good analytical skills in accounting and business finance;
- Primary source of repayment – the analyst's accounting and finance skills are crucial in determining the ability of the borrower to repay a loan from cash flows. He must ascertain the timing and sufficiency of these cash flows and evaluate the risks of cash flows falling short.
- Secondary source of repayment – the collateral value should cover, in addition to the loan amount and interest due, the legal costs of foreclosure and interest during foreclosure proceeds. Even if the collateral is the preferred secondary source of repayment, others can be guarantors and co-makers, but in such cases, the collection usually requires expensive litigation and results in considerable ill will between the bank, borrower, and guarantor. In credit investigation, banks usually resort to the following sources of information:
- Customer interview – it provides the most important information needed in credit investigation, including the type and amount of the loan required, sources and plans of repayment, eventual collateral and guarantors, previous and current creditors, primary customers and trade suppliers, accountants, main officers and shareholders etc.
- Internal sources – credit files on any current or previous borrowings, checking account activity, other previous or current deposits, liabilities, income sources, assets, expenses and revenues etc.
- External sources of information – specialized service agencies, newspapers, magazines etc.

Before granting a credit/loan, a bank makes a trustworthiness financial analysis of the customers. The main trustworthiness ratios which summarize the four categories of financial ratios are:

Leverage ratios

$$\text{Long-term debt ratio} = \frac{\text{long-term debt}}{\text{long-term debt} + \text{equity}}$$

$$\text{Debt-equity ratio} = \frac{\text{long-term debt}}{\text{equity}}$$

$$\text{Total debt ratio} = \frac{\text{total liabilities}}{\text{total assets}}$$

$$\text{Times interest earned} = \frac{\text{EBIT}}{\text{interest payments}}$$

$$\text{Cash coverage ratio} = \frac{\text{EBIT} + \text{depreciation}}{\text{interest payments}}$$

Liquidity ratios

$$\text{NWC to assets} = \frac{\text{net working capital}}{\text{total assets}}$$

$$\text{Current ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick ratio} = \frac{\text{cash} + \text{marketable securities} + \text{receivables}}{\text{current liabilities}}$$

$$\text{Cash ratio} = \frac{\text{cash} + \text{marketable securities}}{\text{current liabilities}}$$

$$\text{Interval measure} = \frac{\text{cash} + \text{marketable securities} + \text{receivables}}{\text{average daily expenditures from operations}}$$

Efficiency ratios

$$\text{Total asset turnover} = \frac{\text{sales}}{\text{average total assets}}$$

$$\text{Average collection period} = \frac{\text{average receivables}}{\text{average daily sales}}$$

$$\text{Inventory turnover} = \frac{\text{cost of goods sold}}{\text{average inventory}}$$

$$\text{Days' sales in inventories} = \frac{\text{average inventory}}{\text{cost of goods sold}/365}$$

Profitability ratios

$$\text{Net profit margin} = \frac{\text{net income} + \text{interest}}{\text{sales}}$$

$$\text{Return on assets} = \frac{\text{net income} + \text{interest}}{\text{average total assets}}$$

$$\text{Return on equity} = \frac{\text{net income}}{\text{average equity}}$$

$$\text{Payout ratio} = \frac{\text{dividends}}{\text{earnings}}$$

$$\text{Plowback ratio} = 1 - \text{payout ratio}$$

$$\text{Growth in equity from plowback} = \text{plowback ratio} \times \text{ROE}$$

Financial ratios presented in a loan memorandum

While analyzing a company’s financial statements, the credit analyst might be overwhelmed by the sheer volume of data contained in the income statement, balance sheet, and statement of cash flow. Therefore they use only few ratios to summarize the firm’s leverage, liquidity, efficiency, and profitability.

All credits have a destination precise and mandatory which can not be changed by the borrowers. Credits are granted under guarantees that are written the credit contract. The guarantees must cover the maximum amount of credit, amount consisting in the principal and interest. The bank shall reserve the right to verify to its customers (borrowers) the permanent existence and the integrity of the ensured guarantees during the whole period of the credit. In the case in which the bank shall establish the non-observance of the contractual terms, it shall withdraw the credits before the maturity date. During the validity of the credit, the beneficiaries of the credits have the obligation to deposit to the bank their balance sheet and the financial statement.

Lending

Bank loans finance different corporate groups in the economy. Manufacturers, distributors, service firms, farmers, builders, homebuyers, commercial real estate developers, retailers, and others all depend on bank credit. The ways in which banks allocate their funds strongly influences the economic development of the community and nation. Every bank bears a degree of risk in its granting of credit, and, without exception, every bank experiences some loan losses when certain borrowers fail to repay their loans. Whatever the degree of risk taken loan, losses can be minimized through highly professional organization and management of the lending function.

The composition and quality of a bank's loans should be reflected in its loan policy. The policy sets out the bank's lending philosophy and specifies procedures and means of monitoring lending activity. A written loan policy should serve to obtain three results:

- produce sound and collectible loans;
- provide profitable investment of bank funds;
- encourage extensions of credit that meet the legitimate needs of the bank's market.

A meaningful loan policy will express strategies in concrete terms. The desired loan mix should be quantified. The loan mix expresses the diversification sought by the bank in its loan placements. Diversification reduces the level of default risk that is associated with large concentrations of loans in a single category.

The bank's liquidity strategy should be indicated, because it acts as constraint on lending activity and because liquidity is partly determined by the maturity structure of the loan portfolio. The desired size of the loan portfolio expresses the bank's intended aggressiveness in expanding its loan portfolio. A highly aggressive loan policy has both a bright side and a dark side. The bright side is that a large loan portfolio might increase bank earnings. The dark side is that an aggressive policy might lead to lower credit standards, marginal loans, and an unacceptable amount of risk. Most borrowers are exposed to risks that threaten their ability to repay their bank loans. However, all collaterals brought as security should be insured. Most banks conduct loan reviews to reduce losses and monitor loan quality.

Loan reviews consist of a periodic audit of the on-going performance of some or all of the active loans in a bank's loan portfolio. Its essence is credit analysis, although, unlike the credit analysis conducted by the credit department as part of the loan approval process, credit analysis in loan review occurs after the loan is in the books. Other than its basic objective of reducing loan losses, some intermediate objectives of loan review are as follows:

- to detect actual or potential problem loans as early as possible;
- to provide incentive for loan officers to monitor loans and report deterioration in their own loans;
- to enforce uniform documentation;
- to ensure that loan policies, banking laws, and regulations are followed;
- to inform management and the board about the overall condition of the loan portfolio;
- to aid in establishing loan loss reserves.

Whatever means are used to conduct loan reviews; the following points should be covered:

- financial condition and repayment ability of borrower;
- completeness of documentation;
- consistency with loan policy;
- perfection of security interest on collateral;
- legal and regulatory compliance;
- apparent profitability.

When a problem loan is detected, the responsible officer should take immediate corrective action to prevent future deterioration and minimize potential loss.

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RISK MANAGEMENT OF E-BANKING ACTIVITIES

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Summary: E-banking risk arises from fraud, processing errors, system disruptions, or other unanticipated events resulting in the institution's inability to deliver products or services. This risk exists in each product and service offered. Institutions should determine the appropriate level of security controls based on their assessment of the sensitivity of the information to the customer and to the institution and on the institution's established risk tolerance level.

Keywords: e-banking, risk management, security

1. E-banking risks

E-banking is defined as the automated delivery of new and traditional banking products and services directly to customers through electronic, interactive communication channels. E-banking includes the systems that enable financial institution customers, individuals or businesses, to access accounts, transact business, or obtain information on financial products and services through a public or private network, including the Internet or mobile phone. Customers access e-banking services using an intelligent electronic device, such as a personal computer (PC), personal digital assistant (PDA), automated teller machine (ATM), kiosk, or Touch Tone telephone.

In Romania, over 23 banks implemented and offer now e-banking services. The continuous development of the supporting technology, information security and e-banking strategy reflects on the increasing number of the e-banking customers. According to Communications and Information Technologies Ministry, the number of e-banking users and the transactions performed in this system, as well as the value of these transactions, registered a spectacular rising, displayed in the graphics below:

Year Index	2004	2005	2006	2007
E-banking customers	18.259	44.538	100.799	187.471
Transactions number	1.968.170	2.244.067	3.546.549	4.851.427
Transactions value (euro)	7.911.987.706	11.566.348.720	20.510.170.662	44.830.322.635

Source: Communications and Information Technologies Ministry

While the risks and controls are similar for the various e-banking access channels, this essay focuses specifically on Internet-based services due to the Internet's widely accessible public network. Accordingly, this project begins with a discussion of the two primary types of Internet websites: informational and transactional. Informational websites provide customers access to general information about the financial institution and its products or services.

Risk issues examiners should consider when reviewing informational websites include: Potential access to confidential financial institution or customer information if the website is not properly isolated from the financial institution's internal network; Potential liability for spreading viruses and other malicious code to computers communicating with the institution's website; and Negative public perception if the institution's on-line services are disrupted or if its website is defaced or otherwise presents inappropriate or offensive material.[2]

Transactional websites provide customers with the ability to conduct transactions through the financial institution's website by initiating banking transactions or buying products and services. Banking transactions can range from something as basic as a retail account balance inquiry to a large business-to-business funds transfer. E-banking services, like those delivered through other delivery channels, are typically classified based on the type of customer they support. The following table lists some of the common retail and wholesale e-banking services offered by financial institutions.

Since transactional websites typically enable the electronic exchange of confidential customer information and the transfer of funds, services provided through these websites expose a financial institution to higher risk than basic informational websites. Wholesale e-banking systems typically expose financial institutions to the highest risk per transaction, since commercial transactions usually involve larger dollar amounts. In addition to the risk issues associated with informational websites, examiners reviewing transactional e-banking services should consider the following issues:

- Security controls for safeguarding customer information;
- Liability for unauthorized transactions;
- Possible violations of laws or regulations pertaining to consumer privacy, anti-money laundering, anti-terrorism, or the content, timing, or delivery of required consumer disclosures

2. Transaction risk

Transaction risk arises from fraud, processing errors, system disruptions, or other unanticipated events resulting in the institution's inability to deliver products or services. This risk exists in each product and service offered. The level of transaction risk is affected by the structure of the institution's processing environment, including the types of services offered and the complexity of the processes and supporting technology.

In most instances, e-banking activities will increase the complexity of the institution's activities and the quantity of its transaction/operations risk, especially if the institution is offering innovative services that have not been standardized. Since customers expect e-banking services to be available 24 hours a day, 7 days a week, financial institutions should ensure their e-banking infrastructures contain sufficient capacity and redundancy to ensure reliable service availability. Even institutions that do not consider e-banking a critical financial service due to the availability of alternate processing channels, should carefully consider customer expectations and the potential impact of service disruptions on customer satisfaction and loyalty.[1]

The key to controlling transaction risk lies in adapting effective polices, procedures, and controls to meet the new risk exposures introduced by e-banking. Basic internal controls including segregation of duties, dual controls, and reconcilements remain important. Information security controls, in particular, become more significant requiring additional processes, tools, expertise, and testing. Institutions should determine the appropriate level of security controls based on their assessment of the sensitivity of the information to the customer and to the institution and on the institution's established risk tolerance level.

Generally, a financial institution's credit risk is not increased by the mere fact that a loan is originated through an e-banking channel. However, management should consider additional precautions when originating and approving loans electronically, including assuring management information systems effectively track the performance of portfolios originated through e-banking channels.

Funding and investment-related risks could increase with an institution's e-banking initiatives depending on the volatility and pricing of the acquired deposits. The Internet provides institutions with the ability to market their products and services globally. Internet-based advertising programs can effectively match yield-focused investors with potentially high-yielding deposits. But Internet-originated deposits have the potential to attract customers who focus exclusively on rates and may provide a funding source with risk characteristics similar to brokered deposits. An institution can control this potential volatility and expanded geographic reach through its deposit contract and account opening practices, which might involve face-to-face meetings or the exchange of paper correspondence.

Compliance and legal issues arise out of the rapid growth in usage of e-banking and the differences between electronic and paper-based processes. E-banking is a new delivery channel where the laws and rules governing the electronic delivery of certain financial institution products or services may be ambiguous or still evolving. Laws governing consumer transactions require specific types of disclosures, notices, or record keeping requirements. These requirements also apply to e-banking, and banking agencies continue to update consumer laws and regulations to reflect the impact of e-banking and on-line customer relationships.

Institutions that offer e-banking services, both informational and transactional, assume a higher level of compliance risk because of the changing nature of the technology, the speed at which errors can be replicated, and the frequency of regulatory changes to address e-banking issues. The potential for violations is further heightened by the need to ensure consistency between paper and electronic advertisements, disclosures, and notices.

3. Risk management

E-banking has unique characteristics that may increase an institution's overall risk profile and the level of risks associated with traditional financial services, particularly strategic, operational, legal, and reputation risks. These unique e-banking characteristics include: Speed of technological change, Increased visibility of publicly accessible networks, Less face-to-face interaction with financial institution customers. Management should review each of the processes discussed in this section to adapt and expand the institution's risk management practices as necessary to address the risks posed by e-banking activities.

Financial institution management should choose the level of e-banking services provided to various customer segments based on customer needs and the institution's risk assessment considerations. Institutions should reach this decision through a board-approved, e-banking strategy that considers factors such as customer demand, competition, expertise, implementation expense, maintenance costs, and capital support. Some institutions may choose not to provide e-banking services or to limit e-banking services to an informational website.

Financial institutions should periodically re-evaluate this decision to ensure it remains appropriate for the institution's overall business strategy. Institutions may define success in many ways including growth in market share, expanding customer relationships, expense reduction, or new revenue generation. If the financial institution determines that a transactional website is appropriate, the next decision is the range of products and services to make available electronically to its customers. To deliver those products and services, the financial institution may have more than one website or multiple pages within a website for various business lines.

Financial institutions should base any decision to implement e-banking products and services on a thorough analysis of the costs and benefits associated with such action. Some of the reasons institutions offer e-banking services include: Lower operating costs, Increased customer demand for services, and New revenue opportunities.

The individuals conducting the cost-benefit analysis should clearly understand the risks associated with e-banking so that cost considerations fully incorporate appropriate risk mitigation controls. Without such expertise, the cost-benefit analysis will most likely underestimate the time and resources needed to properly oversee e-banking activities, particularly the level of technical expertise needed to provide competent oversight of in-house or outsourced activities.

Security threats can affect a financial institution through numerous vulnerabilities. No single control or security device can adequately protect a system connected to a public network. Effective information security comes only from establishing layers of various control, monitoring, and testing methods. While the details of any control and the effectiveness of risk mitigation depend on many factors, in general, each financial institution with external connectivity should ensure the following controls exist internally or at their TSP.

Conclusions

A financial institution's board and management should understand the risks associated with e-banking services and evaluate the resulting risk management costs against the potential return on investment prior to offering e-banking services. Poor e-banking planning and investment decisions can increase a financial institution's strategic risk. Early adopters of new e-banking services can establish themselves as innovators who anticipate the needs of their customers, but may do so by incurring higher costs and increased complexity in their operations. Conversely, late adopters may be able to avoid the higher expense and added complexity, but do so at the risk of not meeting customer demand for additional products and services. In managing the strategic risk associated with e-banking services, financial institutions should develop clearly defined e-banking objectives by which the institution can evaluate the success of its e-banking strategy.

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AUDIT PROCEDURES REGARDING THE INFORMATION THAT MUST BE CONTAINED IN THE FINANCIAL SITUATION OF CREDIT INSTITUTIONS

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The auditors must obtain sufficient adequate audit proofs, to be capable of issuing the reasonable conclusion upon which the audit opinion must be based on. The great majority of the audit evidence are collected from the interior of the audited entities, having as base the accounting evidence, which include in general the initial and justifiable accountancy registrations.

Keywords: the audit proof, balance sheet, profit and loss account, assets and liabilities, credit, bank.

Starting from the peculiarity of bank activities, global knowledge of the credit institution, as an objective of the audit plan, has as purpose not only identifying the operations, product and services offered to the customers, but also identifying the risks that can have a significant incidence upon the accounts, conditioning in this manner the initial control planning and the ulterior mission planning. In this manner, the auditor must pay attention to: conjuncture factors of the monetary market: performances and decline, main bank transactions, corresponding banks, anterior financial reports, degree of introducing and extending of informatics' technology, accounting system and internal control system, respectively: accounting policies adopted by the bank and their evolutions in the previous years, estimations contained in the audit reports of the last years, used procedures by the anterior auditors, realized tests, contained findings in the control document and their capitalization, account examination and balance sheet content, respectively: identifying the assets and liabilities by their inventory and their result capitalization, functioning of the computerized accountancy and financial information systems in order to identify interruptions, falls, errors, interior or exterior bank frauds, correct asset and liabilities representation in the balance sheet, of the capitals and of the results, establishing the significance limit and audit risk evaluation. So, the domains where the auditors and the assistants can be solicited for some knowledge are very vast and for completing the engagement, the auditor will solicit sufficient expertises on bank aspects, that must be relevant for the bank activity audit and expertises in the informatics technology system and communication networks used by the bank.

The auditor must obtain sufficient adequate audit proofs, to be capable of issueing the reasonable conclusions upon which the audit opinion must be based on. The great majority of the audit evidence are collected from the interior of the audited entities, having as base the accounting evidence, which include in general the initial and justifiable accountancy registrations as: verifications and registrations of the electronic fund transfers, bills, contracts, general journal and annual accounts book, accounting registries and other financial fittings that are not reflected in the official accounting registries; other evidences as working documents and cost calculation sheets. Among these information provided by the audited medium, the auditor must solicit collateral information, afferent to the external medium of the audited entity, based on received confirmations from commercial partners, other credit institutions, evaluative agents, etc. The procurement of the audit evidences, with the purpose of reaching some reasonable conclusions, based on which the auditor can fundament his opinion are done through audit procedures, so that the auditor could: obtain a good understanding of the entity and its medium, inclusively internal control, for evaluating the risks of some significant defalcations at the level of the financial situation, called "risk evaluation procedures", to test when it is necessary the operational efficiency of the indicators in preventing or detecting and correcting the significant defalcations of the financial situations, called "control tests" and to be able to detect significant defalcations through "fund procedures", including here all the detail tests for transactions categories, balance on current accounts and presenting information by means of the "fund analytical procedures". Regardless of the procedure chosen to collect audit evidence, rarely one of these can be the only method for obtaining an audit certainty. When it is used in conjunction with other audit evidence sources, each procedure can still provide and important part of the reliability of the audit evidences. The auditor must chose professional audit procedures and their application level, in order to optimize the audit mission, from the viewpoint of the process time but also of audit costs. In those circumstances, choosing the adequate procedures is a professional reasoning problem. Applying the audit procedures imply usually the selection of some elements out a multitude, which will be tested by the auditor, and based on which the auditor formulates his opinion extrapolating the obtained results of the entire multitude.

As a conclusion, during all his mission, the auditor seeks to obtain the proof elements that permit him to certify upon the annual financial situations, using procedures and techniques regarding the control of the justifying documents, physical observation, analytical exam. For obtaining the evidence elements, the control techniques used are the following: physical inspection and the observation, direct confirmation from a third party, examination of the documents, arithmetic control, analysis, estimations and confrontation between information and documents, analytical examination.

The credit institution accountancy has as essential function to exhaustively register economical-financial operations with the purpose of periodically obtaining and presenting under the form of a synthesis - financial documents, the patrimony situation and also the global result. There is a consensus in affirming that the financial documents must provided those who use them the necessary information needed in decision making. And still, although it is a question of an essential thing in determining the assigned objectives of the financial documents, is difficult to make a user hierarchy and to specify their own needs. The main users of the contained information in the annual financial situations of the credit institutions are: Board of Directors of the credit institutions, shareholders wishful to know the use mode of their bank contribution, National Bank of Romania as an issuance and control centre of the circulation money, financial organisms as budgetary income collecting organisms, customers, debtors and creditors, depositors in current accounts or deposits, stock market companies, other credit institutions with which the credit institution comes into credit and loaning relations, security operations or other businesses.

At credit institution level, accounting synthesis works are done periodically, consisting in general situations or on components of the economic mechanism, from which it can synoptically result the assets and passives, solvency, capitalization, debt degree and other information. The accounting synthesis papers are made according to the legal provisions, half-yearly and annually and at any time the situation asks for it, as new share issuance, merger, reorganization, change of unit's administration, etc. In an ensemble view, the annual situation is materialized in the annual financial situations (or annual accounts). According to the banking legislation in force, the credit institutions are obligated to present the National Bank of Romania their financial situations, done on individual base and, if there is the case, on consolidated base, only after have been audited by the approved financial auditors of NBR. Starting with January 1, 2006, the credit institutions must make also a different set of financial situations, corresponding to the International Financial Reporting Standards for proper information need of the users. The main components of the financial situations drawn up by the credit institutions are similar to the ones that must be done by the economic agents, as the following: the balance sheet with structures specific to the credit institutions, profit and loss account with structures specific to the credit institutions, the situation of proper capital modifications, situation of the treasury flux, annotation in the annual financial situations. The information contained in the synthesis situations are grouped in general on financial years (reporting and previous year) for creating the possibility to follow the dynamic of the patrimony evolution, types of credits and loans, in lei and in foreign exchange, on destinations, residents or non residence customer groups and depending on many other characteristics.

The diagram of the ***balance sheet*** for the credit institutions is different of that for economic agents. In this manner, the elements of the active patrimony are registered in their liquidity order. The first elements are the cash, reserves in current bank accounts, and the immobilizations are registered at the end of the assets. The liabilities contain the bonds or debts in the order of sight or term due date, and the capital with its components are registered at the end of the liability. From this perspective we can conclude that a priority attention is given to the actual and perspective solvency analysis. Besides the asked information of other international accountancy standards, the balance sheet must contain specifications, at least at the following asset and liability elements that are to be audited (see table).

ASSETS	LIABILITIES
1. Balances of account other bank	1. Deposits from other banks
2. Instruments on the monetary market	2. Deposits received from other sectors of the monetary market
3. Securities held for transactions	3. Capital and reserves
4. Other financial assets	
5. Investments in branches and associates entities	
6. Credits	

Table: Balance sheet for the credit institutions

The following audit procedures does not constitute an exhaustive list of procedures that can be taken and it doesn't even represent a minimal requirement according to which these must be taken. When auditing the *balances of account other banks*, the auditor must have in view the confirmations from third parties. If the balance held by other banks is the result of a large number of transactions, receiving the confirmations from other banks is a more convincing proof regarding the existence of the transactions and resulted inter-banking balances, than in the case of adequate internal controls. Also, the auditor takes into consideration if the accounts balances at other banks, existent at the date of the financial situations, are the expression of the good-will commercial transactions or if any significant variation towards the normal levels or stipulated reflect the transactions done mainly to form an non-natural impression upon the bank's financial position or to improve the liquidity indicators and asset rates. Where the cosmetization phenomenon appears in a form in which distorts the perfect image of the financial situations, the auditor asks the administration to adjust the balances presented in the financial situations, or to make supplementary information presentations in the annotations. If the administration cannot do this, the auditor takes into consideration the modification of the audit report. In auditing the following balance elements: *instrument on the monetary market* and *securities held for transactions,* the auditor must take in consideration the need of making a physical inspection or confirming the money amounts with the external custodian credit institutions, and also confronting the amounts with the accounting registries. Takes into consideration if he must test the corresponding registration based on engagements of the obtained income from monetary market instruments, if the relation between the owned securities and afferent input is a reasonable one, if all the significant profit and losses from selling and re-evaluations have been reported accordingly to the financial report framework. In discovering some debts and unregistered losses, the auditor tests the existence of agreements of term selling and rebuying. When they evaluate the instruments on the monetary market, will keep in mind the adequate degree of the evaluation techniques used in proportion with the issuer's creditworthiness, while in the evaluation of transactional securities, he will take into consideration the financial report framework, in which are prescribed different evaluation basis for the securities classified in the banking system, depending on the purpose for which are owned: transaction, portfolio investment or for anti-risk coverage. If the administration' intentions change, the used evaluation base also modifies, meaning that the possibility of modifying the asset classification offer the administration the possibility towards a fraudulent financial report, being available the recognition of a profit or avoiding the recognition of a loss. As a consequence, when the securities have been transferred from one category to another, the auditor should obtain sufficient and adequate evidence for supporting the statements and financial situations according to the revised intentions. *Other financial assets* are those elements that suppose some current fund investments, as the acquisition of security assets. The auditor must examine the base documentation for supporting the buying of these assets in order to determine if all the rights and obligations (as are the liabilities) have been correctly accounted. Due to the fact that there are no markets for such assets, is difficult to obtain an independent proof of their value. For that, in their evaluation the auditor must take into account the adequate degree of the used evaluation techniques as the nature and extent of any devaluation analysis that the administration has made and if the results are reflected in the asset value. In many cases, *the bank investment audit in subsidiaries and associated entities* is not different from the audit of such investments owned by any other entity. Still there are some special aspects that create some problems regarding the bank operations. So, the auditor takes in consideration if the afferent financial obligations are registered as debts of the bank and will pay attention at the implications of any legal or practical requirements so that the credit institution shall provide future financial support or ensuring the maintenance of the subsidiaries' operations and associated companies. The main audit concern is to make adequate the registered provisions for the *credit* afferent losses. For establishing the nature, extent and period of the activity to be developed, the auditor takes into consideration the following factors: the trusting degree that is reasonable for establishing the specific bank system for classifying the credit quality, ensuring procedures that all the documentation is correctly finished, internal credit revision procedures and internal audit activity, information examination based on which the bank evaluates and monitors the country risk and the criteria used for this; make up the credit portfolio, with a special attention for: concentrating the credits towards the debtors, commercial and industrial sectors, certain geographical regions, certain countries, increase for representation of the personal credits (a few valuable credits versus a lot of small value credits); credits given to the affiliate parties; for non performance credits a special attention is given to the previous years, regarding expenses and examinations done by the regulatory organisms. Besides those non performance loans identified by the administration and where is the case by the banking regulation organisms, the auditor takes into consideration the supplementary information sources for discovering the credits that could not be indicated up to then. These include: different internally generated lists, as credits presented in pursuit lists, bank loans in arrears, non engaged credits, personnel credits, etc. In auditing the depositors' deposit accounts, the auditor evaluates the internal control system upon the depositors' accounts, taking into consideration also the process of analytical procedures and confirmation of medium balances and expenses with the interests for evaluating the acceptability degree of registered deposits' balance. Also, it determines if the obligations afferent to the deposits are classified according to the regulation norms and relevant accounting principles. When the credit institution presents a risk due to the economic dependency of some important depositors or when there is an excessive due-date deposit concentration in a certain moment, the auditor takes into consideration the necessity of presenting information. The banking regulation authorities give a special attention to the capitals and bank reserves in the monitoring process at the bank activity level and determining the dimension of the bank operations. Minor changes concerning the capital or the reserves can have a great impact upon the credit institution' capacity of continuing to function, especially if there is close to the permitted minimum level of the capital indicators. In these circumstances there are great pressures on the administration to get involved in fraudulent reports by a wrong classification of the assets or liabilities or by their description as being less risky then in reality. So, the auditors take into account: if the capital and reserves are adequate regarding the regulation purposes, if the information presentations have been accounted and if these are correspondingly and according to the legislation applicable for the financial reports.

In the **profit and loss account** are presented on one side, the registered expenses in the reporting period and on the previous period (fiscal activity), in total sum or on structure, and on another side, grouped similar incomes and expenses.

In principle, based on the difference between the incomes and expenses the year result is obtained: profit and loss. Normally, two of the most important elements for determining the banks' profit are the interest incomes, respectively expenses afferent to the interests. These have a direct relation with the assets, respectively interest liabilities. For establishing the correctness degree of these relations, the auditor must examine the degree in which the reported incomes and expenses vary regarding the accounted values based on medium balances and declared rates of the banks during the year. Such an examination can determine the existence of some significant values of non-performance credits or unregistered deposits. Plus, the auditor can take into consideration how reasonable the bank declared rates are in comparison to the ones that characterized the market during the year for similar credit and deposit classes. For the deposits afferent debts, this kind of evidences can indicate the difficulties linked to liquidity or financing. In the same manner, the commission incomes, constituting also a massive component of a bank's profits, generating usually a direct relation with the obligations volume afferent to the sources that the commissions have been gained. So, the auditor must take into account if the registered value is complete and with the analytical procedure analysis must establish if the reported amounts are reasonable. Among these aspects, the auditor must verify if the incomes refer to the period covered by the financial situations and if are accounted according to the applicable financial reporting framework.

The bank must provide in the **Annotations** the following information: - the nature and sum of the irrevocable credit engagements; nature and sum of the engagements besides the balance, as: financing engagements – in favour of other banks, received from other banks, in favour of the clientele or received from the financial clientele, liability engagements given to other banks, received from other banks, given to the clientele or received from it, an analysis of the assets and liability elements, classifying them into a significant manner depending on the due-date, depending on the left period from the balance sheet to the contract due date, accounting method used for observing and get to losses of the doubtful/irrecoverable collectives; details referring the provisions' movement for irrecoverable collectives losses; the total amount representing the provision for debt losses; reserves made for the bank risk out of the gross and net profit if are presented separately, global sum of the assured liability elements, also the nature and accountancy value of the assets given for security.

Taking into consideration these requirements, the auditor must establish if the annotation at the finance situation of the bank are in correspondence with the framework applicable for the financial reports, pursuing that for each information, to control its presence and realization.

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THE IMPLEMENT ROLE OF TARGET SYSTEM FOR HIGH VALUES

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The Target system, one of the most worldwide used payment system, continued to participate in fitting process of monetary market in euro curency and to play a major role in the task of putting in harmony application the single monetary policy. The system is conceived in order to allow the initially payment to be finish in a matter of few minutes, through a special communication network (interlineking system). TARGET is the main tool for introduction the. Eurosystem policy and create one single banking market in Europ.

Keyword: Target system, highly value transfers, electronic transfers, cash flow

The introduction of euro currency since 1999, determined the achievement of all financial transactions between these states in new settlement coin.This issue implied the adoption of one unique payment method between the countries from euro zone, which is connect to national payment systems of the member states.

Nowdays, to European Union level is working the payment system of inter-banking high value transactions, known under name of TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer System). The procedure was initiated since 1995 by European Monetary Institute de Institute (becoming later European Central Bank) and was in operational phase since january 1999.

The TARGET system is composed from 15 national payment systems RTGS (National Real Time Gross Settlement System), connected/linked through one electronic automate processing dates network, to whom it adds the own payment system of European Central Bank EPM (European Central Bank Payement Mechanism).

Through this mechanism has done approximate 90% from highly value transfers of European Union, having the role of ensurance the payments made between european central banks, on raw base and in real time, no matter the system used by every country and minimize the risk of no payment until this risk nearly vanish.

The TARGET system structure is one of uncentralised type, including:

- the national systems with raw payments made in real time from member countries;
- the supervise mechanism of Central European Bank;
- the interconnect network between central banks.

The European Central Bank' s role is not to involve in the payment system, but hold one control system which allows the working day closing into a final and irrevocable position. In change, the central national banks detain the task to collect the payment messages from the internal participants and to transmit only in available fund limits of them and in limit of granted credit facilities.

The direct participants to electronic transfers through TARGET method are the banks and internal credit institutions .The central banks could authorise other institutions to participate in system as treasury departments of member states, the compensating/clearing houses and discount institutions, the financial investment firms, other institutions from public area who can open accounts to customers, all authorised and supervised by central bank ot other authorities recognised/high reputation in this field.The admission of straigth/direct members is make accordingly to adequate financial capacity of instutution, taking into account the minimum number of transactions, the necessary technical understructure in concordance to the standard level and central bank approval.

The architecture of target eurosystem includes one technical element and one outlook of interconnect of central banks with European Central Bank through a communication network, named Interlinking throughout are changing the payment messages.Too, the central banks have to their disposal one Standard

Interlinking element, which ensure the message transforming from internal standard to community standard.The structure and functioning mode of TARGET procedure is illustrate in Figure no. 1.

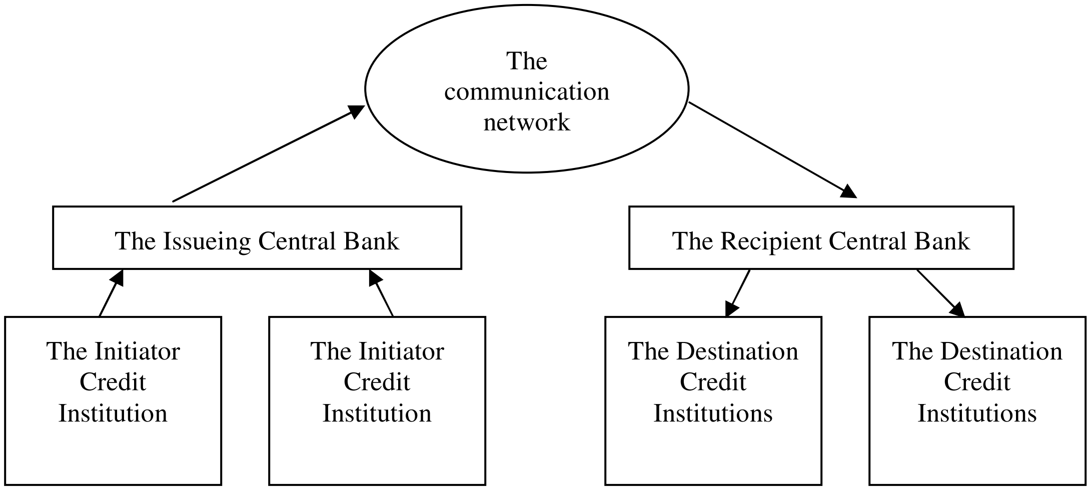

Figure no.1 The operational cash flow of payments through TARGET system

The operational payment flows through target method are illustratted below:

- the initiator credit institutions transmit the codify payment message to the central bank from own country;
- the issueing central bank verifies the message transmitted by the initiator credit institutions (un-codify, verify the bank's code), validates the payment, formats the message and transmits it through the communication network to the recipient central bank;
- same time, pour forth/debt the initiator's bank account and credit the interlinking-initiator bank account;
- the recipient central bank verifies the message, the recipient bank affiliation and retransmit the payment message to the recipient credit institution; simultaneously, debt the interlinking-issueing bank account and credit the recipient bank account;
- the recipient bank must to confirme, in a 30th minutes timeframe, to the initiator bank, the payment discount.
- In the frame of TARGET system can be develop the following application types, illustrating as a rule the credit transfers:
- direct/straight payments in connection to central banks operations of eurosystem;
- discount the account balances for high values payment systems;
- the internal banking payments system and commercial payments.

The TARGET system takes part to optimum functioning of monetary market in euro coin expresion and, thanks to the fact that credit operations are make through this system, has a major role in introduction of unique/single monetary policy. Through the TARGET system are processing a lot of other payment operations, due the fact that those issues offer discount services in real time in central bank's money, having a vaste market covered. Still the begining, TARGET functioned/worked without problems and full of success, having, accordingly to statistics, an increasing trend regarding the discount of bigger and bigger number of high value payments in euro.

As an example in 2006 year, 89% from total volume of high value payments in euro, had been proceeded through this system. The daily average/mean of payments proceeded through discount system TARGET was increased with 10%, both volume and value point of view. From the following tabel (Tabel no. 1) which illustrates the payment traffic TARGET in 2006 year, by comparison with the registred traffic from the previous year, it has been ascertained an increase of the transaction volumes and values. 96,75% from total amount of payments between member states, had been proceeded in a time frame of five minutes.

		2005	2006
The transactions volume (no.)			
Total	Total	76.150.602	83.179.996
	Daily Mean	*296.306*	*326.196*
Intra- member states	Total	58.467.492	64.162.211
	Daily Mean	*227.500*	*251.617*
Inter-member states	Total	17.683.110	19.017.785
	Daily Mean	*68.806*	*74.580*
Value (thousand million. Euro)			
Total	Total	488.900	533.541
	Daily Mean	*1.902*	*2.092*
Intra- member states	Total	324.089	348.764
	Daily Mean	*1.261*	*1.368*
Inter-member states	Total	164.812	184.777
	Daily Mean	*641*	*725*

Tabel no.1 The payment traffic Target

Source: Central Bank European

It is available to all credit transfers in euro between the interconnected banks, without any lower or upper limitation regarding the transfer value. The transfers can be procedeed both, between the banks from the same member state, also between the banks from different member states.

The TARGET system is conceived in order to allow an initiate payment to be finish in a maximum timeframe of few minutes. This timeframe, named operational time, starts from the moment when is proceeding the debt account of the person which send the money and it finishes in moment when credit the transfer beneficiary's account. Same time with confirmation, by the system, of recipient address, takes place simultaneously the credit of beneficiary's account, who can dispose immediatly by the money.

The TARGET system is functioning only in working days ,from Monday to Friday, to 7 a.m. to 6 p.m., to which it adds the exceptions afferent to national happiness days when the respective elements are closed.

By the day's end, the banks detain highly debit positions or highly credit positions, in report to the compensate system.Until next day, one of them become owner of deposits which must to be placed in investments, others hold debt positions and must to obtain short term deposits in order to resist to specific obligations from the payment system. The intermediary is the National Central Bank. The management rate of interest used for this proceeding has the goal to equal the value of one economical indicator illustrating the monetary policy in short term operations.

In order to ensure one highly operativity degree for proceeding the payments through this system, in order to be possible the payment facilities through open positions, the participate banks must to hold some supplementary warranties. Based on these quaranties, the participate banks could obtain daily free credits granted by the National Central Banks.

The warranties afferent to credits offered in euro coin are settled by every National Central Bank and could result also from other Central Banks.The credit mechanism represents a main component of monetary policy system introduced by National Central Banks, to Central Bank European recommnendations.

Due the major role of central pillar, which is played by this system on market and due to cover area, is essential to ensure an appropriate protection level against one extended risks area, in order to ensure an efficient functionality, without problems. It is an important issue the settlement of some emergency measures against an eventually system risks, which can affect the payments with highly importance degree. The system risk supoposes" undoing the payment obligations by one participant could conduct others participants to difficulties, generating thus a chain reaction, which will determine a general financial crisis.

The system must ensure the achievement of these payments without delays, even in especially times. În this direction, the eurosystem method estabilished emergency measures for proceeding ensuring these payments in a good manner, even in a mistaken function of it.

To central banks level, series of extra tests proceeded, and these tests demonstrated the efficiency of eurosystem emergency measures, also the fact that it gathered all the conditions in order to vouch for function without disorders in a crisis situation.

Due to the extent volume of operations made through TARGET, the euro area extended and the increasing of transaction volumes, were introduced since November 2007, a better system:TARGET2.This system allows the access for all participants to the same kind of services, allows using of one unique commision for national and foreign operations, answering to new exactingness imposed by users.

TARGET2 benefits by one single platform (instead of uncentralised platforms) offering new supplementary services(for example: payments ordering, proceeding of programme payments).

The Europen Union's wish is to create, since 2008, a Single Area Euro Payments - SEPA for companies and citizens.First step in this direction was made by introduction of upper version to TARGET system, named TARGET 2. Supplementary to efficiency increasing by using the same system both for internal and foreign payments, the advantages of this new system consist also in harmonize the service's qualities offered by european banks, the access to consolidate informations and the possibility to improve management of money flows.

The Single Area Euro Payments realization is possibble only by joint efforts of all european states, which must to metamorphose gradually the national payment systems into pan-european systems. Too, the instruments, services and national standards must to be substituted with the same pan-european items.

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ROMANIA: FROM THE QUANTITATIVE MONETARY AGGREGATES TO INFLATION TARGETING

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Resume: The lack of historic capitalism experience, the delays of governmental legislative and economic reforms, the ownership changes of the former state-own banks, the existence of the real negative interest rates on banking deposits, the regional crises (e.g. former Yugoslavia Republic, Kosovo situation), the high costs of financial intermediation, the alternative of financing by arrears, and the lack of legislation in by-law forced recovery of receivables, all that together were challenges affecting the health of banking system.

Key concepts: monetary aggregates, inflation, liquidity, crises

1. Once the Romania moved toward market economy, the presence of a free central banking institution started being necessary in, at least, two decision areas:

- First: the last resort lender or banker for all Romanian banks,
- Second: the monetary policy management.

It can be noticed that since its establishment, Romanian National Bank (RNB) has been constrained to adjust its monetary initiatives to several urgent main objectives: maintaining a healthy foreign currency position or liquidity, and improving the low level of M2-aggregate participation to GDP (e.g. the last one being around 30-33% of GDP – almost two times lower than the performance of other Central European democratic countries like Hungary, Poland, Czech Republic).

The lack of historic capitalism experience, the delays of governmental legislative and economic reforms, the ownership changes of the former state-own banks, the existence of the real negative interest rates on banking deposits, the regional crises (e.g. former Yugoslavia Republic, Kosovo situation), the high costs of financial intermediation, the alternative of financing by arrears, and the lack of legislation in by-law forced recovery of receivables, all that together were challenges affecting the health of banking system.

On such a non-favorable premises' structure including both periodic major macroeconomic disequilibrium and a partial national currency crises during 90's, we were witnesses at the lowering significance for those monetary aggregates chosen as intermediate targets (e.g. the phenomenon of artificially sustaining the currency exchange rate having as consequence a deterioration of foreign reserves) and at the necessity of periodic replacement of those without significance in order to maintain a valid macroeconomic analysis.

Historically, Romanian macroeconomics could be characterized by the followings:

- Inconsistence of favorable influences coming from the price liberalization, increasing participations of services revenue to GDP, or higher direct foreign investment, that were often counterbalanced by the excessive increase of wages and arrears, or by a lack of fiscal stability.
- Long term-effects limitation of monetary aggregates-based policy in the absence of structural reforms, reality that generated a trend of choosing either the less ambitious objectives or the costly compromises. The results manifested as downtrends of credibility and higher levels of annual inflation compared to European Union new-entered economies.

2. Based on the previous circumstances:

The monetary aggregate management of central Romanian authorities was under the impact of punitive measures against those banks being out of the banking security standards including non-legal or quasi-fiscal activities (e.g. roll-over nonperforming loans). It was a moment when, as a result of inflation erosion of banking assets, there started a modification inside the components of monetary aggregates used as reference targets (a swift of importance from the monetary base aggregate toward quasi-money aggregate).

The new challenges for the authorities being in charge of monetary policy consisted of:

- M2 aggregate management,
- Inflation control and reduction,
- Sustainable foreign currency liquidity and international reserves,
- Control of budgetary deficit,
- Better stability for the banking system.

The regular NBR objectives consisted in the fulfillment of commitments related to EU integration, better efficiency of domestic institutional mechanism, better supervisory and payment system, higher degree of M2 participation into GDP.

The monetary policy instruments were dynamically adapted and the consequence/performance was an inflationary neutrality in the end (or an inflation rate with one digit) - recorded into a monetary context characterized by liquidity excess and amplified sterilization operations. Unfortunately the distortions generated by the stage of administrative money control has continued to be present on quite important scale. NBR has recently adopted restrictive decisions related to the indebtedness size limitation on retail market, and also to the authorized banks' capacity for lending in foreign currency.

Open market operations have continued to be used as an essential instrument toward money sterilization. Among such operations a central role was played by the state-securities repo reverse activity and the drawing of deposits.

3. As a consequence of the fact that NBR was forced to accommodate high fiscal and quasi-fiscal deficits, doubled by the loses recorded among the state companies and in agriculture area, the monetary aggregates recorded amplified fluctuations:

Econometric analysis according to the monthly NBR statistics, proved a high significant correlation on long term between M2, industrial output, and Romanian currency deposits drawn by NBR. Additionally excessive role of M2 upon inflation has proved that in case of Romania the price dynamics is not an exclusive monetary phenomenon. Besides, NBR has used M2 as monetary anchor because that indicator had a better significance compared to monetary base, looking to increase the availability of money offer in the same direction with GDP's dinamics but at a slower slope.

Due to M2's accelerated increase, back by the increasing commercial deficit and the dynamics of loans and arrears, there was identified a hidden latent inflation well-administrated by the central bank through monetary sterilization interventions. Thus, the low linear slope of the monetary base was mainly a response at the high interest rate policy.

4. It is ought to be mentioned, that the existence of a continuous dynamics and innovation among the banks' management instruments of liquidity and financial investments, did not allow NBR to apply exclusively a monetary policy based on a single interventionist instrument.

- As a particularity for Romania, during 2000-2005 period, it was noticed the absence of statistical correlation between the interest rate spread and the values of M1 or M2 monetary aggregates. Thus, the overall economic environment was characterized by the presence of targeting the monetary aggregates instead of inflation.
- Also, due to excessive liquidity on the capital market, the banks started to have important deposits at NBR that were far above the minimum reserve requirements, and thus the monetary policy interest rate has acted more as an opportunity cost instruments instead of being a marginal cost of last resort financing. So, the influence of interest rate was smaller than the one of monetary aggregates.
- Additionally, we consider that the relation between NBR interventional instruments and monetary aggregates was more powerful than that between the same interventional

instruments and inflation, due to the fact that the monetary aggregates include in their contents the most of banks liabilities.

5. It is sure, that up to the end of year 2004, NBR's monetary policy strategy had wear the particularities' "suit" of monetary targeting that had meant the use of monetary base as operational objective, and M2 as intermediate objective. Then, the strategy turned step-by-step toward inflation targeting. It is ought to pinpoint the fact that monetary policy appealed quantitative targets both at operational and intermediary levels. The major attempts of using extensively the exchange rate as anti-inflation anchor failed during 90's, while the exchange rate strategy was not proper for such interventions due to overall adverse monetary conditions and costs. Thus, the inflation successfully slowed down from extreme levels of almost 300% (1993 year) to almost 9% (year 2005). Such performance is still away or below compared to the performance of new-entered European Union members, but it is a trend that should continue. At the same time, the disinflation's move was not linear during that period, as there were moments when new inflation peaks were recorded (in 1997 and 1999).

- For the last three years (2004,2005,2006), Central Bank has adopted a gradually intensified monetary policy as a result of a high dynamic investment and consumer demand. The danger of exceeding the sustainable commercial deficit was a real issue for each of last years.
- By its deposits interventions, NBR looked for controlling the inflationary expectations under incertitude conditions especially on inter-banks market.
- Adopting an official inflation targeting since 2005, NBR strategy has also been sustained by a favorable free exchange rate environment. The viability of that interdependence relied on the maturity-reach effects of previous structural reforms that allowed an export competitive advantage.

6. Concluding, the shift from monetary targeting toward inflation targeting was done under the influences of following events:

- The existing pressure coming from refinancing the public debt and from the necessity to remain in certain boundary with the budgetary deficit. Thus, the governmental deficit financing was done mainly from foreign markets in order to slow down the interest expenses. That move affected the liquidity of the domestic stock exchange and money market in case of government securities, and led to high difference between yields offered by NBR and Public Finance Ministry.
- NBR assigned monetary control and liquidity management functions on the mechanism of minimum required reserves. The differences among the interest rates paid on domestic currency reserves and those on foreign currency reserves were justified as a measure to discourage both the excessive lending in foreign currency, and also the speculative orders upon the domestic currency exchange rate. Thus, the minimum required reserves mechanism reflected the constrains existing in the operational environment of the last years monetary policy.
- Romanian strategy was deeply hurt by the low development of its financial markets, and the low level of monetization (e.g. % M2 in GDP).
- A precondition of potential success in the case of inflation targeting was fulfilled - the improvement of taxes collection and the reduction of money laundry.
- The important amounts of quantitative increases in Foreign Direct Investment (yearly Euro 4 billion), and also in the rest of M2's components, forced the necessity of a new strategy based mainly on non-monetary aggregates.

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DISCREPANCIES BETWEEN THE CREDIT CONTRACT AND THE GENERAL BUSINESS CONDITIONS. MORAL AND LEGAL IMPLICATIONS

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At the beginning of 2008, a series of clients of a commercial bank from Romania received an unwanted "gift": a notification by means of which they were informed that the bank had decided to raise the bank fees associated to the credit portfolio; as a consequence, they were to pay a supplementary 0.5% worth monthly fee, applied to the credit balance; therefore, the new terms imposed a recalculation of the monthly installment, as well as the draw up of a new reimbursement schedule, which could be obtained at branch of the bank where the account had been opened.

There are also bank clients that, while reading the contractual clauses, have raised the problem of the legality of these modifications, thus realizing that there is no provision in the contract that gives the bank the right to introduce a new fee or to modify the existing one over the credit's period of validity.

Key-words: credit contract, general business conditions, bank fees

An "error" that made things worse

The bank issued a public communiqué announcing the modifications on the 28th of January, a month and a day after the clients were sent the notifications, a week after the modifications came into effect and after the bank received the first signals of discontent from the part of several clients concerning the new contractual provisions.

The second paragraph of the communiqué mentioned that "out of error, the modification was also notifies to a series of clients which were not affected by the respective adjustments." However, the announcement claimed that the modifications had been operated in the information system of the bank for the entire database and assured the interested parties that reversal invoices would be transmitted to those who had received the notification "out of error".

It is obviously very difficult to establish if a real error was made or the bank decided to rectify its position following the harsh reactions from the part of many of its clients. It does not matter so much, anyway. What finally counts is the fact that the bank reacted, thus assuming the responsibility for that error, at least partially.

Unfortunately, the communiqué left several problems unsolved. Which were those contracts which allow, at least in the bank's opinion, the introduction of the new fee and which are not? Why did the bank resort to that new harmonization of its fees, due to raise the credit costs, as the bank itself implicitly admitted? Why did they not deliver the new reimbursement book to the clients' residences, together with the notification, as did other banks that substantially changed their crediting costs? What were the solutions for those who wanted to unilaterally denounce the contract?

Contracts with ambiguous provisions

We have tried and found out the answers at the bank's representatives, who promptly and openly responded to our inquiries concerning the clients aimed by the bank notification.

First, we have been informed on the types of contracts for which the bank will not apply the new provisions. They are the ones which do not mention an management fee in the "fees" chapter or which wrongly mention it.

For example, the formulation in one of the contracts concluded by one of the bank's clients is the following: "a fee to cover the administration expenses related to the loan, further termed as management fee. The management fee is of 4% and is calculated as a percentage of the entire amount of the loan, as mentioned in the third chapter, "Terms of Loan". The management fee is collected on loan approval, in cash or by debiting the borrower's account". The respective clause DOES NOT refer in fact to an management fee, but to a credit approval fee; as a result, the clients having signed such contracts will be exempted from paying the new fee.

The clients encountering formulations like "an annual fee to cover the administration expenses related to the loan, further termed as management fee. The management fee is calculated on an annual basis as a percentage of the entire amount of the loan, as mentioned in the third chapter, "Terms of Loan". For the first year of crediting, the management fee is collected on loan approval; for the rest of the period, it is collected at the beginning of each year of crediting, together with the annuity."

The bank claims that, in this case, we are not dealing with the introduction of a new fee, but with stage payments of the same fee over several months. However, the situation is at least questionable – the initial formulation mentioned an annual fee, while the new version specifies a monthly fee. The bank argues that, in several contracts concluded with its clients, there are formulations which give it the right to modify the fees. "The contract is submitted to the general business conditions", reads one of the formulations. Another stipulated that "the terms of the contract are consistent with the terms of the general business conditions".

However, both above-mentioned formulations are immediately followed by a statement that can give rise to interpretations. "In case of conflict (or disagreement) between the contractual and the General Business Conditions' terms, the terms and conditions of the hereby contract prevail."

The bank also sustains that, even if there is no such provision in the contract stipulating that "the bank cannot modify the fees" or that this management fee "is fixed over the entire validity period of the contract", the credit contract and the general business conditions are not in conflict.

In other words, the bank considers that it acted in conformity with the credit contract and the general business conditions, the latter coming to supplement the credit contract's provisions when not mentioned otherwise. There is also the possibility of another interpretation, according to which the contract prevails over the general business conditions in the light of the general law principle stating that the special rule departs from the general one.

It is interesting the fact that in the contract, a certain level of the monthly fee is settled (for example, 0.2% calculated on the monthly balance), without any other specifications. In its replies sent to the discontented clients, the bank considers itself entitled "to modify the level" and "to operate modifications (introducing penalties, fees, taxes or new costs), while informing the clients in due time of all the operated modifications, in accordance with the general business conditions.

According to the Communication Department of the bank, taking into account the dysfunctions occurred in some territorial units, no penalties will be applied to those paying their first monthly installments in 2008 in conformity with the old reimbursement books. More than that, all the clients unhappy with the new conditions will be granted the possibility to annul the credit contracts WITHOUT any prepayment fees until the end of April.

The bank will also inform the clients who received notifications by mistake that they will not be affected by the operated modifications. The President of the bank's Administration Board insisted that he would not hesitate to present his excuses in person to all the clients affected by the bank's "error".

It is important that the civil society watch closely this subject and involve whenever similar situations arise with other commercial banks, if elements bringing further clarifications or information are to appear.

Moreover, the necessity to create the institution of the banking mediator is becoming stringent; the mediator should adopt a neutral position, he should be a true arbitrator of the conflicts between the bank and its clients; therefore the expenses associated to the creation and the functioning of the respective institution should not devolve upon the banks, as the mass-media speculated at a certain point. In the same respect, a deeper involvement from the part of the National Authority for the Consumer Protection is needed, as the respective institution is legally entitled to take measures to protect the interests of the banking product and service consumers.

By virtue of acknowledging that a banking credit contract is, in fact, an adhesion contract, those provisions referring to the levels of the bank fees must be clearer and more accurately formulated, so that not to allow interpretations; on the contrary, the provisions stipulating the interest rates are much more articulately drawn up. This necessity becomes even more stringent in the light of the fact that the banking offer equally addresses to all the categories of citizens, some more or less familiar with the legal or banking terminology. Moreover, the authors of the present article propose that every credit contract should have enclosed the General Business Conditions (usually posted only on the bank's site), so that they are known by the clients when signing the credit contract.

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FINANCIAL SUPERVISION IN EUROPE

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Abstract: There are different systems of financial supervision, specific to the country in which they are applied. In Europe, there are three main supervisory models, each one with advantages and disadvantages. This paper analyses the characteristics of these models, in the European countries.

Keywords: financial supervision, supervisory institutions, European countries.

The search of an adequate format for the regulation and supervision of financial system has stirred considerable interest in Europe in the last years.The EU member states have chosen different models to supervise their financial systems. We can identify at least three main models, that are currently in force in EU member states: the centralized model, a single supervisory authority; the vertical model, an institutional supervision; and the horizontal model, a supervision by objectives. Each model has its specific characteristics.

The Centralised Model

The centralized model, or single supervisor, provides only one supervisory authority over all financial system. This model was adopted especially in the early stage of financial systems when the central bank dominated, being the only supervisory institution.

The financial system's changes during the time, for example the fast growth of conglomerates, have determinated some national governments to review the structure of financial supervision. Nowadays, the single supervisor usually differs from the central bank and is responsible for supervising and regulating all the segments of financial sector: banking, securities markets, insurance.

In Europe, this model was first established in the late -1980s, in the Scandinavian countries.

Denmark established its single supervisor on January 1988, the Finanstilsynet, as part of the reorganization of the Ministry of Industry.

As a consequence of the banking crises of early 1990s, Sweden established in 1991 an authority named the Finansinspektionen, which is now responsible for supervising activities over all financial system, it promotes the stability and the efficiency of the financial system, ensures the protection of consumers, it performs also a regulatory activity, by issuing norms that market participants have to respect[269].

United Kingdom established the centralized model, too. In 1997, the former Securities and Investment Board changed its name in the Financial Services Authority (FSA). In 1998, all the regulatory powers on prudential supervision of the Bank of |England were transferred to the FSA. This new institution (FSA) is a private company, independent from the government, even though its board is appointed y the Treasury.

In Germany, in May 2002, the Federal Financial Services Supervisory Authority (FFSSA) was established as the single supervisor, while the Central Bank (Bundesbank) remained with a role in banking supervision. FFSSA has a functional and organizational autonomy, even though it is under a legal and supervisory control of the Ministry of Finance.

In Austria there were two main supervisory authorities: the Federal Minister of Finance, for banking and insurance supervision, and the Federal Securities Authority for securities markets. In April 2002, was created the Austrian Financial Market Authority, as a single supervisory institution, with the role of supervising banks, securities markets, insurance sector and pension funds.

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[269] Enrico Maria Cervellati, Eleonaora Fioriti Financial Supervision in EU Countries, , SSRN Working Paper Series, January 2006, p 4;

Ireland created in May 2003 a single supervisory institution, the Irish Financial Services Regulatory Authority, which took over the responsabilities held before by the Central Bank and other supervisory authorities.

In Belgium there were two supervisory institutions: the Banking an Finance Comission, created in 1935 with the role of banking and securities superviser, and the Insurance Control Office, created in 1975 with the role of supervising the insurance companies, mortgage companies, pension funds and insurance brokers. Since 2004, in Belgium there is a centralized model supervision, represented by the Banking, Finance and Insurance Commission.

The Vertical Model

This model developed as a consequences of the great crises of 1930s. It represents an institutional supervision, a segmentation of the financial system in three main sectors: banking, securities and insurance; the supervisory competences being well defined for each main sector.

This vertical approach facilitates the practical implementation of supervisory powers, it avoids useless duplications of controls and can reduce regulatory costs; conversely, it is not able to ensure a stabilizing system of controls in a context characterized by a fast growth of financial conglomerates, progressive integration of financial markets, blurred borders of the financial sectors.

Greece is the only pure example of this model in Europe. The financial sector supervision is divided in with three groups of authorities, that have responsibilities over, respectively, the banking sector, the securities market and the insurance segment. Credit institutions are supervised by the Central Bank, the Hellenic Capital Market Commission and the Directorate of Insurance Enterprises and Actuaries of the Ministry of Development, General Secretariat of Commerce. The Supervision Division of the Bank of Greece, verifying the conformity with the rules of capital adequacy, liquidity, quality of assets and provisions. The Hellenic Capital Market Commission is a self-governing institution which acts under the jurisdiction of the Ministry of National Economy: it supports the stability of the capital market, it safeguards investors' interests and it enforces their confidence on a smooth functioning of the market. The Directorate of Insurance Enterprises and Actuaries has tasks and competences about the regulation of the insurance sector, focusing its attention on the solvency of the insurance companies[270].

Even if they present elements of supervision by objectives, the supervisory architecture of Spain and Portugal are based on the vertical model.

The Spanish supervisory system is represented by four authorities: the Bank of Spain, that supervises credit institutions; the National Securities Market Commission, whose role is to supervise the capital markets and to ensure their stability and transparency as well as investors' protection; the General Insurance and Pension Funds Directorate, a public institution within the Ministry of Economy, responsible for supervising the insurance sector; and the Directorate General Treasury.

Portugal's financial system is regulated by three authorities: Central Bank of Portugal, the Securities Market Commission and the Portuguese Insurance Institute, each one having a supervisory and regulatory role in the area that is under its jurisdiction. In the idea of the financial system development, in 2000, was established the National Council of Financial Supervisors, to cooperate among supervisory authorities

The Horizontal Model

This model is based on a supervision by objectives. Each supervisory function is under the jurisdiction of a given authority, independently of the supervised subject. There is no strict separation between sectors, each authority has cross-sector regulatory and supervisory powers in pursuing is function.

Italy's financial supervisory system is based on the institutional model, but mainly includes elements of the supervision by objectives, as well as other peculiarities. The Italian's vertical model is structured in several authorities: the Bank of Italy, responsible for the banking sector; the Insurance Commission, responsible for the insurance segment; and the Securities Commission, for the securities markets. There are also others authorities: the Pension Funds Commission, that supervise pension funds, and the Antitrust Authority, even thought the antitrust supervision of credit institutions remains responsibility of the Central Bank of Italy.

[270]Enrico Maria Cervellati, Eleonaora Fioriti - Financial Supervision in EU Countries, , SSRN Working Paper Series, January 2006, p 8

The institutional model has been implemented in the insurance and banking sectors, while the horizontal one in the supervision of the securities markets. The Italian financial system is regulated by two basic legal provisions: the Banking Law and the Securities Law. The Italian banking sector is supervised by two institutions: The Credit Committee, an inter-ministerial committee, presided by the Ministry of the Treasury, which enacts general and political directives; and the Ministry of the Treasury, that issues ordinances[271]

The Bank includes a General assembly of participants, a superior council, which has administrative and advisory tasks and a Governor, appointed for life, who represents the Bank and has responsibilities for financial and credit supervision.

France is an example of a hybrid supervisory system, in which elements of the institutional and horizontal models overlap. The legislative framework is represented by several fundamental acts: the Securities and Exchange Ordinance (1967), that established the Opérations de Bourse (COB)., the first Stock Exchange Commission in Europe; the French Banking Act 84-46 (1984), with the role of credit institutions supervision; the Statute of the Bank of France (1993); the Insurance Code, that regulates the activity of the Insurance Commission.

The Banking Act established three supervisors: the Banking Regulatory Committee; the Credit Institutions Committee; and the Banking Commission. In 1996, the Financial Activity Modernization Act 96-597, transposed the European Investment Services Directive into the French legislative system, amending the Banking Act. This act extended the jurisdiction of the above-mentioned supervisory authorities and of the National Credit Council to cover all investment service providers, credit institutions and investment firms, too. The names of the first two bodies were modified into Banking and Financial Regulatory Committee and Credit Institutions and Investment Firms Committee.

In the French securities markets supervisory system, until 2003 there were two securities market regulators and supervisors: the Conseil des Marchés Financiers (CMF) and the Commission des Opérations de Bourse (COB). For a supervisory system more efficient and transparent, now, in France, there is a single authority supervising the securities markets, the Autorité des Marches Financiers (AMF) in which the previous two authorities have merged together with the Conseil de Discipline de la Gestion Financière. The AMF is organised as an independent public authority with legal personality[272]

A more simple supervisory system is the one of the Netherlands that is also an example of shift from the institutional to the horizontal model of supervision. Formerly, the supervision system on insurance and banking sectors was industry based: the Nederlandsche Bank, mainly supervised credit institutions, while the Pensioen & Verzekeringskamer, supervised pension funds and insurance companies. On October 2004, these two authorities merged into a single supervisory authority. The supervision on securities market, instead, has been attributed to the Netherlands Authority for the Financial Markets since March 2002. Therefore, if in the past supervision had been focused on different segments of the financial sector, nowadays it is along functional lines: the Central Bank and the Insurance Supervisory Authority are responsible for ensuring prudential supervision, while the Authority for Financial Markets performs conduct of business supervision.

Conclusions

It is hard to choose a model, because each one has advantages and disadvantages, each model is specific to the country in which they are applied.

The EU member States have chosen in practice different supervisory models. The pure institutional model seems not to be adequate to the current financial systems, characterized by the blurring of borders between sectors, by the rising of financial conglomerates and the development of cross-sectoral instruments. In fact, even the countries that have a vertical kind of supervision as their basis have turned, at least to some extent, to the supervision by objectives. Interestingly several countries have decided to adopt the single supervisor model. First adopted by the Scandinavian countries, after the choice of the United Kingdom, several other EU countries have chosen this model to better cope with the new financial environment they face.

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[271] Eddy Wymeersch-The Structure of Financial Supervision in Europe; Aboaut Single, Twin Peaks and Multiple Financial Supervision, European Business Oranization Law Review, Vol 8, No 2/2007 in SSRN Working Papers, p 43;

[272] Eddy Wymeersch-The Structure of Financial Supervision in Europe; Aboaut Single, Twin Peaks and Multiple Financial Supervision, European Business Oranization Law Review, Vol 8, No 2/2007 in SSRN Working Papers, p 42;

While the member States are moving to the horizontal model, both with multiple authorities or with a single supervisor, the choice at the European level is going in the very opposite direction. Following the Lamfalussy report, the supervision of the European financial system is organized in a vertical way. In other words, even if it is not possible to define the best model of supervision from a theoretical point of view, the contradiction between the choices made by the single member State and the one taken at the EU level clearly arises[273].

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THE FINANCIAL INTERMEDIARIES, A DANGER FOR THE BANKS

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Abstract: The presence of the financial intermediaries - that make the link between the economics agents, with the needs of resources and the one with surplus of resources - determinates the evolution of the banking system and the structure modification of these. What is the difference between a bank and a financial intermediary? The bank distinguish itself from the financial intermediary through its capacity of taking inside the costs and its informatic efficiency, and so the incomes are growing. Does the financial intermediaries represents a danger for the banks?

Keywords: financial intermediary, bank, capital.

Financial liberalization has led to many changes in the banking area and to the development of financial instruments for the commercial agents. Even if the changes have manifested themselves differently, there is a common perception regarding the banking system in the new context. This common perception regards the powerful growth of the capital request -.to whom the offer had continuously adapted, in comparison to the request of the non banking commercial agents regarding the financial services and products- and also the dematerialization of the financial and monetary assets. Difficulties had determined the banks to reconsider their position regarding their liabilities, thereby using brightly their own resources.

The evolution of the banking activity on a global level stands under the sign of three main vectors: deregulation, disintermediation and openness[274].The process of deregulation, started at the end of the 70's and continued on into the 80's had reduced the differences between many banking systems, due to the rebate of the regulations and the liberalization of the financial intermediaries.

Put it differently , the recent financial deregulation proves that the banking profession can be replaced with different for financial intermediation.

The saving and investment processes, in the capitalist economies, are made and organized around financial intermediation, being therefore basic elements for the economic growth. Financial intermediation has a log history, because people had always felt the need of a third person to opinionate on big decisions.

In the modern era economy, financial intermediation has known a huge development and diversification, being pushed by the imperfection and dynamics of the internal and international financial markets-thereby the partners involved in different transactions are affected by the difficulty of obtaining information as soon as possible about the future evolution of the market and about the participants to this market-which leads to a series of risks[275].

In this conditions, the institutions for financial intermediation act as an interface with multiple options, for the capital owners and for those who need this capital for the development of their business and also for the management of some business portfolios, doing some speculative transactions or to develop some other activities.

In today's' context of the markets' globalization and general globalization which leads to permanent innovations in the financial area, the role of the financial intermediaries becomes a very important one.

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Financial intermediaries offer a wide range of integrated services to their clientele with a continuously growing degree of complexity, in the context of a development without precedent of the financial relationships. Mainly, the activities of the financial intermediaries can be grouped under different categories, from offering advice to the capital buyers and sellers to the gathering and processing of a huge range of economic, social, political information and also activities that require direct involvement as in financing , facilities, insurances. The latter means a warranty of the intermediation activity's quality and also a source of supplementary gains for the intermediaries.

The basic services offered by the financial intermediaries are the following;

- financial consultancy, offered to the investors regarding the possibilities of investing or the management of the owned portfolio;
- the supervision of the real and financial markets;
- classical transactions, regarding the purchase and sale of financial assets on the market and also other transactions regarding the national and international payments and settlements;
- financing the economic activity, the national and international investments and that of the foreign commerce;
- managerial expertise, as in offering consultancy in business management;
- underwriting financial operations,by offering banking collaterals for the international payments, collateralizing the issue of financial securities;
- the insurance against financial risks.

Financial intermediation has a series of advantages and disadvantages.

The main advantages which evolve from intermediation on the national and international financial markets are determined by informing and counseling the users and also by the direct involvement, as a guarantee of the financial intermediations' quality. Some of these advantages are:

- financial consultancy, offered to the investors and capital users;
- the possibility of better gathering and valuing the existing information on the market;
- additional facilities offered to the users and capital owners, a part of these being taken over by intermediation institutions.

The disadvantages of financial intermediation are:

- big transaction costs, due to collection of taxes, fees and commissions;
- the loss of direct contact with the international financial market, therefore some investors aren't sensitive anymore to the markets' signs;
- the existence of a routine in the relationship with the financial intermediary, many markets being led according to the solutions offered over the time by important intermediary firms.

Taking into account all these aspects we can conclude that financial intermediation contributed and contributes mainly to the growth of allocating capital resources and covering some risks, with real economic benefits.

On the financial market intermediation is achieved with help from the credit institutions, which are institutions specialized in offering funds to the population under different forms- to finance their activities on a short, medium or long term. There are a multitude of credit institutions which differ from one another from an organizational stand point, from the segment of populating they target, from the type of funding they offer, from the type of supervision they are under.

The recent financial deregulation proves that the banking profession can be replaced by different institutions for financial intermediation. Under these terms we are entitled to ask ourselves if the banking profession is in decline due to the fact that prudential protection becomes less and less effective rather than protective. Difficulties (questions) are far from the considerations that a bank ought to have. Since the scandals of Enron, Parmalat, behavior ethics of banking people, stock holders and auditors must be reinvented. For the beginning, ethics means business discipline with all that is good or bad, with moral duty and obligations.

In this context, we can say that banks have become more vulnerable. The monopolies have been undermined by the penetration into the market of new suppliers financial services. This has had consequences both at the level of the prices at which their products aresupplied and at that of their profit margins. The enormous increase of derivatives and the role played by off balance sheet items have generated instability for the banking system. The competition and the structural changes will lead banks to redefine their skills[276]. The study prove that even small banks can compete as long as they well capitalized and follow prudent risk and credit norms.

The important question is: do the market work or do it need an external intervention to regulate them? A proper legal frame is neded to protect the deveopement of the institutions for financial developement as entities good integrated in the financial system. In many developing economies, the legal frame for specialised financial institutions is ambiguous, dissipaited and incomplete. Represssive regulation could slow down the developement of these financial isntitutions and at the same time a permisive structure of the regulation could leave place for the arbitrary. Even when there is an adequate legislation, putting it into aplication could leave many voids. All these factors could slower the developement of the financial system in general, and at the same time it affects more seiously the financial institutions that are not supported by an eficient legal frame work.

With regard to finding the most appropiate institutional structure to supervise the activities of the institutions for financial intermediatio, this decision must be taken according to the number and size of these institutions but also their links with the banks and other financial entities of the financial system.

Concentrating the regulation and supervision of all the types of institutions under the same supervisory framework would help ;the supervision would be more eficient. A unique supervisory structure facilitates the adoption of a common set of standards for the institution with the same risk profile.

In a structure with several supervisory entities, there should be given attetntion to the legal power of every entity separately, to tthe idebtification of the conflict areas as well to the double regulations. Such a concentrated system is a source of discontinuities and amibuities which lead to all sorts of problems in the process of regualtion and supervision in many countries.

The fact that the institutions for financial intermediation need reguation doesn’t necesarilly mean that all of them need it in the same style, definitely not as the banks need it. The supervisory authority must establish the priorities into alocating its’ supersvisory capacity.

After establishing the priorities, there must be taken reinsurance measurements into protecting the intermediation institution from the excesive request for reports, when they don’t show major changes in their portfolios from one period to another. For these institutions, the aquracy and complexity of the reports are far important than their frequency.

In the process of elaborating regulations for the institution for financial intermediation, it must be taken into consideration the fact that regulation for the banks should adapt to the specific profile of these institutions:

- regulation must minimize th enegative effects over the competition and incourage it; negative and unappropiate regulation could have a negative impact on the institutions for financial intermediaton;
- regulation must define in an obvious way the limits of the law and the permited activities which could be undertaken by the institutions for financial intermediaton;
- similar risks and functions must be supervised in the same manner to minimize the arbitrary; fiancial institutions that relate to the banks ought to be supervised in the same way as the banks;
- the links between the institutions for financial intermediaton and other institutions of the financial sector should be carefully monitorised. The exposure to risk by investing in other sectors must be constantly monitorised because these links makes each sector vulnerable to the evolution of the other ones.
- the unique risks to which the institutions for financial intermediaton are exposed must be taken into account when the prudential frame work is establisehd and their supervision is settled;the supervisory institution must aknowledge the specific risks to which the institutions for financial intermediaton are exposed. When possible the prudential framework must be specific established for the institutions for financial intermediaton;

[276] Elisabeth Paulet, European Banking – Historical Roots and Modern Challenges, Lavoisier, Paris, 2005, p. 189

- costs and benefits must be taken into consideration wheb establishing the means for supervision. The institutions with a lower risk profile don't need to be burdened with excesive supervisory requests;
- the focus should be on the bigger and more complex institutions for financial intermediaton.

The banks will be called upon to redefine the servicies and products that the best reflect their skills. Thus the concept of a completely integrated banks, such as recommended by the European authorities, will appear obsolete and will give way to a concept focused on market strategy.

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ACCOUNTANCY

AUDITING – HISTORY AND PERSPECTIVES

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This paper refers to the audit process as to a very complex activity. There have been significant changes as the time passed by, changes that were necessary in order to keep up with the clientâ€™s demands and the dynamic business environment. Despite the fact that there are certain stages to be followed while auditing, despite the standardized audit procedures, there however, remains the one element that adds value to the marketplace, and that is the auditor, as a human being. He bears the responsibility for the completeness, validity and accuracy of the financial statements. Therefore, he must be that skillful employee, who knows very well the procedures, puts them effectively into practice and yet has time to specialize and keep in touch with the latter methodologies developed by audit scholars. He is the key element, the relationship manager. And the audit process depends on many variables, but above all, stands the auditor.

Key Words: auditing risks

There are not so many studies and researches about auditing in Romania. This field is quite new and ready to reveal its secrets. Our professionals must permanently keep in touch with their colleagues from developed countries, with great tradition in this activity. However, it is also true that they have to know the origins of the concept, the manner it appeared and developed, and the mechanism behind it. Therefore, in this paper we try to highlight some aspects about auditing, as they are referred to in international accounting literature.

Everything is about people and auditing is not an exception. Negotiations, discussions over a specific issue are "fluid", so they change repeatedly. This continual redefinition refers not only to the object of the negotiation, but also to the negotiation roles and relationships between participants. The actions and expectations of the chief financial officer seem to define the auditor's role and the relationship's parameters. The auditor expresses the desire of building an "ideal" relationship where to assume the role of the "expert advisor" rather than that of a "police officer". Nevertheless, he does not have a certain strategy to convert the collaboration into a proactive relationship.

Auditor-client management negotiation research is still understudied. Accounting literature mostly concentrates on the auditor. However, a negotiation involves at least two parts. As Lewicki, Barry & Saunders (2006) point out, it was only in the recent years when researchers started to examine these negotiations in the context of a relationship where the participants have a substantial history and anticipate a long-term cooperation.

McCracken, Salterio & Gibbins (2008) talk about the so-called "shadow negotiation". This pertains to a negotiation of the roles and actions that parties can take, simultaneously with the negotiation itself over real issues. In the same paper, the three authors initiated a study over several companies and interviewed auditors and chief financial officers. Cooper & Robson (2006) undertook a similar research. They both "examine how accounting and audit decisions are made". The results showed that the chief financial officers define the roles and the relationship. Some of them consider this collaboration as being proactive if auditors are consulted before operating the transactions, in order to ensure that the financial statements are of "high quality". This perspective is highly appreciated by the auditors, who wish all their professional relationships to follow this pattern.

Some other chief financial officers position the auditors into a "reactive" relationship. They consider the financial statements as being theirs and consequently, they do not consult the auditors regarding the correct exercising of the accounting principles and regulations. This is the reason for not identifying in time inconsistencies of any kind; the financial officer is strongly committed to his position and thus, the negotiation process is even more difficult. While some auditors reject the role of "police officer" and the reactive relationships, others gladly accept them, with the belief that, in time, they can change the situation in their favor.

In the end, no matter the case, auditors remain the relationship managers, responsible with keeping the client satisfied and the cooperation in a good state (Kolb & Williams, 2000).

One can describe or characterize an activity like auditing in many ways. Peecher, Schwartz & Solomon (2007) chose to emphasize four dimensions of the audit, which are:

- audited companies use new business models (that is, a description of how the entity intends to create value in the marketplace; it includes that unique combination of products, service, image and distribution, but also the organization of the personnel and the operational infrastructure used in order to accomplish the tasks), processes and business strategies;
- there is major concern and responsibility for detecting fraud resulting in misstated financial statements;
- although not so frequent, the audit failures are due especially to the inadequate control of the risk elements;
- it implies planning and organizing audit quality control for every individual engagement.

The environment of activity and the context of business have an enormous impact on the company, on risks in general, and on audit risk in particular. By audit risk, we mean the probability that the auditor will issue an inappropriate opinion when the financial statements contain one or more misstatements (like departures from generally accepted accounting principles).

Despite the business model complexity and market threats, the auditor must opine on the veracity of the financial statements. They capture retrospective and prospective consequences of the business through numerous estimates and complex documentation. The auditor has to develop new methods in order to verify their reasonabless as well as strategies for acquiring additional, sufficient evidence to sustain their accuracy.

At the beginning, audits focused on detecting bookkeeper fraud. Later, as companies developed and began to emerge as popular business structures, auditors focused on honest presentation of income, according to accounting principles. Such desideratum can be compromised by intentional or unintentional misstatements. Generally, when considering the latter situation, the auditors assume their responsibility. Otherwise, they try in a variety of ways to minimize responsibility. Intentional distortion of the reality can arise when an employee illegally misappropriates assets, but even more important and serious, when management appeals to such behavior, and more, they distort the financial statements.

Some reasons for most of the auditor judgment errors are:

- failure to sufficiently understand the client's business;
- failure to verify management's observations and explanations;
- lack of exercising professional skepticism on unusual or last-minute transactions;
- inadequate appreciation and evaluation of risks.

The last deficiency is a consequence of the others, especially of the first one. Risk is inevitable if the auditor cannot obtain an overall and deep understanding of his client's business.

.... The first audit risk model (ARM) in equation form appeared in 1972 (AICPA, 1972) as it follows:

Audit Risk (AUR) = Inherent Risk (IR) $\times$Control Risk (CR) $\times$Detection Risk (DR),

where:

- AUR – the risk that the auditor expresses an inappropriate opinion when the financial statements are not properly drawn and consequently, they can influence the economic decisions of users;
- IR – the susceptibility of a possible error assuming that there were no internal controls;

- CR – the risk that a significant misstatement which could appear in documents, individually or aggregated with others, will not be prevented or detected and corrected in time by the company's internal control;
- DR – the risk that the auditor will not identify important distortions individually or when aggregated.

Sometimes IR and CR combine into a single term, which refers to the risk that the financial statements are inaccurate before audit is performed.

This model was designed in order to help auditors to select the proper size of the sample that would achieve audit objectives. Often, DR is decomposed in other two terms: analytical procedures and tests of details. On their turn, these so-called tests of details divide into sampling and non-sampling risks. The latter do not pertain to the model because they are determined by factors that lead to an incorrect opinion of the auditor, for other reasons than vicious sampling. On the other hand, risks due to sampling arise because of the possibility that the auditor's deduction, based only on the sample, may be different from the conclusion reached if the entire population were part of the same audit procedure (IAASB, 2005).

Consequently, audit risk may be determined both by previous distortions in financial statements and by the likelihood that the auditor does not detect these distortions, if they exist, during the audit process.

There is a logical issue about risk. It refers to the extent in which the client is aware of the methodology that will be applied by the auditor. In such situations, those particular clients who deliberately wish to deceive the auditor, know exactly how and where to place misstatements so that they may go undetected.

In time, researchers have identified several imperfections of the model. Therefore, they developed the so-called Strategic-Systems Auditing, an appropriate and necessary means of enhancing audit quality.

Not so long ago it would have been inconceivable for an audit firm to aim national and international acknowledgement by offering a standard product rather than a highly specific professional service. Colin Sharman, the international chairperson of KPMG, a global network of professional firms providing audit, tax and advisory services, recently proposed the ideal of standardization. He talks about achieving uniform, global brand awareness, a common vision of the organization and a common set of products and processes. "That is equivalent to what we want to do with consultancy services", Sharman commented.

The world of auditing and accounting has changed significantly. Only a short while ago, the consultants of the major audit firms assumed that their clients wanted a service that "would delve into the specificities of their problems, coming up with tailor made solutions that related to their identity, their products, their history, their corporate culture and their managerial needs" (Hopwood, 1998, p. 515). However, as the author himself says, things have changed. Apparently, clients want to be the same. They are now solution oriented rather than problem focused. Consequently, honor and glory can be attained by being like everyone else. The same philosophy exists in another major audit firm, Ernst and Young: "we help organizations look at what needs to go right in order to achieve their strategic business objectives as well as managing the threats of what could go wrong". You have to think positive, to find solutions and to repeat the algorithm.

Likewise, companies in audit industry have challenged all aspects of the traditional audit. Professionalism has been replaced with business sharpness. Ernst and Young, for instance, look for people with a broad range of skills, and not necessarily with professional education. They will have the opportunity to specialize and to gain experience as they work.

In practice, audit firms are seen as complex and highly structured networks of rules and standard operating procedures.

In the 1980s, researchers and scholars debate about the role of structure and qualification in audit process. Because of the rapid growth of the audit procedures and practices, the expansion of the personnel, improvements in technology and the exigencies of reducing costs, accounting firms began to design and implement highly structured processes. Bamber, Snowball & Tubbs (1989, p. 286) describe structure as "the arrangement of people, tasks, and authority to achieve more calculable and predictable control over organizational performance". Cushing & Loebbecke (1986) consider that audit structure includes organizational and technological arrangements, which on their turn comprise prescribed audit tools and decision aids. In other words, audit structure suggests a mechanical approach to decision-making process, which narrows the set of actions available to individual auditors in certain circumstances.

The development and expansion of the audit structures marked many aspects of the audit process, for example: refinements of statistical sample, risk detection tests, analytical procedures, decision-making aids, and going concern evaluations (that is, a company's ability to make enough money to stay afloat, to continue to operate. If a company is not a going concern, it means the company has gone bankrupt). Therefore, audit structure was often viewed as a consequence of top-down dictates from the management of large audit firms trying to minimize the risk of serious judgment errors within the audit process. Even so, in order to turn audit into a successful activity it is necessary to provide more value to the clients. Hence, scholars reached the conclusion that audit must become part of the "mosaic of risk management" (Knechel, 2007).

Around 1994, a very simple concept emerged among the most influential members of the academic and audit community: "Business risk drives audit risk" (Eilifsen, Knechel & Wallage, 2001).

Onwards we illustrate the concept (see Fig. 1), adapted from Lemon, Tatum & Turley (2000).

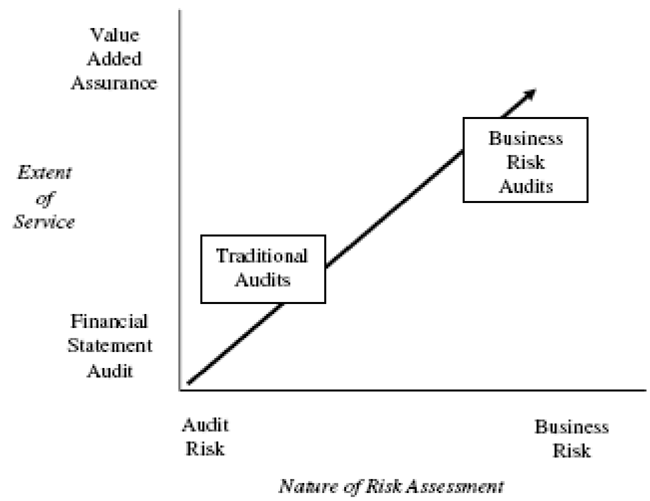

Fig. 1. Risk in audit process

Source: Lemon, Tatum & Turley, 2000

This notion was not something new and unprecedented. Nevertheless, it seems that it was simply the perfect time for it to be acknowledged and appreciated for what it really is. Consequently, anything that has the potential to increase risk and to determine the organization not to meet its objectives is seen as a source of increased audit risk. Understanding the essence and the importance of this notion, many audit firms, starting from the most representative like Ernst & Young, KPMG or PricewaterhouseCoopers put it into practice. For instance, Ernst & Young undertook their Audit Innovation project; KPMG began development of The Business Measurement Process. Thus, they led to significant changes in the way an audit procedure was planned and conduced.

Analyzing the results gathered from surveys in United Kingdom, United States and Canada, Lemon identified the following reasons for adopting an audit risk methodology:

- improve audit effectiveness and efficiency;
- keep up with technological change;
- add value to client service;
- encourage international cooperation;
- facilitate product differentiation;
- reduce auditor engagement risk.

Therefore, the auditor needs to see the entire organization and its environment in order to understand the nature of the challenges to be faced and solved.

After ABREMA (Activity Based Risk Evaluation Model of Auditing), a normative model of financial statement auditing, there are five stages in an audit engagement. Each stage corresponds to a critical decision made by the auditor during the audit process. The stages and the decisions made are:

- Client acceptance/retention stage - based on a preliminary knowledge of the client's business, the auditor undertakes several activities so as to determine whether to accept or reject a prospective client (or retain or relinquish an existing client) - the accept/reject decision;
- Audit planning stage - based upon a detailed knowledge of the client's business, the auditor undertakes various activities in order to decide upon an appropriate audit approach for each account balance;
- Control testing stage - applicable only where the audit process includes reliance on one or more control procedures. In such cases, the auditor gathers evidence regarding the effectiveness of the control. Where the controls are not as effective as was believed in the previous stage, the auditor would change the planned audit approach. The corresponding decision is whether one should continue to trust the management's internal control procedures;
- Substantive testing stage – the auditor gathers substantive evidence (regarding the completeness, validity and accuracy of the documents) of individual account balances and transactions, the primary objective of which is to determine the extent of misstatements;

Opinion formulation stage – the auditor expresses an opinion on the financial statements as a whole (the audit opinion decision), based on the evaluation of the extent to which the financial statements are consistent with his knowledge of the entity, including his conclusions concerning the misstatements identified, if any.

Consequently, the main objective of the auditor is to form and communicate to the users of the financial statements an opinion on their reliability and veracity, counting on audit evidence of sufficient quantity and appropriate quality.

As a conclusion, we can say there still are many issues that need to be clarified, in order to reach some common ground and to combine successfully the theoretical concepts with practice.

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CHALLENGES OF A DYNAMIC AND COMPLEX ENVIRONMENT ON MANAGEMENT ACCOUNTING

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The far more competitive environment has profound implications for cost management systems. The knowledge of product costs, cost control and performance measurement are more important than they have been in the past.

Three major factors are causing changes in management accounting today: shift from a manufacturing-based to a service-based economy, the increase of the global competition and advances in technology.

Traditional cost accounting systems have tended to focus only on the production phase and do not pay attention to the product's life cycle costs. It must take a close look at the company's entire value chain, because this can help managers to identify opportunities for cost reduction.

Key words: environment, competitiveness, competition, costs, management accounting

1. Introduction

Once with Romania's E.U. integration, the Romanian companies are forced to cope with a bitter competition. On such competitive market, in a continuous evolution, the companies must have the capacity to permanently and actively maintain. On global level, the things are moving from the idea of competitiveness only through high quality and low prices to a new concept which will put the accent on factors like: knowing the market, the competition, firms' capacity to adapt to the environment quick changes, the receptivity to the new, as well as the quickness of assimilating the new ways of communication.

2. The features of the economic environment

Any competitions presume the existence of at least three participants: two competitors and the environment. In a loyal competition, the positive and negative effects on competitors are tending to mutual compensate, with a positive effect on the environment.

All the companies are acting on the market, the place where all the transactions are deployed and their competitiveness is assessed. The market is the place where the consumers' wishes (expressed through demand) and producers' wishes (determined through offer) will meet.

Taking into consideration the impact of the Internet on all life aspects, as well as the quickness of important changes appearance, in the recent years the market concept gets a new dimension, once with the e-commerce development. This type of activity assures the access to the new markets, representing the essential tool of globalization.

This phenomenon – e-commerce – can lead to the change of economic system, markets, consumers' segmentation, changing the costumers' behaviour, employment market, all these aspects creating the premises to pass into the new economy. Peter Drucker thinks that "in time, the e-commerce will kill the traditional multinational companies" (Drucker, 2004, p.65), because it is necessary to reorganize these companies, totally different than it is now. At the same time, the manner of performance measurement is changing, being necessary to redefine the term of performance.

The changes which take place in society and we are witness to, moving from the industrial economy to the new economy, knowledge-based, are generated by two factors: technical revolution and globalization process.

The technical revolution brought significant changes regarding the company's organization and operation such as operational process improvement (automatization), which permits to manufacture better products, at lower costs, rising this way the accessibility to a wider category of consumers.

The globalization process isn't a new one, but it is the result of some changes at the world economy level which stressed in the recent years. The raise of the border barrier, the appearance of multinational companies, the growth of internal and external markets competition, the increased importance of the resources, the way which are consumed, all these represents both causes and effects of globalization.

With the change of manufacturing and distribution processes, appeared some changes regarding the consumers' behaviour. If at the beginning of 20^{th} century the market was a "seller market", when Henry Ford assert that "the car can have any colour, as long as it is black", in the last decades the market become a "buyers market", a market where the consumers establish the rules. In these circumstances, for a company, the market analysis and costumers demand analysis become essential. The companies will be forced to stop selling what they produce in order to sell what the market demands.

3. The status of management accounting in Romania

Management accounting, after adopting the accounting law no. 82 / 1991, which adopted the dualist accounting system, was put aside of financial accounting. The companies' attention was oriented to the appropriate organization of financial accounting, which objective is to provide information especially to the third parties (shareholders, creditors, government agencies etc.). In Romania, the financial accounting was (and probably still is) oriented toward answering the fiscal agencies needs, which are perceived as the main users of the financial statements.

Under these circumstances, the management accounting played for a long time the role of "Cinderella", the 105 point from the Regulation for applying the accounting law which states that "the manner in which the management accounting is organized remains at the latitude of every entity, in accordance with the peculiarity of the activity and with their own needs" was being understood as an option regarding the organization or not of management accounting. Probably, the economic environment and the legal framework at that time accepted a situation like this. But, the Government Decision no 61 / 2001 stipulated, expressly, the organization of financial and management accounting "adapted to the activity peculiarity".

The management accounting addresses to the company's management, it must provide those information based on which the decisions can be based. "The management accounting has a basic principle: the applied practice or technique must generate useful information" (Needles et al, 2000, p.857).

Because the management requirements change continuously, management accounting evolves too. The strong international competition generates new philosophies of action, giving new significations to the information "produced" by management accounting.

The main objective of management accounting is the cost calculation, but the adopted techniques and procedures must follow permanently the management requirements, because, nowadays, the companies are structured very much different from their past organization.

In these circumstances, the cost calculation and management become a very important issue for firms.

4. Computing the costs or managing the costs?

Cost calculation, in most of Romanian companies, serves only for inventories evaluation (lastly, in fiscal purposes) and it is a less real support in decision making process. This doesn't means that an accurate calculation for inventories evaluation isn't necessary; on the contrary the fact that cost information is included in financial statements must make aware the companies of its importance.

The change is the only constant in business world. According as decision changing, the managers' information needs are changing too. The accountant must adapt its system to the changes appeared in managerial practices and techniques. An accounting system, which offers valuable information in a certain situation, can generate less valuable information in a different context.

The accounting systems have to know the realities of the today's complex business environment. Beside the indication of the problems which a firm confront with, the accountant have to take part at problem solving too.

In nowadays, three factors are causing the changes which intervene in management accounting:

- moving from a production-oriented economy to a service-oriented one;
- the growth of international competition;
- technological innovations.

The service sector experienced an important growth. In such an environment, the product associated services are getting more significance. Besides, the services can make the difference between products.

International competition has increased in the recent years as a result of the reduction, or even removal of the barriers from certain markets. In order to be a competitive firm, a company must know the effects of the cost decisions and the accountants must support managers to foresee these effects.

The far more powerful influence on management accounting in the last decades is having the innovations in technology. These changes affected both manufacturing and accounting process, once with the capacity growth and reduction of the new technologies costs. The automatization of manufacturing process had lead to the use of computerised equipments to the prejudice of the hand work.

Calculating and managing the costs should be one of the most important activities of an enterprise. For a better cost control it is necessary to permanently associate the resources to the results, being more important the results-efforts ratio that the cost amount. However will be the cost of an activity, it represents a loss if will not generate the desired results. In order to achieve this desideratum, the maximum capitalization of the opportunities is very important and it shouldn't follow exclusively the profit maximization.

Peter Drucker identifies four cost types (Drucker, 2001, p.70), in term of their reference to the result:

- the productive costs – represent the costs of the efforts made in order to offer to the client the value they desire and are disposed to pay for; for example, production costs, advertising costs, information costs, sales cost, and packaging cost;
- the support costs – don't offer any value by itself, but it can be avoided; for example, transport cost, order following costs, costs of financial and accounting activity control; in all traditional calculation systems, part of these cost are treated as overheads;
- the surveillance costs – are the cost of activities which don't mean to do something, but to stumble the appearance of undesired events;
- the loss – the cost of the resources which don't generate the expected results.

5. The obsolescence of the traditional cost accounting

A cost control demarche requires an approach on entire enterprise, not only at a certain component, because reducing the cost in one component exists the risk of growing the cost of another component; in time, this could lead to the growth of total costs. An efficient way to reduce the cost could be the removal of those activities which do not bring the expected result, not only restricting them.

Traditional cost accounting regards the tracing of direct costs on cost object and an overhead costs allocation, usually made based on labour hours. This is a useful approach as long as the indirect cost amount is reduced. It is the situation from a few decades ago. Instead, today, the indirect costs increased, the only costs which can be traced without equivocation on cost object are perhaps the raw material costs. Even the direct labour expenses are more and more reported on labour hour, rather than to the volume of activity.

The resource consumptions for every product are uneven. In the traditional cost systems, the overhead allocation based on labour hours leads to the consumptions unification, reaching to the ”subvention” of the less consuming products by those who consume more than average.

Another important aspect is that on a market, the bigger and developed is the more that market contributes to the product differentiation. To cope with the competition, the enterprises have to turn more and more to the client. It should answer to the individual demands, adapting their offer and production, implicitly, in order to satisfy the diverse demand of every client. The products or services diversity, as well as the clients, can direct to the complexity growth of the operations which the enterprise must realize.

Now, an important issue is the quick "ageing" of the products, some of them having a life cycle of few years, instead some may have a life cycle of a year or less. From this reason, it should be analyzed the entire life cycle costs, cycle which include five stages:

- the product planning and designing;
- the preliminary product projecting;
- the detailed designing and testing;

- the production;
- the delivery and services offered to the clients.

The planning of these costs is a crucial matter, when it comes to the decision regarding the beginning of a new product manufacture. When the products life cycle is less than a year, the enterprises do not have sufficient time to adjust their pricing policies or production techniques, once the product was launched into production. That, it is appropriate for the management to be sure in a certain measure, before deciding to manufacture the product, if all life-cycle costs are covered.

Peter Drucker observed that "as long as 90% of the results are generated by the first 10% of the events, the 90% of the costs are increased by the other 90% of the events" (quoted by Kaplan & Johnson, 1987, p.241).

The traditional cost accounting systems tend to concentrate only on the production costs, not paying attention to the other costs.

The efforts made for removing those costs which don't add value to the product or service should be oriented to the entire value chain, which can support managers to identify the opportunities for cost reduction.

Some enterprises prefer to bring new product on the market, without trying with any cost, to obtain these products at lowest costs. The clients buy such products for their unique characteristics.

These firms success is assured by elements like producing the high performance products, fast delivery, adaptability to the costumers' requirements, specialized products, etc. Producing them at lower costs become a secondary objective, because the gross margin of these products will be anyway very high, their price being determined by the value offered to the client and not by the cost.

Competitive environment has profound implications on cost accounting system. Knowing the costs, controlling them as well as performance assessment are far more important aspects that it were in the past. As an answer to this environment, the firms extended their products / services offered to the clients, making more difficult the cost allocation for different products.

The quality improvement, inventory reduction, making the manufacturing process more efficient and increasing the automatization degree conducted to the decrease of direct costs, simultaneously with the increase of indirect costs.

6. Conclusions

Certainly, a lower cost isn't enough to assure the market success of a good, but it is needful. Besides this, the image, the design, the client acceptance, the service and fast delivery are aspects which can contribute to the product-service "package" addressed to the market.

In a competitive environment such the present and, certainly, the future is, the challenge consist in adopting a more flexible demarche in conceiving an efficient cost accounting system, of an cost control system, as well as of an performance measurement system.

William Vatter (quoted by Kaplan & Johnson, 1987, p.241) emphasize that the accounting system is most valuable to management, not when it answers questions, but when it raises them.

Growing competition in all areas has brought to the reducing of enterprises results. In these conditions (the demand and manufactured products diversity, reduction of product life-cycle, development of support activities, the growth of overhead costs importance etc.) the cost determined through traditional cost accounting prove it self viable only in enterprises with a relatively simple production system, which manufacture a small number of products and direct costs have an important amount.

Regarding the management accounting, there were moments of „glory", but also periods of searching and attempts in finding its identity, not only in Romania, but in developed countries.

It is doubtless that without a well organized accounting information system and without a cost accounting system adequate to the managers' requirements and to the environment where it activates, managing the company's resources will suffer because it will be impossible for the managers to make decisions based on information provided by the accounting.

In order to emphasize the role of management accounting I will end with something what two distinguished professors (Robert Kaplan and Thomas Johnson) said twenty year ago. "Poor management accounting systems, by themselves, will not lead to organizational failure. Nor will excellent management accounting systems assure success. But they certainly can contribute to the decline or survival of organizations".

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THE COMPETENCES AND THE IMPACT OF EVALUATION CATEGORIES ON THE FIDELITY OF ACCOUNTING INFORMATION

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Summary *: Due to the fact that accounting evaluation has severe rules and principles, the economic evaluation has the role to assure the reflection of informational valences of an economic entity in order to mark out its capacity to produce future incomes. Even if the role and the characteristics of accounting evaluation are incontestable, we have to mention this process' consequences on the fidelity of accounting information, considering that a rigorous analysis cannot be realized without detecting the informational liaisons between the balance-sheet and evaluation.*

Key words *: fidelity, accounting information, accounting evaluation, international practice.*

The analysis of evaluating process' implications on accounting information cannot be realized without a perfect perception of the heterogeneous and diverse character of this process, of evaluation types, grouped and based on very relevant and specific criteria.

From the object point we view, we can distinguish assets evaluation, assets groups evaluation, economic assets evaluation (work-rooms, departments, factories, warehouses, shops), companies evaluation.

From the purpose point of view, we can distinguish: *accounting evaluation*, realized with the occasion of booking the economic operations, of the stock-taking and the elaboration of balance-sheet; *administrative evaluation*, in fiscal purpose, for determining ratable value, and also those asked by law regarding the patrimony's re-evaluation in case of public companies; *economic evaluation*, with the purpose of reference to market conditions.

We also have to remind the role of the method user for evaluation – in this case we can distinguish patrimonial evaluation, result based evaluation (performance, profitableness, turnover), evaluation based on actual net cash-flow, stock evaluation, combined evaluation (patrimony and profitableness).

Because the evaluations are meant to satisfy a certain purpose, we join to specialist's opinion that affirm the existence of two main types: accounting evaluation and economic evaluation.

The accounting evaluation is used in different methods, in measuring patrimonial phenomenon and operations and also with the occasion of inventory and balance-sheet elaboration. The balance-sheet gives "a true image of the patrimony, of financial situation and company's results only if the patrimony's evaluation rules are followed"[277].

There are four general rules of patrimonial elements' evaluation :

- evaluation at the moment of entry into the patrimony or input value (book value), depending on the asset's acquirement way: purchase price including customs duties, transportation, assembling and putting into service costs; production cost for the company's products; utility value, depending on the market price, for similar products and on product's condition, if it's received free of charge or donated; contribution value for the goods representing a contribution to social capital;
- evaluation at the moment of inventory – is made at the actual value or utility value of each element, named inventory value;
- evaluation at the end of the accounting period, patrimonial elements being evaluated and reflected in the balance-sheet at the input value or correlated with inventory's results;

evaluation at the moment of output from the patrimony, through sale, destruction or products' consumption, using specific methods for stocks – FIFO method (first input – first output); LIFO method

[277] C. Staicu, M. Mihai, T. Ciurezu, Bilantul contabilsi raportarea de semestru, Editura Universitaria, Craiova, 2000, pag.43

(last input-first output); CMP method (weighted average cost, calculated after every input or monthly by proportion between the total value of initial stock and of the inputs and entered quantity); registration or standard price method, but with the distinction of the differences accountable to acquisition prices or production costs. The utilization of any evaluation method must respect the principle of permanence, being justified the maintaining of the same method during some consecutive accounting periods.

Coming back to a previous problem, we mention that **the accounting evaluation has a major weakness**, in the sense that in all four evaluation moments it is used the historical cost, only partly corrected at the annual inventory and balance-sheet closing, with the reversible and irreversible depreciation of asset elements.

Another weakness of this evaluation form appears when in this calculus of financial and efficiency indicators it is taken the whole advanced capital, immobilized and circulating assets, even if a part of them doesn't participate in obtaining company's results (unutilized physical capital, damaged stock, voided orders, non-vendible products etc.).

Unlike the accounting evaluation, the *economic evaluation* relates the evaluated object to market conditions. "*The rational market value is the price, conveyed in money or equivalent, which a buyer and a seller could accept if the property would be sold on open market in a rational period, in the case that the seller and the buyer had valid information and either one of them isn't forced by the necessity to act*"[278].

The company's value in this hypothesis is the correct one, determined by a neutral evaluator. Many times, the economic evaluation for selling-buying is determined by some motivation, the market value or the effective price of transaction deviating from this value.

Trying a critical and comparative approach, we can day that, compared with the accounting evaluation which has strict rules and principles, the booking reflecting the patrimony in a given moment, the economic evaluation has the role to adjust the patrimony in order to produce future earnings.

We agree to the specialist's opinion that "*the economic evaluation consists in a complex of techniques, proceedings and methods to value the products, the assets, the company at the market level, ensuring the comparability with this*"[279].

The functional liaisons between liquidity/exigibility, the grouping of reference elements based on exploitation cycle functions, allow three versions of financial balance-sheet: liquidity balance-sheet; functional balance-sheet; capital-resources-liquidity balance-sheet (also called "pool des fonds" in the sense of mobilizing the resources for capital preservation and obtaining optimal treasury flows).

The classification criteria are presented in table 1 and the types of balance-sheet on liquidity criteria, in table 2.

	Depending on the belonging to the operating cycle (assets and liabilities)	**Depending on liquidity (assets) or exigibility (liabilities)**	**Depending on intrinsic nature (assets) or origin (liabilities)**
ASSETS	Immobilized	More than 1 year	Operation (activity' s necessary)
ASSETS	Cyclical	Less than 1 year	Financial
LIABILITIES	Permanent capital	More than 1 year	Own capitals
LIABILITIES	Cyclical debts	Less than 1 year	External capitals
	FUNCTIONAL BALANCE-SHEET	**LIQUIDITY BALANCE-SHEET**	**CAPITAL / RESOURCES / LIQUIDITY**

[278] M. Gradinara, D. Bucataru, C. Mihai, Evaluarea intreprinderilor in economia de pita, Editura Junimea, iasi, 1997, pag.34

[279] N. Sichigea, M. Dracea, D. Berceanu, T. Ciurezu, Gestiunea financiara a intreprinderii, Editura Universitaria, Craiova, 2000, pag.210

Table 1 The classification criteria for the three versions of financial balance-sheet

Balance-sheet on liquidity criteria	
RETREATED NET ASSET "LIQUIDITY"	**RETREATED LIABILITIES "LIQUIDITY"**
Immobilized net assets (more than 1 year)	Stable resources (more than 1 year)
Immobilized and distributing expenses	Own capitals
Trade fund, patents, licenses	Loans and leasing
Own tangible assets	Supplier debts
Rent tangible assets	Fiscal debts
Financial assets	Other debts
Client debts	
Current assets (less than 1 year, current exploitation)	Current debts (less than 1 year, current exploitation)
Merchandise inventories	Supplier debts
Working material inventories	Fiscal and social debts
Intermediate and final products	Other debts
CLIENT DEBTS	Current debts outside the exploitation
Other debts	Loan and leasing
Current assets outside the exploitation	Fiscal and social debts
Financial assets less than 1 year	Other debts
Other debts	
Active treasury – available funds	Negative treasury – current account cropping, protested debts, failure debts
TOTAL RETREATED NET ASSET	**TOTAL RETREATED LIABILITIES**

Table 2 Balance-sheet on liquidity criteria

This balance-sheet is considered less satisfying for financial analysts. The reclassification criteria based on annual cycle becomes arbitrary towards the operational character of the value concept with sensitive engagements to small fluctuations of the period. A reclassification of informational "utility" is detested by the jurisprudence.

Regarding the functional balance-sheet, there are two presentation forms : one in which it is utilized a retreated gross asset (table 3) and another in which it is utilized the retreated net asset (table 4).

Regardless of the chosen form, we consider that this kind of balance-sheet is closer to accounting logic of classifying patrimonial elements and the evaluation is better "underlined", his role in alignment of the accounting information to the actual level market being perfectly accentuated.

FUNCTIONAL BALANCE-SHEET (UTILIZATIONS = GROSS ASSETS)	
"FUNCTIONAL" RETREATED GROSS ASSETS	**"FUNCTIONAL" RETREATED LIABILITIES**
Tangible assets (more than 1 year) gross	Stable resources (more than 1 year)
Immobilized and distributing expenses gross	Own capitals
Trade fund, patents, licenses gross	Amortization and depreciation provisions
Own tangible assets gross	Loan and leasing
Rent tangible assets gross	Cyclical exploitation debts
Financial assets gross	Supplier debts
Exploitation current assets gross	Fiscal debts
Merchandise inventories gross	Other debts
Working material inventories gross	Cyclical debts exceeding exploitation
Intermediate and final products gross	Fiscal and social debts
Client debts gross	Other debts
Other debts gross	Negative treasury
Active treasury net	
SUM TOTAL	SUM TOTAL

Table 3 Functional balance-sheet (utilizations = gross assets)

FUNCTIONAL BALANCE-SHEET (UTILIZATIONS = NET ASSETS)	
"FUNCTIONAL" RETREATED NET ASSETS	**"FUNCTIONAL" RETREATED LIABILITIES**
Tangible assets (more than 1 year)	Stable resources (more than 1 year)
Immobilized and distributing expenses net	Own capitals
Trade fund, patents, licenses net	Amortization and depreciation provisions
Own tangible assets net	Loan and leasing
Rent tangible assets net	Cyclical exploitation debts
Financial assets net	Supplier debts
Exploitation current assets net	Fiscal debts
Merchandise inventories net	Other debts
Working material inventories net	Cyclical debts exceeding exploitation
Intermediate and final products net	Fiscal and social debts
Client debts net	Other debts
Other debts net	Negative treasury
Active treasury net	

SUM TOTAL	SUM TOTAL

Table 4 Functional balance-sheet (utilizations = net assets)

In our opinion, the first version is preferable. Depreciation and provisions are resources in liabilities and the assets are calculated as gross values. This fact permits the calculus of financial concepts – the need for working capital, financing table, self financing capacity through stable resources.

In the model of capital-resources-liquidity balance-sheet, assets are understood as an investment portfolio with a "composite" structure: immobilizations, working capital need, financial assets and liabilities are analyzed as a resource portfolio with internal and external origin, the debts being structured depending on the due date, as it is shown in table 5.

	ASSETS	**LIABILITIES**	
Risks and economic profitableness	Exploitation assets Immobilizations	Own capitals	Financial profitableness
	Working capital need Treasury		
Invested treasury Financial risk	Financial assets immobilizations	Stable financial debts	Financial risk

Table 5 The model of capital-resources-liquidity balance-sheet

The evaluation of balance-sheet is determined in terms of risks. This approach is separate from the judicial vision on the balance-sheet and allows a better appreciation of company's evolution in a long period of time, in terms of strategy – investment/financing.

The functional balance-sheet appreciates the evolution of the financial equilibrium, for risks on short term. The "capital-resources-liquidity" balance-sheet appreciates the evolution, strategy and risks on long term.

The manifestation of property real right involves assumes responsibility for two kinds of decisions : investment decisions and financing decisions.

The operation of investment assumes asset acquisitions to the purpose of increasing owners' fortune. The asset portfolio has a main component in tangible assets and a second component in exploitation net asset.

The financing operation pursuits the distribution between own funds and financial debts – the distribution and capitalization of results – alternative choice between the internal financing and external financing.

The financing structure in the balance-sheet is based on two components : own capitals and financial debts.

The balance-sheet model represents the adequate answer to users' needs, in quantitative and qualitative terms of equilibrium report which characterizes the management of patrimony resources.

The annual accounts are made based on closing of accounting period, founded on inventory, by determining in real proportion the patrimonial structures that have to give a real image of the patrimony, of the financial situation and of the result.

From the juridical point of view, the balance-sheet reflects in assets real rights and property conditioned rights (goods, rights – debts), and in the liabilities reflects debts (external liabilities – debts to third parties, internal liabilities – debts to owners).

From the economic-financial point of view, the balance-sheet reflects the resources invested by the company, their utilization after their nature, own capitals, which regroupes funds or benefits, foreign capitals which represents disposed funds from the third persons. In the balance-sheet the reference amounts appear at effective values, conforming the book registration value with the inventory value, respecting accounting rules.

The international practice shows that the balance-sheet model can be connected to the management accounting system as well as to the fiscal or juridical accounting system.

In the first case the balance-sheet represents the economic reality and assures the rigour of management control, in the second case the balance-sheet is used as a mean of fiscal and juridical control.

The recent developments oppose two conception plans: the “economic” optics towards the “juridical” patrimonial traditional optics.

The juridical conception emphasizes the property rights measured according to accounting principles, in a “prudent optics”.

The economic conception emphasizes the real functioning of the company, independent of juridical rules.

The debate has its origin in the works of Eugen Schmalenbach and it is made very actual by the numerous surveys which favour the functional analysis of the balance-sheet, but cannot hide the complexity of the priblem : there are many ways to approach the evaluation from the perspective of economic environment in which the company performs, and the juridical optics is favourized if the mane users are the creditors, the revenue authority.

Pure conceptions are rare. The juridical optics may borrow many elements of economic optics as the normalizing executive institutions adapts the norms and juridical obligations according to the economic reality.

We consider that in high inflation periods the necessity of re-evaluation imposes on a high degree of generality, but in the juridical optics a rigid model cannot exist, and the choice is a matter of accommodation

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THE PERSPECTIVES AND THE OPPORTUNITY OF EVALUATION FROM THE ANGLE OF THE RELATION EVALUATION – ACCOUNTING – REPORTING

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***Summary**: Regardless of the moment and the presentation stage of accounting data, the arguments of calculus and evaluation are integrated as a unit, inseparable from the accounting methods, being required by the existence and operation of the system. The evaluation is generated by the necessity to measure the complexity, being perceived as an alternative in solving the problems.*

***Key words**: evaluation, accounting data, opportunity, convergence, interdependence.*

Trying an approach which can assure the accentuation of evaluation demarche, we consider as necessary the marking-out of the established connexions between accounting and evaluation, deferring the interdependences between these fields of activity and the accounting data reporting. In the accounting theory and practice, the evaluation is based on two major principles: the utility value and time.

The utility shows the opportunity cost or the agreed sacrifice at a moment in order to make an asset to satisfy user's solvent need, if he accepts the utilization or sells on the market. Time aims the evaluation's moment in the past, at present or in the future.

On these facts we add the necessity to ensure the maintenance of financial capital and the valid calculus of the result.

The basic principles of stability of monetary unit, the historical cost, the cautiousness – opposite to the administration periods with monetary stability are convergent to the criteria mentioned above.[280]

There are numerous authors which define the evaluation as a process of quantification. Regardless the definitions' tone, it is generally accepted that the conveyance in money of the heterogeneous matter submitted to observation through accounting assures the homogeneity of the substance. Through quantification the quantitative elements are arisen in equivalence relations, enforcing criteria, conditions and restrictions on measure report between the compared amounts and establishing system properties based on the major components and on the causal relations of dependence between them.

The equivalence regards the stable report, invariable between the natural physical expression of the measured element and the quantity of monetary substance corresponding to the estimated element.

From the accounting point of view, the evaluation is "a particular form of quantification"[281], which unifies and guarantees the unity of principles, procedures and investigation instruments.

The finality of accounting is source and reason for a just disclosure of causal reports between truth, constructed reality and the medium of the constraints submitted to observation.

We consider necessary to discuss the objective "reason" of evaluation, what principles, objectives and factors characterize the evaluation and in what ratio the existence of monetary substance as an intrinsic value can or cannot assure an authentic reference of measure.

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[280] Ristea M., Noul sistem contabil din Romania, Ed. Cartimex, Bucuresti, pag.56

[281] Feleaga N., sisteme contabile comparate, Editia a 2-a, Ed. Economica, 2000, pag.127

The crystallization of evaluation rules and principles has been determined by the request of objectivity's acceptance. We consider the current meaning of the term in accounting, but also the evaluation of a company's part (assets, activity, partition of ownership).

The evaluation presumes the determination of an objective reference quota which serves as a base in transactions between partners for simplifying the reasoning, selling-buying deeds with grounding in fixing a price. We can speak in this manner about quantification, evaluation, calculus, operational need of precise figures towards the reference systems and when the negotiation rights of parts is admitted – figures which can be proved, judged and appreciated with a rational – controllable justification which can be entered by an assessor bade on a complex analysis of the economic activity.

We consider that the evaluation has sense and significance only if it's based on method[282]. Regardless the object, the research field will be objectively represented only if the rules and procedures, standards and norms are respected. The reading of liabilities, the procedure of an expert appraiser, the analysis of population data are real situation which presumes methodical competences.

The evaluation also justifies its role when is choice validated by collective options, opposite to the will of an entity which excludes the singularity : the reference position must be determined, the action is common, the renunciation is anonymous, the function and competence exertion is on a superior level compared to the egocentrism.

The evaluation is a perfectible act, between the pressure of the moment and the interest of moral promotion of principles and norms. It also pursuits some ideas functionally dependent of distinction and clarity requirement, as knowledge elements which give sense to the knowledge based on experience.

The evaluation has always "a certification finality of evidence with measurable certainty"[283]. Anything accepted to be true is obvious or derived with arguments based on evidence. Empirically, the evidence can be subjective or deceptive, but the transfer from the appearance to the substance of things enables the logical distinction between the formal truth and the material truth , determining the criteria which must be satisfied by the reasoning (formal conformity).

The description or the impartial discourse of evaluation must ensure the detaching from interests, beliefs or preconceived ideas and if the truth matches the reality, it will be generally accepted.

The accounting is a unitary, coherent and indivisible system of evaluation, booking, calculus, analysis and control for managing and interpreting the flow generated by the existence, movement and transformation of the elements submitted for observation.

We consider the patrimony " an open system with references of structural unit"[284] : judicial, economic, financial, administrative. Any stable arrangement has a reference conveyed in money through the unity of reports as a unit. The entity being unique and indivisible, the measurement of its components and of the relations between them necessarily involves the unifying of all flows and information, with the same common denominator, the monetary unit.

This necessity derives from the fact that all means, methods and work techniques of accounting exist, do their job and form a unit only if the evaluation represents an objective reference of the reality.

Any accounting system arises, operates , permanently pursues and interprets "the own life" of economic organism – which involves the stability and unity of rules, means of evaluation and calculus, systematization, classification and generalization of data.

The establishment of reality through stock-taking, the classification and correct systematization of patrimonial exchange on corresponding accounts, the revelation of calculus sizes from the accounts' structure, the analytical grouping and the establishment of the composition of synthetic balance, the check-up of the reality and accuracy of booking, the synthesis of data at the closing of accounts, the calculus of results are conclusive examples which represent moments of accounting flow of data's processing, based on evaluation.

[282] Ristea Mihai, Dumitru Corina Graziella, Contabilitate aprofundata, Editura Universitara, Bucuresti, 2003, pag.92

[283] Isfanescu Aurel, Robu Vasile, Anghel Ion, Tutu Anca, Evaluarea intreprinderii, Editor Tribuna Economica, Bucuresti, 1998, pag.58

[284] Danescu T., Conturile anuale – documente de sinteza si de raportare contabila, Colectia Universitaria, Editura dacia, Cluj Napoca, 2000, pag.102

Generally speaking, we can say that no matter of the moment and presentation stage of accounting information, the calculus and evaluation arguments are integrated as a unit, being asked by the existence and functioning of the system as a whole.

The evaluation has a formal dimension, through acts, procedures and competences in translating the standards into real communication practices – human competence, prescriptive competence, public certified competence by an authority, asked competence, individual competence, collective competence – which are pragmatic dimensions for the company's strategy, for the economic life and its consequences.

In the accounting survey case, the forced report is always unequal in the sense that you cannot control or impose a point of view regarding the content established by the expert. An evaluator must demonstrate flexibility, no vanity, attention, empathy, trust and competence in particular situations, liberty in formulating references and solutions for various experiences.

The evaluation demarche must formulate solutions for a variety of users. The unicity of accounting and of the balance-sheet is contradictory to the multiplying of "images" for some parts of truth – each with its own truth.

The totality of technics of patrimony size's current establishment, the records, calculus, reflection and pursuit during the accounting period designates current evaluation operations regarding: patrimony structures on primary elements, separate moments in patrimonial values' circuit, calculus and registration operations, primary analytical establishment of patrimony's substance, the determination of analytical details of structure and of the direct recognizable elements in the estimation's structure, the distinct reflection of differences between sizes and pre-established values, the factual control of reality, the certification of estimations' conformity, the ensuring of evaluation acts' unity and comparability in time and space.

Based on the equilibrium relation Assets – Liabilities = Net situation (own capital), we agree to define the important aspects of the elements mentioned above. Based on the finality of producing financial reports, the evaluation reveals its opportunity in describing transactions' final results , grouped in classes with the same economic characteristics.

An asset represents a company's controlled resource as a result of some past events and which will generate future economic benefits for the company. The future economic benefits incorporated in assets represents the potential of contributing directly or indirectly at the cash flow or equivalents for the company. This potential can be a productive one, being part of company's working activity. Any cost reduction process becomes the alternative for cash output's reduction. The company uses assets for production and the solvable customer demand's satisfaction contributes to a cash action, which represents an advantage. An asset can be separately used or together with another assets, can be changed with other assets, can be used to square a debt or can be distributed to the company's shareholders. The majority of assets has a physical form. The material form isn't important, there are many situations assets are defined by the certitude of future economic benefits. The assets signifies real rights or property conditioned rights.

A debt is an actual obligation of the company which derives from past events; by its settlement we can expect economic benefits from resources' exit.

"A debt is a commitment or a responsibility to action in a certain way"[285]. The law can force a company to settle its debts, issued from contracts or legal requirements. Usually this represent amounts of money which must be payed for received goods or services. There is a distinction between current debts and future engagements. The redemption of a current debt can be made by cash, asset transfer, replacement of the debt with another debt, debt transformation in capital, or creditor's renunciation of his right.

Also from the evaluation point of view, we must recall the specific of own capital, which represents the shareholders' residual interest in company's assets after the redemption of all its debts. There are distinctive structures – shareholders' funds, retained earning, reserves from profit sharing. The re-evaluation or the adjustment of assets and liabilities' value determine own capital's increase or decrease. These are included in own capital as adjustments for maintaining the capital or as re-evaluation reserves.

From the evaluation point of view, the capital has more distinctive significations:

- stable financing resources, which ensures the productive physical capacity for profit earning, private or professional earning resulted from risk-taking in a competitive environment;

[285] Caraiani Chirita, Olimid Lavinia, Bazele contabilitatii, Editura ASE, Bucuresti, 2001, pag.79

- monetary-financial value which guarantees net assets maintaining, nominal or in purchasing power;
- shareholders' material or financial contributions , based on a legal association contract which establishes administration obligations and gives payment right (property's usufruct) – as residual interest, after obligation's redemption, based on the nominal value of stock, as an expression of a property right;
- the creditors' general mortgage right, the material guarantee of continuity and of the financial position;
- non-exigible and intangible liabilities, particularly capital's due date being the company's lifetime, legal guarantee of continuity.

"Earning profit is necessary in order to maintain the financial capital"[286] and the profit can be earned only if the net asset value at the end of the period is bigger than the net asset value at the beginning of the period (excluding the distributions or shareholders' contributions). The profit represents the nominal capital's increase during the period or the increase of the invested purchasing power, calculated over the inflation ratio level.

In order to maintain the physical capital, price changes that affects company's assets and liabilities are considered adjustments to maintain the level of capital and not profit.

The necessity of company's evaluation is also determined by the requirement of balance-sheet's correction, asked by the legal frame of economic activities , asked by the need of an elaborate and valid economic and financial analysis of the company, in order to present it in a real situation to shareholders, creditors and employees, corrections that appear due to the characteristics of a competitive economy and especially due to the following factors:

- the existence of free prices, that impose for managers the need to bring up to date the information from company's reports (historical cost information), depending on the price evolution on market;
- the mechanism of national currency's exchange rate, which acts from outside the company, being determined by macroeconomic phenomenon and processes pertinent to foreign exchange and to relations with international institutions and financial organizations;
- the company's housekeeping, regarding the bookkeeping methods, consumption 's evaluation methods, capital depreciation methods, because one of the company's financial management characteristics is the functional autonomy – the management chooses the appropriate methods for an efficient housekeeping, respecting the principle of method's permanence in order to assure the comparability of results.

In our country's specific conditions, the company's evaluation is pertinent to privatisation, being needed to reduce state's influence in economy and to increase the private property's share as a guarantee of a future efficient activity. For privatisation, the evaluation is mandatory due to the following:

- the majority of patrimonial elements from the company's accounting doesn't reflect market values, even if has been tried the prices' bringing up to date, but this was realized on subjective requisites;
- the company's achievements cannot be extended and it cannot define future previsions, because these are not the effect of a normal situation (the inflation had a very high level during the transition period; the economic, an incomplete usage of production capacities;; the high interest rates and the lack of money resources, etc.).

But the company's evaluation in mandatory is the following situations:

- in any moment when changes take place in the size and structure of subscribed capital (issuing new stocks, summing of undivided profit, stock transfer to another shareholder etc);
- in any moment when changes take place in shareholders' number or structure;
- in commercial transactions (acquisitions, divesting, merger).

[286] Bran P., Finantele intreprinderii – gestionarea fenomenului microfinanciar, Editia a 2-a, Editura Economica, Bucuresti, 2003, pag.39

In case of acquisition operations, the evaluation methodology is different, depending on acquisition's nature. If it's the case of a classic acquisition, the investor makes a long-term investment, trying to buy the majority package of shares. In this case, he will ask a detailed evaluation methodology for a conscious decision. If it's the case of a financial investment – buying a certain part of other company's capital – the investor's purpose is the placement of money with a superior efficiency. Usually, this kind of investment is represented by stock buying at stock exchange and requires less complicated evaluation procedures.

In case of divesting operations, the evaluation problem is similar, buy it's regarded from the seller's point of view. In case of selling without special characteristics, the seller can be in one of the following situations: the sale of a small company to an important group or the sale of a company in a difficult situation. In both cases, but especially in the second one, the seller cannot afford a normal evaluation of the company, because there are many candidates for taking it over. Anyway, the evaluation's result cannot have significant differences from a situation to another, the evaluation methods being similar – only the negotiators' power will make the difference between the adjudgement price and the real value.

In case of merger, the calculus is more refined, because is the case of evaluating two companies, with an advantage for one of them. The evaluation has specific dimensions if the merger is made between two companies of the same shareholder, if it's the case of small companies which redefine in the judicial plan for simplifying their presentation in front of a third party.

At the level of big companies, the fusion usually initiated by a parent-house has the object of savings resulted from the regrouping of some services. In case of inheritance, the necessity of evaluation is given by the inheritance right. Based on this evaluation, the inheritor can make a buying offer to the other inheritors, for taking their parts. In case of partition between spouses after a divorce, the evaluation of common possessions, including companies, is necessary for compensating one the spouses.

In both cases, the evaluation methods must consider the administrative, judicial rules in order to establish a reasonable price and to avoid any part's prejudice. In case of evaluation for mortgage or bankruptcy, this must consider the specific banking norms and the bankruptcy procedure, the difficult situation of the company, which will automatically lead to an undervalue.

In case of expropriation, the properties can be expropriates for public interest by authorities (the construction of a transport way, of a public edifice, an area's systematization), in this case the owner receiving a compensation which represents the market value of the company and the losses until the company's relocation. As a support in case of litigation, the company's evaluation establishes the loss due to improper products received from the suppliers or to wrong quality standards, which is detrimental to the economic situation and to the company's image. The problem of company's evaluation has particular emphasis in the actual stage, when there are companies' buying-selling between parts from different countries. It is necessary to adopt some standard evaluation practices, in order to permit an homogeneous vision in the world, being necessary to elaborate international evaluating standards and norms or to find some compatibilities between regional institutions.

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THE IMPLICATIONS OF THE FINANCIAL AUDITORS' TO DETECT THE FRAUDS

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Abstract: *During the audit process of the financial situations, the auditor has a great responsibility in detecting the significant falsifications of the information due to fraud. The International Federation of Accountants (IFAC), the representative international structure of the accounting profession has elaborated the International Audit Standard 240 The Auditor's responsibility to analyze the fraud in an audit of financial situations which establishes the regulations and offers the recommendations concerning the procedures that must be applied by the auditor in order to detect the significant falsifications consequent to fraud which influences the fidelity of the information presented in the financial situation. The auditor can identify a falsification in the financial situations and in this case he must analysis if such a falsification can indicate a fraud and when such a clue exists.*

Keywords: responsibility, audit, fraud, standards

Introduction

The International Audit Standards (ISA) 240 The Auditor's responsibility to analyze the fraud in an audit of financial situation, elaborated by IFAC through its structure IASAB and assimilated by the professional structure from our country, the Romanian Financial Auditors Room, is put in practice by the financial auditors when they audit the annual financial situations of the economical entities.

This standard establishes the regulations and offers recommendations which are applied by professional accountants during the audit process.

Fraud and error

ISA 240 makes the distinction between fraud and error and defines two types of fraud relevant for the auditor:

- Falsifications that are caused by the misrepresentation of the assets;
- Falsifications that are caused by the fraudulent financial reporting, meaning the basic action that has provoked a falsification of the financial situations was done intentionally or/and unintentionally.

The concept of error means a falsification of the financial situations made unintentionally, including the omission of an amount of money or a presentation, as follows:

- An incorrect accounting estimation as a consequence of the misinterpretation of the facts;
- A mistake that has appeared during the data research and processing from the financial situations;
- A mistake in applying the accounting policies regarding evaluation, recognition, amortization and depreciation of the entity's assets.

Fraud is a deliberated action done by one or more persons from the society's leadership, employees or third parts, action which involves the use of false pretence in order to obtain an illegal or unjust advantage.

Fraud is an action initiated by one or more persons and can be determined by one of the following events:

a) falsification of documents and records;
b) actives' misappropriation or theft;
c) wrongful assignment of some actives, with influences on the continuity of the entity's activity;
d) elimination or partial registration of a transition's results in order to make the financial statements look better;
e) misapplication of accounting policies so to embezzle the entity's assets and performance etc.

Fraud is determined by the intent to deceive, the desire to obtain undeserved advantages as a consequence of shortcomings' existence in the functioning of an entity after some unproductive controls.

The auditor will be concerned with the fraudulent actions leading to a significant falsification of financial situations. The fraud involving persons from the leadership level is known under the name "managerial fraud" and the one involving only entity's employees is named "fraud by employees' association".

The deliberated falsifications are classified in two categories:

1. Falsifications emerging from the financial reporting;
2. Falsifications emerging from the assets' dilapidation.

The fraudulent financial reporting represents falsifications or omissions of the information from the financial situations made intentionally with the aim to misinform and mislead the persons using the financial situations (shareholders, clients, providers, employees, banks etc.).

The fraudulent financial reporting can be done through the next methods:

- Manipulation, falsification, and modification of the accounting entries or of the vouchers on which the financial situations are based;
- Misinterpretation or the deliberated omission of events, transactions or other important information from the financial situations;
- The bad application with intention of the accounting policies.

The fraudulent financial reporting can be due to the manipulation of the incomes by the entity's leadership to cheat the persons using the financial situations over the performance and profitability of the economical entity.

For example:

- underestimation of costs and over evaluation of incomes will lead to the registration of a higher profit to be given to the shareholders;
- underestimation of assets and over evaluation of debts will lead to the establishment of a higher net active;
- overestimation of the shares' value on the stocks' market.

The dilapidation of assets means the theft of an entity's assets and it is most often done by the employees. Dilapidation can be done through different methods:

- Fraudulent receipts – accumulation of the frauds in debt accounts or the orientation of the receipts toward personal accounts;
- Theft of tangible and intangible assets;
- Payments for goods and services undelivered yet;
- The use of the society's assets in personal interest.

The dilapidation is accompanied by false records or documents with the aim of covering up the missing assets. Financial auditors are dividing frauds depending on their nature such as:

- frauds referring to the financial statements' elaboration and presentation;
- frauds having for results the entity's operations, significant reduction of the activity, which determines the risk of continuity;
- frauds affecting the personnel policy(employees health, work safety etc.);

- frauds affecting the environment and its protection, which determines the risk of continuity for the activity.

It can be said that fraud determines the entity's managers and employees degree of honesty and trust. The primary responsibility for the prevention and detection of frauds and errors belongs to the leadership as well as to the management of the society.

The accent falls on preventing frauds, and it can determine individuals to not commit fraud because of the possibility to be discovered and punished. The creation of a culture of the organization and ethical behavior is necessary in any society and it must be communicated and sustained by the persons in charge of leadership (surveillance, control, management).

The active surveillance of those in charge of the leadership means a continuity of the internal control, the analysis of the financial situations' safety, the efficiency and efficacy of operations, of the conformity with the legislation and regulations in use.

It is obvious in the present days that the fraud phenomeneon has reached globalization as well considering the number of high profile frauds that have kept the public attention lately, being discovered inside of some of the most prestigious multinational companies. The list is very long and includes cases such as ENRON in USA, Parmalat in Italy and Group Societé Génèrale in France. A study conducted in 2005 at the University Martin Luther from Hale, Germany, made on a sample of over 3600 international companies, has indicated the percent of each type of fraud, as shown in Table 1.

Table 1

Nr.	Fraud type	%
	delapidation	22
	FinancialStatements Manipulation	19
	Corruption and Bribery	19
	Fals Pretences	15
	Falsification	9
	Money Laundering	7
	Others	9

Types of fraud

Source: Nadir Ali, Considerations about the Internal Audit Role in the Prevention and Detection of Fraud, in Financial Audit Review, nr. 6/2007

The study proves that only 26 % of frauds were identified by internal audit, while 34 % were discovered by chance.

The auditor's responsibilities

The auditors' main objective during his audit mission of financial situations, seen as a whole, is to obtain a reasonable assurance that the financial situations do not contain significant falsifications caused by frauds or errors. The auditor can not obtain an absolute assurance of the fact that the significant falsifications of the financial situations will be detected by using the audit tests because of the inefficacy of the internal control and the fact that the audit evidences he holds are more persuasive than conclusive.

In order to obtain a reasonable assurance, the auditor:

1. maintains an attitude of professional skepticism during the entire audit process;
2. analyses the possibility of the society eluding the controls ;
3. admits that it is possible the procedures used to detect errors or falsifications consequent to fraud are not adequate.

The professional skepticism is an attitude which involves an inquisitive mind and a critical evaluation of audit evidences. Preserving an attitude of professional skepticism imposes the permanent analysis of the reasonable character of the answers given by the leadership delegates during investigation as well as of the other information those persons have given.

When the audit process is done by a team, the team members must debate upon the possibility of the existence of a potential for significant falsifications of the financial situation consequent to fraud. The debate is a very good occasion for the more experienced team members to share their knowledge about the manner and place in which significant falsifications of the financial situations consequent to fraud might emerge. Discussion keeps up an inquisitive mind, without taking in account the convictions of some team members about the honesty and integrity of the society's leadership. The debate usually includes:

- Exchange of ideas between team members about the manner and place in which the emergence of significant falsifications of the financial situations consequent to fraud might emerge can be suspected, the entity's leadership can commit and hide fraudulent financial reports and the assets of the entity can be dilapidated;
- Analysis of the circumstances that can prove an incomes' manipulation;
- Analysis of the factors that might put pressure on the management or others to commit fraud;
- Analysis of the leadership's involvement in the surveillance of the employees with access to cash money or other assets that can be dilapidated;
- Analysis of unusual changes in the life of the leadership members or employees;
- Analysis of the types of situations that can indicate the possibility of a fraud;
- Analysis of the risk of leadership eluding controls.

International Audit Standard 240 "The Auditor's responsibility to analyze fraud in the audit of the financial statements " mentions:

- responsibility for preventing frauds and errors belongs to the entity's leadership, that have the obligation to implement and operate continuously through adequate systems of accountancy and internal control;
- the financial auditor, though "it can not be hold responsible for frauds and errors prevention", has the obligation to plan and make the audit so to obtain a reasonable assurance that the financial statements are not significantly embezzled consequent to recorded frauds and errors.

The manager's responsibility is at maximum in regard to the prevention or investigation of fraud, corruption, bribery, as well as establishing the necessary measures for the case in which alarm signals might appear from this point of view. For example:

- omissions or errors in the providers' and clients' identification data on the fiscal receipts;
- disagreements between the information on the receipt and on the order form;
- disrespect for the information privacy;
- close relationships between the persons in charge of supply and entity's providers, thus appearing the opportunity for taking bribe;
- a third person almost always winning the auctions for undertaking goods or services;
- using certain methods of payment or cash in the country as well as abroad etc.

The audit process, though developing in conformity with the legal and professional procedures and standards, does not absolve the auditor of the obligation to answer in front of the instance in one of the following situations:

a) when the leadership of a company pretends the auditors determined them to think that certain decisions were right and it was not fraud or error;
b) when persons, that have become shareholders later on, pretend that they have registered losses buying shares from the audited firm because of the financial audit report;
c) when third parts involved, taking into account the audit reports, declare they initiated business relationships with the audited firm;
d) when the company's new owners discover that the financial statement is not in conformity with the reality;

e) when a company's liquidator considers that the financial statement was not reflected in the accounts, so the audits provoked losses to the creditors.

In all the cases above, though the professional assurance exists, it might not be enough for covering the professional risks.

Audit procedures

In order to identify the risks of significant falsifications of the financial situations, the auditor or the audit team can apply the following procedures:

1. organizes meetings between the leadership and other persons from the society for the identification and treatment of the fraud risks;
2. analyzes if one or more factors of fraud risk are anticipated;
3. analyzes other information necessary for the identification of the risks of significant falsifications consequent to fraud.

a) to understand the environment of the society, including the environment of the internal control, the auditor questions the management about:

- the way in which the managements communicates to the employees its vision concerning the creation of culture of honesty and ethical behavior;
- the way in which the managements communicates to the leadership the aspects related to the identification fraud risks within the entity;
- procedures used by the management to identify the fraud risks, the accounts' balances or the transactions that are considered to be exposed to fraud risks;
- the risk evaluation done by the management of the society that financial situations can be falsified significantly consequent to a fraud.

The auditor must interview the management concerning its own evaluations of fraud risks, because it is responsible for the entity's internal control and for elaborating the financial situations. The auditors questions all the aspects related to the process of researching the unproved accusations of fraud, internal or external ones, affecting the society.

The auditor can also interview about the existence or suspicion of fraud:

- employees from different levels of authority;
- employees involved in the initiation, processing and recording uncommon and complex transactions;
- the judicial counselors within the entity;
- the person in charge of ethics, whether there is one.

The auditor also interviews the persons in charge of the society's leadership to determine if they have knowledge of real or suspected frauds.

b) to understand the entity's environment, including internal control, the auditor must analyze the presence of one or more factors of emergence for the fraud risk.

Because the fraud is usually hidden, it is very difficult to detect it, but due to the acknowledgement of the entity's environment, the auditor can identify events or conditions that indicate the existence of a stimulus or pressure to commit fraud.

These events or conditions to commit fraud are named "factors of fraud risk emergence", like:

- an ineffective control environment can bring out the occasion to commit fraud;
- granting important stimuli if certain unrealistic profit goals are achieved can create the premise to commit fraud;
- the necessity to fulfill the expectations of a third part to obtain supplementary capital infusion can create pressure to commit fraud.

The auditor must take into account the procedures applied for implementing an official ethical code. When a small entity is concerned it is possible that a written ethical code do not exist but the entity has developed in time a culture pointing out the importance of integrity and ethical behavior through oral communications and the example the entity's management gives.

c) for the development of analytical procedures to understand the entity and its internal control, the auditor analyzes the unusual and unexpected that might indicate risks of significant falsification consequent to fraud.

The auditor develops certain expectations about plausible relationships which are reasonably expected to exist while applying analytical procedures. The analytical procedures include the procedures concerning the incomes accounts aiming to the identification of unusual and unexpected relationships which can prove the existence of certain risks of significant falsification consequent to fraudulent financial reports (e.g. fictional sales).

d) for understanding the entity's environment, as well as its internal control, the auditor must analyze other information indicating risks of significant falsification consequent to fraud.

The information found by the auditor during the process of accepting and keeping of a client, as well as the experience gained during other audit missions, can be important for the identification of risks of significant falsification consequent to fraud.

The auditor uses the professional reasoning and analyzes the size of the possible falsifications of financial situations in order to identify and evaluate the risks of significant falsification consequent to fraud. Suspicion of fraud or error must be present in the auditor's report, because the following situations can appear:

- fraud and error have a significant result on the financial statements, for which reason the financial auditors will express a cautious opinion or declare the impossibility of expressing an opinion because of the limits imposed by the audit;
- financial auditors can not evaluate the fraud or error's effect upon the financial statements, being prevented by the entity from obtaining the adequate and sufficient proofs necessary for the evaluation, in which case the financial auditors will express a cautious opinion or declare the impossibility of expressing an opinion because of the limits imposed by the audit.

The auditor can identify a falsification in the financial situations and in this case he must analysis if such a falsification can indicate a fraud and when such a clue exists, the auditor must analyze the implications of falsification in relation with other audit aspects, especially those related to the credibility of the leadership's declarations. The auditor's responsibilities are different in each country and the obligation to confidentiality can be evaded in certain situations through a legal status, law or court order. In some countries, the auditor is compelled to report the emergence of frauds to the authorities when the leadership and the management of the entity do not take corrective measures.

Conclusions

Aspects that lead to significant falsification consequent to fraud can emerge during the process of auditing the financial situations.

The auditor will communicate and argument his communication to the entity's leadership and management the fraud aspects that lead to the significant falsification of the financial situations. The auditor, after consulting a legal expert:

- may give up the audit mission;
- makes the audit report after he communicates his discoveries to the entity's management which decides, if it is the case, to redo the accounting documents;
- reports to the authorities the fraud aspects discovered depending on the legislation in use.

The collaboration between auditors and the audited entity's managers has a major importance in the prevention of frauds and errors concerning:

- the correction of the weak points in the control of the entity whenever they are identified by the auditor;
- the improvement of internal control system and accounting system;
- the elaboration of a set of proposes and recommendations for improving the activity in its assembly.

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IS CREATIVE ACCOUNTING A FORM OF MANIPULATION?

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Abstract: Manipulation of financial information which is called by several terms such as earnings management, income smoothing, creative accounting practices, aggressive accounting or account manipulation, prevents the allocation of resources in the most efficient areas in the economy. The scope of this paper is to relate the causes, the main motivations behind their application, the objectives, the methods and the consequences of manipulation in financial reporting. Creative accounting is not a new technique, but it can be seen as a costly one. Businesses feel the pressure to appear profitable in order to attract investors and resources, but deceptive or fraudulent accounting practices often conduct to drastic consequences.

Key words: creative accounting, window dressing, fraud, account manipulation

Introduction

Accounting manipulation is defined as when the managers of an organization intentionally misstate their financial information to favourably represent the entity's financial performance. Managers of nonprofits organizations may have incentives to manipulate their reported program-spending ratios because donors use them in determining contribution decisions.

Accounts manipulation represents the use of management's discretion to make accounting choices or to design transactions so as to affect the possibilities of wealth transfer between the company and society (political costs), funds providers (cost of capital) or managers (compensation plans). In the first two cases, the firm benefits from the wealth transfer. In the third, managers are acting against the firm. Figure 1 summarizes the principles of accounts manipulation.

The accounts manipulation has a direct influence in modification of the apparent performance (as measured, for example, by the earnings per share) and/or a modification of the company's financial structure.

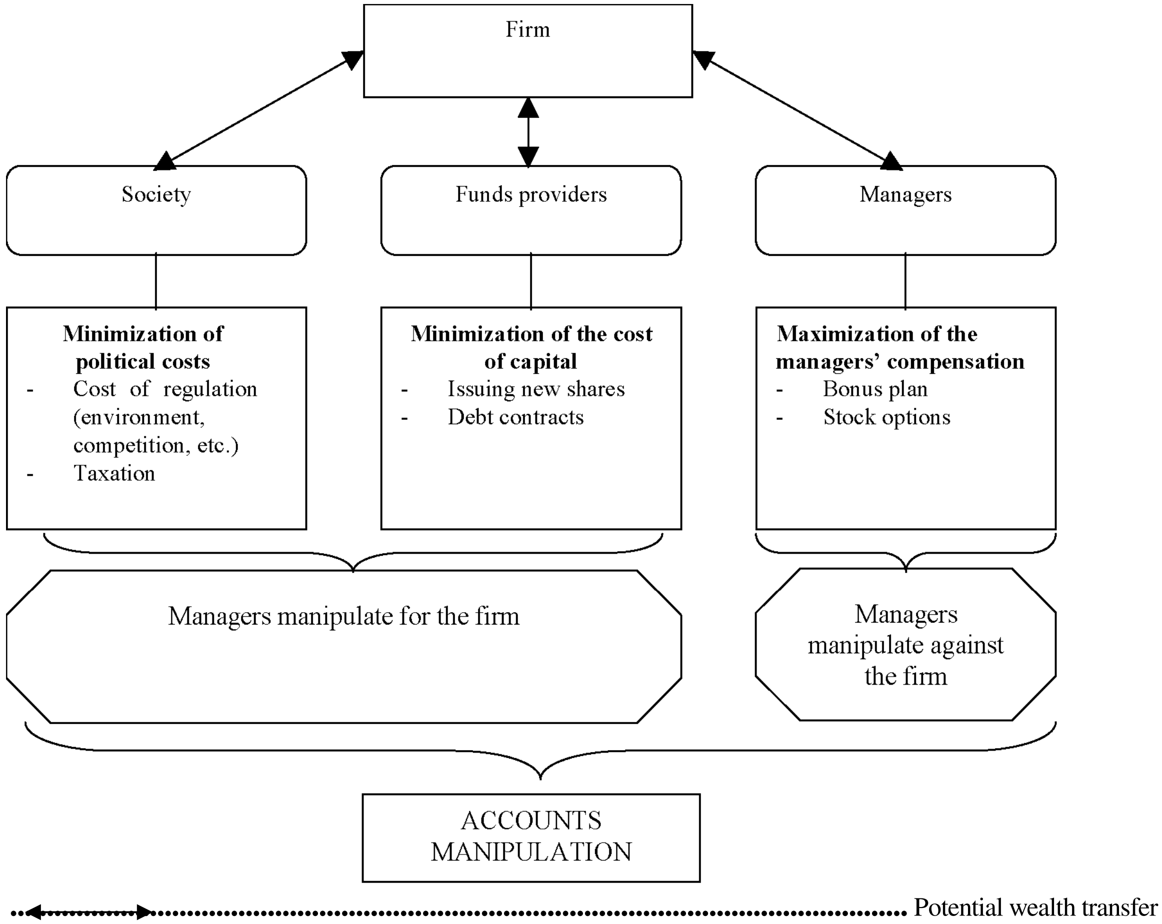

Figure 1 - Principles of Accounts Manipulation

Theoretical Aspects of Creative Accounting

In spite of the fact that the concept of creative accountant is frequently used in business literature, we cannot say that there is a definition generally accepted.

Some authors consider creative accountant 'an assembly of techniques, options and freedom room left by accounting regulation, without moving away from laws or accounting requirements, allowing to the managers to change the financial result or the financial statements' face'(Gillet, quoted by Shabou and Boulila Taktak, 2002). Others see creative accountant as 'an assembly of procedures in order to change the profit, by increasing or decreasing, or to misrepresent the financial statements, or both of them' (Stolowy 2000).

The development of economical, juridical and social activities and the stress of financial information users made the accounting innovation a necessity, and furthermore the development of the creative accounting. This type accountancy evolved in Britannic economies due to the freedom ensured to the accounting professionals and presently lies between legal form and the core of transactions or events. From the practitioners' view, the creative accounting development was encouraged by the base and alternative treatments permitted for solving one issue. Generally, an accounting issue can be solved in at least two methods, each of them with different effects on the company's financial position and performance. The academicians consider the creative accounting was encouraged by the flexibility of the regulations.

As IFRS 1 'The financial statements' reporting' in order to bring out and to present the right financial information, the following conditions have to be taken into account;

- The concordance with IFRS stipulations;
- The possibility to depart from IFRS, if according to the stipulation the right information is not obtained;

- The reporting of additional information in order to present a complete image of transactions and events.

Generally, the creative accounting is badly treated, as a negative creation, designed to prepare the financial statements in order to respond managers' requirements regarding the company's financial position and performance. Therefore, the financial statements are rather a misrepresentation of the company's performance that a true reporting.

The negative treatment of creative accounting does not exclude the positive one, being considered as an innovation that leads to engineering capable of responding the question: How can we administrate the resources in the most efficient way in order to build performance?

Simultaneous treatment of creating accounting as an instrument to accomplish the accounting interests, but also as accounting engineering, depend upon accounting policies agreed. According to IFRS 1 'The financial statements' reporting', the accounting policies represent the specific principles, fundamentals, rules or practices used by the company's management in order to bring out and to present the financial information.

Choosing the best accounting alternative to reflect accurately the reality and company's interest depends on the creative accounting. As a result, some authors consider the Britain window-dressing practice as form of creative accounting. This technique consists in realizing operation that lead to profit or loss, depending on the interest. Different accounting policies lead to different results. In this respect, it is considered that there have to be chosen that policies able to report:

a) significant information for business decisions;
b) believable information able to
    b1) report fairly, correctly and honestly the transactions and events;
    b2) reflect the economical substance of the transactions and events, not only their juridical form;
    b3) be impartial against all types of users;
    b4) be cautious, by preventing the overvaluation of the result;
    b5) be complete, through the significance and cost of information.

One of the creative accounting aims is represented by the income smoothing technique. This consists in deliberate using of accounting policies aimed to report a net income series with a low fluctuations within over a period in order to avoid the fairly report to the shareholders. This way, the management pursue to reduce the net income's fluctuations from one period to another.

The multitude of methods used by creative accounting and engineering differ with the substance. Recently the creative accounting was associated with fraud in accountancy and the accounts' lifting as a method in fraud's waiting room.

Even if both the creative accounting phenomenon and accounting fraud appear in companies with financial difficulties and are aimed to misreport, there has to make a difference between them: creative accounting represents the manipulation of the accounts according to accounting regulation and the law, while the techniques that break the law are considered accounting fraud. Therefore, we can conclude that the company using the creative accounting, benefit from the legislative niches and the flexibility of regulation in order to misreport the financial statements.

Consequently, even if the creative accounting use is not an illegal practice, it is clear, that managers in financial difficulties, are looking to solutions, no matter there are unethical. Otherwise, the half truth and the lie can be suspected as fraud.

Techniques of creative accounting

Six main areas are considered the "source of inspiration" for the creative accounting: flexibility in regulation, a lack of regulation, a scope for management that assumed some targets for the future, the timing of some transactions, the use of artificial transactions, but also the reclassification and presentation of financials. It was proved, that even in highly regulated countries such as USA the accounting environment afford, a great deal of flexibility (Largay, 2002; Mulford and Comiskey, 2002). In order to be understood, we proceeded to the detail of these:

1. Flexibility in regulation. Generally the regulation, particularly the accounting regulation permits flexibility in choosing a policy to follow; the International Accounting Standards let the financial management to choose between valuation of the non-current assets at depreciated historical value or at revaluated value. The management may decide the change of the policies, and these shifts are difficult to be identified a few years later (Schipper, 1989).
2. Lack of regulation is meeting in some areas in every domain. In most countries accounting regulation is limited in some areas, for example in Romania there is few mandatory requirements for transactions with futures and stock options or for the recognition and measurement of pension liabilities.
3. Management can use their discretionary position in order to obtain the financial position and stability they assumed; for example, the managers decide the increase or reduce of the provisions for bad debts (McNichols and Wilson 1988).
4. The timing of some transactions offers to the management the opportunity to increase the revenues, when the operating profit is not satisfactory, and to create the desired impression in the accounts. The existing stocks in company's patrimony, that have a significant higher value compared to the historical value, may be sold only when the operating profit is not satisfactory.
5. The artificial transactions are often used in order to manipulate the balance sheet amounts or to move the profits between accounting periods. These transactions are realized by entering in a controlled transaction with two or there parties, one of them, most of the times, a bank. Such arrangements consists in selling of an asset at a higher/lower rate than in an uncontrolled transaction, and then leasing it back for the rest of it useful period, compensating through the rentals the price difference.
6. Reclassification and presentation of financials are relatively less analysed in accounting literature. However, in reality the companies often proceed to make up the amounts in order to obtain good level of profitability, liquidity or leverage ratios. Most of the times, the numbers are smoothly modified in order to improve the investors' perception. As explained by Niskanen and Keloharju (2000): 'the idea behind this behaviour is that humans may perceive a profit of, say, 301 million as abnormally larger than a profit of 298 million'. Their study and others (e.g. van Caneghem, 2002) have indicated that some minor massaging of figures does take place in order to reach significant reference points.

Techniques that define creative accounting are not new, but experience has shown that most of the times may prove extremely expensive. In order to attract investors and to appear profitable to the shareholders, employees, creditors, suppliers and other categories, the companies can decide to misstate the financials; this practise often lead to drastic consequences. The manipulation of the conduct to a mismatch of the financial position and of the results with the "fair presentation" zone, as shown in Figure 2, which implies that the profit will not represent the long-term capacity of the firm to generate earnings.

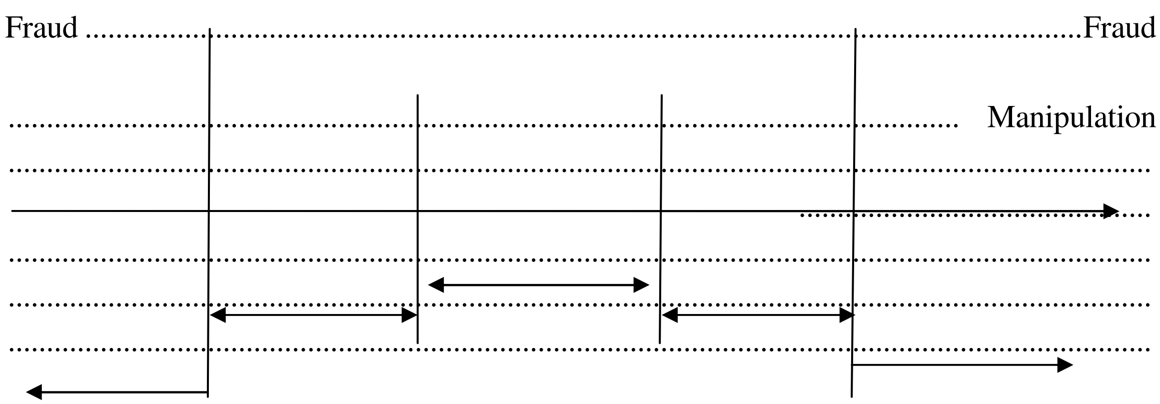

Figure 2 - Accounts manipulation and fair presentation

Reasons and consequences of creative accounting

The conflicts of interest among different interest groups represent the real causes of creative accounting: the managers are interested in paying less taxes and dividends, the shareholders in gain higher dividends, the employees to obtain better salary and higher profit share, the authorities to collect more taxes. It can be easily seen that the interests are tremendous divergent and creative accounting is deepening it. In this respect, David Schiff (1993: 94) has warned the investors that taking a company's financial statements at face value can be 'a recipe for disaster'.

Managing shareholders' interest is to pay less tax and dividends. Investor-shareholders are interested to get more dividends and capital gains. Country's tax authorities would like to collect more and more taxes. Employees are interested to get better salary and higher profit share. But creative accounting puts one group or two to advantageous position at the expense of others. One day the present authors had an opportunity to have a discussion with the Chief Accountant of an enterprise in this regard. The Chief Accountant told, in the course of conversation, that he was determined to retain profit for the expansion of his existing unit and establishment of new ones. Quite naturally, his interest was to pay less tax and less dividend and, accordingly, to 'create' financial statements. This type of creative accounting has led David Schiff (1993: 94) to warn investors; in general that taking a company's financial statements at face value can be 'a recipe for disaster'.

The investors often go wrong by taking into consideration only one ratio, as earnings per share (EPS), ratio that can be 'boosted by the stroke of an accountant's creative pen'. David Schiff (1993: 94-95) considers that there are six main ways used by the companies to increase their earnings: (1) by hidden of the pension liabilities, (2) by capitalizing the expenses instead of writing them off, (3) by realizing an faster increase of the receivables or inventories versus sales, (4) by reaching negative cash flow, (5) by consolidating the affiliates' incomes and net worth, and (6) by following seemingly conservative practice in a situation of reverse direction. Jim Kennan, the Attorney General of Victoria, in a speech before members of the Australian Society of Accountants, pointed out that financial statements, which inflate the financial position and the performances of companies by manipulating the figures (i.e., through creative accounting) should be stamped out, because bring the investor in great difficulties in order to distinguish between the made up financials and the truly financials. We considered this message may be used to stress the main effects of creative accounting:

1. The confusion created among the stock exchange investors, because the figures shown by financial statements are often inflated and the difficulty of investors' to distinguish between the fair and unfair statements.
2. The prospectuses of the listed companies do not always offer a detailed picture the financial positions and performance.
3. The techniques used by creative accounting can "impress£ the investors only over short time periods, while the financial position goes worse, this cannot be hide anymore and these methods are helpless.
4. The long time effect of such practise is the distrust of the investors conducted by the collapse of companies that take advantage of these techniques.

The question we raise is: Are these creative practices always a bad thing or can they ever be justified? As figure 2 shows, manipulation is not fraud. It is a matter of interpretation. This will be a case study of our future research.

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UNFINISHED PRODUCTION EVALUATION AND BOOKKEEPING IN THE ENTITIES IN THE FURNITURE INDUSTRY

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Abstract: I believe that ***stocks*** *represent one of the "key" elements of the operation process, especially in the case of the industrial entities (and implicitly those in the furniture industry) which intervene during the whole purchase – production – selling cycle. For this reason one can state that the superficial or inadequate treatment of the stock management and accounting may represent a hindrance in obtaining the industrial company performance or may be a factor calling into question the continuity of the activity.*

I have analysed, in the article, the method used for the evaluation and bookkeeping of unfinished production in the entities the furniture industry and I rendered my own view concerning this topic and I also made proposals for the contribution to the increase in accuracy of the evaluation of unfinished production.

Key words: unfinished production, stocks, the furniture industry, finished products

The furniture industry is one of the "victorious" sectors of the Romanian economy, and also one of the few manufacturing areas that have a positive contribution to the commercial balance. The dynamics of this economic sector is eloquently emphasized by the increases, from year to year, of the volume of the manufactured furniture and of its sale.

The production in course of being manufactured is that production that has not undergone all the phases or stages of processing provided in the operating process, as well as the products that have not yet undergone the tests and the technical acceptance or that have not been completed with all the necessary accessories, and constitute unfinished production.

In the studied specialized materials related to production management, some suggestions are made for the **evaluation of the production in course of being manufactured**, function of the production organization (on orders, on unique pieces or on continuous).The production in course of being manufactured can be analyzed:

a) **In point of its physical aspect**, including all raw materials and other included tangible assets active, present in the various stages of the manufacturing process, for the manufacture of the finished products from the list of goods of the company;
b) **In point of value**, including all the working costs incurred in order to obtain it up to the currently undergoing processing stage. Consequently, the costs of consumable, energy, depreciation, wages and their related contributions, etc., corresponding to the stages of the manufacturing process performed up to that particular moment are added to the value of the raw materials in course of being processed.

The assessment of the actual stocks of production in course of being manufactured, **expressed physically**, is made by stocktaking of all the orders or products being processed, by a commission especially established for this purpose.

The assessment of the value of stocks the size of which is decided on the basis of stocktaking is made on each and every order or product, by using three calculation methods:

1. based on the degree of technical finishing;
2. on units or on operations;
3. based on the average cost of a manhour.

* **The calculation method based on the degree of technical** is used in the production organized on **orders** and on **unique pieces**. It implies two working stages:

Stage 1 → the degree of technical finishing of the order or product in course of being manufactured is determined. This degree is expressed by a **technical finishing coefficient - kft**, calculated function of the tariff wage costs afferent to the order or product to which it is related. For this purpose, the tariff wage costs incurred up to the moment of the stocktaking are compared to the tariff wage costs provided for the completion of the order or product.

Stage 2 → it has as an object **the assessment of the value of the production in course of being manufactured that is in stock – Spce**. For this purpose the production cost of the order or product is multiplied by the previously calculated technical finishing coefficient.

Example: Assuming that until the end of March the tariff wage costs incurred up to the stocktaking moment amounted to 30,000 lei for the manufacturing of order 102 (400 units of "Rebecca" two-door wardrobe), while for the completion of the whole order, the wages should amount to 80,000 lei.

The technical finishing coefficient: **Kft = 30 000 / 80 000 = 0.375**

The calculation of the value of the production in course of being (Spce) is made by multiplying the production cost of the order (number of products included into the order x pre-calculated production cost for that particular product) by the previously calculated technical finishing coefficient.

In my opinion, it is recommendable that the actual production cost obtained following a calculation for the same product included into the order, in a previous accounting period should be taken into account rather than the pre-calculated production cost (especially in the case of the modification of the value of the calculation items included into the pre-calculated production cost, due to the fact that revisions and adjustments cannot keep up with the changes occurred from the moment of the pre-calculation onward).

Assuming that, for the completion of order 102 that includes 400 units of wardrobe, the production cost of all the products included into the order would have been 280 000 lei (400 units x 700 lei / unit). As a result, **Spce = 280,000 lei x Kft = 280,000 lei x 0.375 = 105,000 lei**;

This value will be attributed to the production in course of being manufactured, in the case of order 102, at the end of March.

* **The calculation method on units or operations** is used for complex products, when the production cost for each unit or technological operation of the product in course of being manufactured can be assessed (it is applied in the machine industry).

* **The calculation method based on the average cost of a manhour** is used in the case of complex products, when all the components of the product in course of being manufactured have approximately the same pattern of production costs.

I believe that the last two methods of assessing the production in course of being manufactured cannot be applied to the products obtained by the entities in the furniture industry, which is why I am not going to describe them in detail.

Following the research performed in entities in the furniture industry, concerning the evaluation of the production in course of being manufactured, I can assert that the **accounting or indirect method** is used. This method is conventional in nature, because the calculation of the costs related to the production in course of being manufactured is made on the basis of accounting data and data of operational accounting, and no stocktaking of this production is performed.

According to this method also presented in the specialized literature, the cost of the production in course of being manufactured is assessed on each calculation item, on the basis of the data in cost accounts that have collected costs on calculation items reflecting in the debts the total actual costs, and in the credits the cost of the finished production, the balance of debts representing the actual cost on the unfinished production:

The calculation formula is as follows:

The cost of the production in course of being manufactured	=	Total costs collected on cost bearers	–	(Quantity of finished products delivered at the warehouse	x	Appraisal unit cost)

The evaluation of the finished production delivered to the warehouse is made function of **the standard cost** or **the actual cost of the previous accounting period.** A disadvantage of using this method is that the differences between recording price and the actual cost calculated at the completion of the whole manufacturing order are reflected in the cost of the last batch of products delivered to the warehouse.

In what the assessment and bookkeeping of the unfinished production in the **management accounting** are concerned, I am underlining that the correct assessment of the production in course of being manufactured is attached special importance for the accurate calculation of the cost of the finished production, as well as of other company activity performance indicators, such as profit, rate of return, etc. For example, the overestimation of the production in course of being manufactured leads to the unjustified reduction of the cost of the finished production, thus artificially increasing profit and respectively the rat of return. On the other hand, the underestimation of the production in course of being manufactured has opposite effects, influencing in an unfavourable manner the activity of the company.

Due to the strong competition that manifests itself in the field of furniture manufacturing/commercialization, the managers at various hierarchic levels need information related to the predetermination of expenditures and of the cost development, to the operational monitoring of the actual amount of costs and of their pattern, of the deviations from the planned level, of the causes that have 1produced these deviations.

The method on orders, used in cost calculation, by a significant number of entities in the furniture industry, is one of the classic, traditional methods of calculation. Due to their application methodology, the traditional methods have been widely criticized, as they do not meet the requirements of modern management, thus requiring adaptation and improvement. A disadvantage of this method consists in the fact that, in the case of the entities in the furniture industry, due to the period needed for the completion of orders, (an average of two months), at the end of the accounting period there are many orders in course of being manufactured, and the assessment and evaluation of the unfinished production are labour intensive and may influence the accuracy, quality and efficiency of the calculation indicators.

If, out of an order, only a certain quantity of products has been completed and delivered to the warehouse, these finished products are usually evaluated at the actual production cost of the previous accounting period. This type of evaluation leads to the alteration of the costs related to the production in course of being manufactured and implicitly of the costs of the finished products when the order is completed, especially if the actual production costs vary from one accounting period to another.

My proposal concerning the assessment / evaluation of the unfinished production also implies an additional effort from the employees involved into cost calculation with the purpose of calculating the degree of technical finishing and of the elements included into the unfinished products. For example, in the case of an order that will include 50 units of LUFA night tables model 4520 (order xxxx), if, 45 units were completed u1ntil the end of the accounting period, I will assess the value of the unfinished and finished production as follows:

For the 45 units of finished products, the degree of inclusion of the elements constituting the production cost is 100%.

Actual cost of 45 units (for the finished production)	= (100%	x	Raw material and direct material costs	+100%	x	Direct wages and accessory costs	+100%	x	CIFU ratio	+100%	x	CGS Ratio)

where CIGU= equipment maintenance and operating costs

CGS=workshop general expenses

For the 5 units of unfinished products, I will analyze, for each of them: the value of the raw materials and direct materials provided for expenditures and included in the unfinished products, as well as the finishing percentage in point of directly productive workers' labour. I assume that:

	Raw materials and direct materials	Direct labour (Y % from the total required for completion)
For the first unfinished unit	100%	60%
For the second unfinished unit	40%	20%
For the third unfinished unit	70%	42%
For the fourth unfinished unit	100%	80%
For the fifth unfinished unit	20%	10%

If the raw materials and direct materials are taken from the warehouse for the whole order and are made available for expenditure, the percentage taken into account will be 100%.

I propose that CIFU and CGS ratios for the unfinished production should also be taken into account in the same percentage corresponding to the direct labour. Consequently:

The actual cost of the unfinished production for the 5 units = **Raw material and direct material costs** (100%+40%+70%+100%+20%)

\+

Direct wages and accessory costs (60%+20%+42%+80%+10%)

\+

CIFU ratio (60%+20%+42%+80%+10%)

\+

CGS ratio (60%+20%+42%+80%+10%)

= $\frac{330}{100}$ **Raw material and direct material costs** + $\frac{212}{100}$ **Direct wages and accessory costs** + $\frac{212}{100}$ **CIFU** + $\frac{212}{100}$ **CGS**

We assume that, for order xxxx, the amount accumulated on the debit of account **921 "Core business costs. Analytic order xxxx**" is composed of:

Raw materials and direct materials		
$\underbrace{921}_{\text{cheltuielile activitatii debaza}} \cdot \underbrace{01}_{\text{cheltuieli directe}} \cdot \underbrace{01}_{\text{componente lemn}} \cdot \underbrace{xxxx}_{\text{comanda}}$ *core business costs* · *direct costs* · *wooden components* · *order xxxx*	Core business costs. Analytic Direct raw materials (wooden components)/order xxxx	$\left.\begin{matrix} 921.01.01.xxxx \\ 921.01.02.xxxx \end{matrix}\right\} \rightarrow 40{,}000$ lei

921.01. $\underbrace{01}_{cheltuieli\ directe}$. $\underbrace{02}_{materiale\ directe}$ .xxxx *direct costs* *direct materials*	Core business costs. Analytic Direct materials/order xxxx	
Direct labour and accessories		
921.01. $\underbrace{03}_{manopera\ directa}$. $\underbrace{01}_{valoare\ manopera\ directa}$ .xxxx *direct labour* *direct labour value*	Core business costs. Analytic Direct labour /order xxxx	$\left.\begin{matrix} 921.01.03.01.xxxx \\ 921.01.03.02.xxxx \end{matrix}\right\} \rightarrow 21{,}000$ lei
921.01.03. $\underbrace{02}_{contributii\ aleunitatii\ cuprivire\ la\ manopera\ directa}$ .xxxx *Contributions paid by the company in relation to the directly productive labour*	Core business costs. Analytic Contributions paid by the company in relation to the directly productive labour /order xxxx	
CIFU Ratio		
$\underbrace{921}_{cheltuielile\ activitatii\ de\ baza} . \underbrace{02}_{CIFU} . \underbrace{xxxx}_{comanda}$ *core business costs CIFU order xxxx*	Core business costs. Analytic equipment maintenance and operation costs ratio / order xxxx	921.02.xxxx $\rightarrow$6,000 lei
CGS Ratio		
$\underbrace{921}_{cheltuielile\ activitatii\ debaza} . \underbrace{03}_{CGS} . \underbrace{xxxx}_{comanda}$ *core business costs CGS order xxxx*	Core business costs. Analytic workshop general costs / order xxxx	921.03.xxxx $\rightarrow$4,200 lei
Total production costs (finished and unfinished production) /order xxxx		= **71,200** lei

By taking into account the actual finished and unfinished production costs we will have:

$\rightarrow$**for the finished production**	: 45× raw material and direct material costs	+45× direct wages and accessory costs	+45 ×CIFU	+45 ×CGS
$\rightarrow$**for the unfinished production**	: 3.30× × raw material and direct material costs	+2.12 × direct wages and accessory costs	+2.12 CIFU	+2.12×CGS
Total finished and unfinished production costs	=48.30× × raw material and direct material costs	+47.12× direct wages and accessory costs	+47.12CIFU	+47.12×CGS
48,30× raw material and direct material costs	= 40.000 lei	$\Rightarrow$ × **raw material and direct material costs / unit**	$= \frac{40000}{48{,}30}$ lei	**=828.157 lei /unit**

47,12× direct wages and accessory costs	= 21.000 lei	⇒ **direct wages and accessory costs / unit**	$=\frac{21000}{47,12}$ lei	**=445.671 lei / unit**
47.12× CIFU	= 6,000 lei	⇒ **CIFU / unit**	$=\frac{6000}{47,12}$ lei	**=127.334 lei / unit**
47. 12 ×CGS	= 4,200 lei	⇒ **CGS / unit**	$=\frac{4200}{47,12}$ lei	**=89.134 lei / unit**

Consequently, we will have:

Total costs for the finished and the unfinished production	**Finished production costs**	**Unfinished production costs**
Raw materials and direct materials = 40,000 lei	45 x 828.157 = 37,267 lei	3.30x 828.157 = 2,733 lei
Direct labour and accessories = 21,000 lei	45 x 445.671 = 20,055 lei	2.12x 445.671 = 945 lei
CIFU = 6,000 lei	45 x 127.334 = 5,730 lei	2.12x 127.334 = 270 lei
CGS = 4,200 lei	45 x 89.134 = 4,011 lei	2.12x 89.134 = 189 lei

We will perform the bookkeeping of the unfinished production on elements of cost as follows:

933. xxxx	=	**921. xxxx**	4.137 lei
The cost of the unfinished production. Analytic order xxxx		Core business costs. Analytic order xxxx	

In the financial accounting, the bookkeeping of the unfinished production (in course of being manufactured) is performed as follows:

At the end of the month, the unfinished production is highlighted on the basis of the data in the operating accounting, at the level of the actual production costs:

331	"Products in course of being manufactured"	=	711	"Stock variation" 4.137 lei

At the beginning of the next month, the resumption of the unfinished production entries are made by the opposite accounting formula

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INVENTORY EVALUATION AT STOCKTAKING

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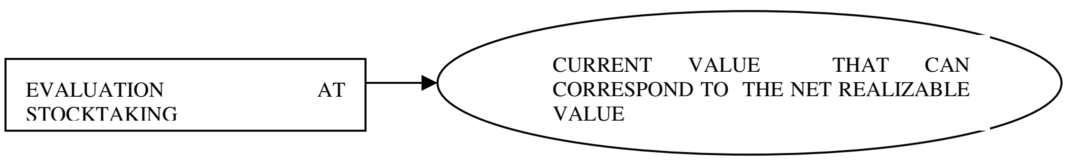
Abstract: All companies perform the inventorying of their patrimony, (including the stockable items, at the beginning of their activity, on the occasion of mergers or liquidations, whenever it is necessary during the accounting period, (due to internal need for information, replacing the gestionarului, etc.) and compulsorily at the end of the accounting period before drawing up the financial statements. I have treated, in my article, problems related to inventory evaluation at stocktaking, the method used for their inventory, the settlements of shorts and overs at stocktaking, setting the values that will be recorded following the stocktaking as well as the inventory evaluation at stocktaking according to the rules applicable in other countries.

Key words: stocks, stocktaking, settlement, current value, book value, inventory evaluation

Irrespective of the nature of their activities, all companies perform the inventory of their patrimony, (including the stockable items), usually at the end of the year, when these items are evaluated at their **current value** also known as book value that can correspond to the **net realizable value** (representing the assessed price that could be obtained during the normal activity, minus the costs estimated for the product finishing or/and the costs necessary for its sale).



However, we can ask the question: "What are the guidelines of the economists and the other specialists involved in the calculation of the value of the stocks to be inventoried?

From practical research and by studying the applicable regulations, we can assert that, besides the indications provided by the norms concerning the organization and performance of stocktaking of the asset and liability items, professionalism is needed both for the actual performance of the assessment of the real quantities in stock and also for the evaluation of their book value.

Although my intention is not to mention aspects related to the organization, I would like to specify a few recommendations that are useful to entities in their stocktaking.

For example:

The evaluation of factual stocks is made by counting, weighing, measurements or cubation, on a case-by-case basis. The goods found in their intact original packages are only unpacked at random, this method being mentioned in the related inventory lists.

For **liquids** (thinners, paint, varnishes, etc.) **the effective quantity of which can only be estimated by decantation and measurement**, the content of the recipients – calculated function of their volume, density, composition, etc. is checked by taking samples from these recipients, and taking into account the density, composition and other characteristics of the liquids that are fount either organoleptically, or by measurements or by laboratory tests, as the case may be.

If various types of **stocks**, the **weighing and measuring** of which would need **significant expenses or would lead to the degradation of the respective goods**, can be inventoried on the basis of technical calculations (for example: wood that is being pressed, veneers, etc. in an entity in the furniture industry), then the inventory method as well as the technical data on which the calculations were based are mentioned in the inventory lists.

The stocks found with the employees on the date of the inventory (that are generally inventory-item type materials: work and protection equipment, tools, instruments, etc.) are inventoried and put on separate lists, together with the persons responsible for their custody. Within the description of their formations and work places, the goods will be centralized and compared to the data in the technical and operating records, as well as to the accounting data.

All the stocks that are being inventoried are mentioned in the inventory list that must be drawn up on storage places, accounts and goods categories and the inventory committee has the obligation to inspect all the places where goods that are subject to inventory might be stored.

The goods belonging to other companies (in custody, to be sold on commission, to be processed, etc.) are inventoried and put on separate lists. The inventory lists used for these goods will also contain information related to the number and the date of the delivery and reception document and of the supply document, as well as other useful information. The inventory lists mentioning goods belonging to third parties are also sent to the Romanian or foreign private person of legal entity who owns the respective goods, on a case-by-case basis, within maximum 15 days from the completion of the stocktaking, and the owner of these goods has the obligation to notify the possible inadequacies within 5 days from the reception of the inventory lists. If no confirmation is received within **this** term, the recognition of the accuracy of the data written in the inventory lists is implied. In case of inadequacies, the respective company has the obligation to clarify the situation of the respective differences and to communicate its findings to the private person of legal entity who owns the respective goods, within 5 days from the reception of the notification.

For the depreciated, unusable or deteriorated stocks, still stocks or stocks that are hard to sell, orders that are being manufactured, abandoned or suspended, separate inventory lists are drafted.

The stocks **that are being dispatched** are inventoried by the supplying companies, while **the stocks purchased that are in course of being supplied** are inventoried by the purchasing company and are specified on separate inventory lists.

Before starting the stocktaking of the production **in course of being manufactured, and that of the** semifinished articles internally manufactured, it is necessary that:

- all the parts, assemblies and aggregates the processing of which has been completed should be delivered to warehouses on the basis of documents;
- all the residual products and waste should be collected from sections or workshops, and all the recording documents should be drawn up;
- all the recording documents should be drawn up and the situation of the semifinished products the usage of which is doubtful should be clarified.

In the case of **the production in course of being manufactured** both the products that have not yet passed through all the phases (stages) of the processing required by the production operating process as well as the products that although finished, have not passed the technical acceptance tests or have not been completed with all their parts and accessories will be inventoried.

Raw materials, materials, prefabricated parts, spare parts, semifinished products, etc., **that are found in the work places and are not being processed**, **are not** considered production in course of being manufactured. They are inventoried separately and are returned to the accounts from which they have come, while the costs are diminished, and after completing their stocktaking their accounting will be performed in the initial expense accounts.

As I have mentioned before, the inventory evaluation, on the occasion of the stocktaking, is made at the **current value** of each article, called **book value**, set function of **de the usage, condition and market price of the goods**.

When the book value of the stocks is set the **principle of prudence** will be applied, according to which all the value adjustments due to depreciation will be taken into consideration. Consequently:

- If it is found that **the book value**, set function of the goods usefulness for the company and of the market price, **is higher** than **the value with which it is recoded in the accountancy**, **the accounting values will be recorded** in the inventory lists***;***
- If the **book value** of the goods **is lower than** the accounting value, ***the book value*** *will be specified in the inventory lists****.***

Stock type assets ate evaluated at their accounting value, except for the found depreciations. If the **accounting value of the stocks is higher than their book value**, the value of the stocks **is diminished down to their net realizable value** by the **establishment of a depreciation adjustment.** The depreciation adjustment is recorded irrespective of the economic situation of the company, even if the company has book losses.

For the stocks for which depreciations were found, on the basis of the separately drafted inventory lists, **the inventory committee makes proposals** concerning **the establishment of depreciation adjustments**, while also mentioning all the causes that led to these depreciations.

For all the overs, shorts and depreciations that have been found concerning stocks, the inventory committee must receive written justifications from the persons responsible for their management. On the basis of the received justifications and of the analysed documents, the inventory committee establishes the nature of the shortages, losses, damages and depreciations that have been found, as well as the nature of the excess, proposing, in compliance with the applicable legal provisions, the method of settlement of the differences between the book data and the real ones, resulted following the stocktaking.

- If **overs** are found in the accountancy, the respective goods will be evaluated at their just **value**.
- If **shorts** are found in the accountancy **that are imputable**, the managers will take the measure of imputing them at their replacement value.

By **replacement value** one understands the acquisition cost of goods (including the stock type ones) with characteristics and wear that similar to the one that is short at the date when the damage is found, comprising the purchase price on the market to which all the non refundable taxes, including the VAT and the transport, supply and other costs necessary in order to record the respective goods in the accountancy are added. In the case of stocks that are short and that are to be imputed and **cannot** be purchased on the market, the imputing value is set by a specialist committee.

Moreover, we must take into consideration that, when the value of the debt is assessed, in the cases I which the shorts are not considered offences, the **compensation of shorts with the possible overs** will be taken into account, provided the following conditions are fulfilled:

- that there is the risk of mistaking one sort of the same goods, due to the resemblance of the physical aspect: colour, pattern, model, sizes, packages or other elements;
- the found shorts or overs should concern the same accounting period and the same account.

Compensation is not admitted if there is poof that the shorts found are due to theft or degradation of the respective goods from fault of the persons who are responsible for managing these goods.

The lists with the sorts of product, merchandise, semifinished products, raw materials, packages and other material values that meet the compensation conditions due the risk of being mistaken are approved by the administrators and are used for internal purposes within the respective entity.

Example concerning the compensation of overs with shorts (for the accounting period 01.01.2006 – 01.01.2007, at Account "PFL Warehouse", bookkeeper Ionescu Dan in an entity in the wood industry.

Overs			Shorts		
PFL 2.8 mm thick → $7m^3$ x 4 lei = 28 lei			PFL 3 mm thick → $10m^3$ x 5 lei = 50 lei		
PFL 4 mm thick → $5m^3$ x 6 lei = 30 lei			PFL 5 mm thick → $3m^3$ x 6.3 lei = 18.9 lei		
TOTAL	12 m^3	58 lei		13 m^3	68.9 lei

The case: quantity "+" < quantity "-"

value "+" < value "-"

In order to compensate the found overs, first we must make sure that this type of stock (PFL) is included into the list with the sorts of stocks that meet the compensation conditions, internally approved within the entity by the administrator. After the verification, if the other conditions related to the risk of being mistaken, to the accounting period and the actual accounting are also met, we observe the following rules:..

- initially, we **equalize the quantities, by eliminating the overs from calculation** (consequently we must have the quantity of 12 m^3, we will eliminate 1 m^3 from the quantities that are found as being "-").

The elimination of the overs from the calculation is made starting with the sorts that have the lowest unit prices, in increasing order.

Overs			Shorts	
PFL 4 mm thick → $5m^3$ x 6 lei = 30 lei			PFL 5 mm thick → $3m^3$ x 6.3 lei = 18.9 lei	
PFL 2.8 mm thick → $7m^3$ x 4 lei = 28 lei			PFL 3 mm thick → $10m^3$ x 5 lei = 50 lei	
TOTAL	12 m^3	58 lei	$13m^3$	68.,9 lei

↓

I will eliminate

1 m^3 from

the quantities "-"

Starting from the lowest

prices "5 lei"

Following the elimination we will have:

Overs		Shorts	
PFL 4 mm thick → $5m^3$ x 6 lei = 30 lei		PFL 5 mm thick → $3m^3$ x 6.3 lei = 18.9 lei	
PFL 2.8 mm thick → $7m^3$ x 4 lei = 28 lei		PFL 3 mm thick → $9m^3$ x 5 lei = 45 lei	
12 m^3	58 lei	$12m^3$	63.9 lei

Consequently, I have eliminated, from the quantities found as being "-", $1m^3$ x 5 lei = 5 lei

- we compare the total value of "+" with the total value of "-"

Overs	Shorts
58 lei	63.9 lei → value > value of the shorts of the overs 63.9 lei 58 lei

- 5.9 lei that will be a minus value of 5.9 lei
- the entity must not incur damages:
- the quantity shortage, eliminated by compensation (1 m^3 x 5 lei = 5 lei) will be imputed to the bookkeeper
- the minus value, fond following the compensation, that is 5.9 lei, will also be imputed to a person found responsible.

Consequently, the estimated minus difference found following the and the application of all the deduction quotas representing the damage incurred to the company is retrieved from the persons found responsible in compliance with the applicable law.

Note: If there were excess quantities or values at the application of the first two rules , they were recorded.

The proposals included in the record of the inventory committee are presented within 3 days from the completion of the stocktaking operations, to the administrator of the entity. The administrator, with the approval of the finance and accounting department manager and of the legal department manager, decides, within maximum 5 days upon the reception of the record, on the solution of the proposals that are made in compliance with the law. The stocktaking results must be registered in the technical and operating records within maximum 3 days from the date of the approval of the inventory record by the administrator.

A specialized paper presents **the evaluation of stocks at inventory**, according to the **American system.** For example, when stocks are inventoried, they must be evaluated at their **lowest value between the cost and the market value**, with the exception of some cases in which they can be evaluated at a higher price.

When it is obvious that a goods value that is used within the current operations of the company has become lower than their cost (the acquisition or production cost) as a result of their becoming obsolete or deteriorated, or of changes in prices or of any other cause, the difference must be registered to the losses of the respective accounting period. In these cases, the estimation to the lowest value between the cost and the market price is used.

In the expression "the lowest value between the cost and the market price" the notion "**market price"** is **the equivalent of** that of ***current replacement price***, provided the following two **conditions** are observed:

- The market value must not be higher than the net realization value (i.e. the estimated price from which the costs predicted for the completion of the product and the ones necessary for making it available to the customer are deduced);
- The market value must not be lower than the net realization value, decreased by a provision related to a normal margin.

Function of the nature and composition of stocks, the rule of the lowest value between the cost and the market price can be directly applied at the level of the item, on categories of stocks or for the entire stock.

In exceptional circumstances, the stocks pot can be **evaluated** to a **value that is higher than the acquisition or production cost**. For example, precious metals that have a fixed monetary value without a significant trade cost can be evaluated at their monetary value at the date of the inventory. Other exceptions concern the case when it is practically impossible to estimate a low approximate cost and when it is possible to immediately sell the goods to a (rated) market value and the goods are unidentifiable (fungible).

When stocks are evaluated to a higher value than the sale price, this should be mentioned in the attachment.

In **France,** at the moment of the stocktaking, **the current value** is used as evaluation basis.

The general case (with the exception of bonds) presents a current value:

Current value = Venal value

The venal value (PCG): is the price presumed to be accepted by the possible purchaser, in the condition and at the place of the goods; this value must be assessed function of the situation of the company.

The venal value, a value always difficult to assess, must take into account:

- The price "reference": the market
- The usefulness of the goods for the company, function of its future "exploitation" (the "exploitation continuity" principle is taken into account)

In practice, its assessment is difficult, but also indispensable.

On the basis of the inventory register[287] and of the trial balance drawn up on 31 December **the balance is drawn**, as part of the annual financial statements, the items of which correspond to the recorded data, harmonized with the real situation of the asset and liability items set for the inventory.

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[287] The inventory register is the compulsory accounting document where the results of the asset and liability item stocktaking are recorded, on groups set function of their nature, according to the balance items. The asset items (including **stocks**) and the liability ones recorded in the day-book are based on the inventory lists, the inventory records and the analytical statements, on a case-by-case basis, justifying the content of each balance item (**including the ones specific to stocks) .**

4. Order no. 1752 from 17 November 2005 for the approval of the Accounting Rules in compliance with the European Directives, published in Official Monitor no. 1080 A/30 November 2005, amended and completed

PARTICULAR ASPECTS REGARDING THE USE OF CONSOLIDATED STATEMENTS AGAINST THE BACKGROUND OF THE EUROPEAN ACCESSION

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Abstract: The decision of an investor to place capitals in a business is conditioned by obtaining intelligible cost-effective information. To this purpose, quoted multinational companies that make consolidated accounts had to use one only accounting referential, that are the IAS/IFRS regulations. In other words, an equivalence was established between accounting practices at an international level that create the premises for the understanding and the comparability of the financial statements of companies from various countries, the international accounting harmonization being conceived as means of economic integration and also as means of the large international financial markets transparency and efficiency. This study focuses on highlighting the particular aspects (advantages and limits) with regard to the use of the information contained in consolidated financial statements.

Key words: consolidated financial statements, use of information, group of companies etc.

General considerations

Consolidated accounts represent the informational product given to the users that are interested in business groups. By group of companies we understand a parent company and its subsidiaries. It goes without saying that the business scope of the business groups surpasses national borders. They are the consequence of the economy going global and implicitly of external development and financial markets going global. To characterize it briefly[288], the globalization of the financial markets is the consequence of the following directions and measures: the un-regulation and the liberalization of the capital circulation world-wide; the adoption by developed countries of external capital-related convergent policies; the increase of the power of institutional investors; the increase of population's savings as financial placement; the internationalization of banking activities.

With regard to the use of the consolidated financial statements, we see that if from the very beginning the consolidated accounts were made to meet own management needs or upon the request of the parent company, afterwards, as a natural consequence of the *enhanced importance of the consolidated accounts in internal and external reporting*, it became necessary to make and issue financial statements for business groups. Attention can be drawn to some shortcomings of the individual accounts of the parent company that are *advantages*[289] of the consolidated accounts in the area of the financial information, that is: the turnover recognized in the profit and loss account of the parent company shows both the external sales and the sales within the group; the profit of the parent company may be affected by the loss of a subsidiary; the financial structure of the parent company may be compromised by the high debt ratio of another company within the group; the performance of the subsidiaries are noticeable only when dividends are shared and specified in the profit and loss account of the parent company, but their results may be different etc.

Making financial statements enables the supply of full information about the entire economic status of the group, which will lay at the basis of the decision-making by the users of financial and accounting information. For instance, in the *consolidated balance sheet*, the interest titles held by branches are replaced with their debts and assets, like the parent company would be the owner. In the same manner, *the consolidated profit and loss account* presents the results of all the entities within the group, after the necessary eliminations. All these aspects show the true position of the consolidated accounts in the hierarchy of financial statements.

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[288] **Săcărin, M.,** *Business groups and landmarks of consolidated account interpretation*, Economic Publishing House, Bucharest, 2002, p.34.

[289] **Guedj, N.**, *Finance d'entreprise. Les règles du jeu*, Editions d'Organisation, Paris, 2001, pp. 242-245.

Of course, besides the advantages that the consolidated financial statements bring to their users, they also present a series of *limits*. First, the variance of the consolidation perimeter impairs the comparability of the information from one exercise to another. Then, the contribution of each entity within the group is less shown by the consolidated financial statements, as the global debt ratio may conceal significant individual debt ratios. As some authors say[290], "one of the challenges of the consolidated accounts is the fact that every user searches to find in them an image of the group , but the nature of the image is not always the same: economic for some, financial for a few, patrimonial for others and sometimes the three altogether". Consequently, a solid use of the financial statements of a group of companies should refer both to consolidated account and to the relevance of individual accounts within them.

Characteristics of particular structures of consolidated financial statements

It is known that the *goodwill* regularly appears in consolidated financial statements and accounts for the difference between the purchase price of the interest (titles purchased) and the corresponding fraction of the re-valuated net asset at the purchasing time. In time, several accounting treatments of the goodwill were approached, from its recognition as asset within incorporeal fixed assets (depreciable or not) up to the deduction from equity capital at the purchasing time (the British treatment). And the international accounting regulations retained until 2003 the idea of activating the goodwill and its systematic depreciation during its use. But, as the regulation IAS 22 "Business combinations" was revised and it was changed into IFRS 3 "Business combinations[291], the goodwill acquired further to a business combination should be recognized as asset starting with the purchase time. Moreover, the new regulation forbids the depreciation of the goodwill acquired in a business combination, but requests its annual depreciation or even more frequently, if certain circumstances show there is any depreciation. It seems just logical to give up the depreciation of the goodwill, if we consider that neither participation titles are depreciated, nor there is a direct connection between these (goodwill and interest title). Moreover, expenses might double as a series of expenses are made to maintain or increase the purchased economic advantages. Then, another explanation of the failure to depreciate the goodwill and to replace it with the depreciation test may be also the consequence of the introduction of the fair value in accounting, some authors'[292] state, and we agree to them.

Another element that occurs only in consolidated financial statements is represented by the *emphasized titles*, as structure of financial fixed assets. The last national accounting regulations regarding the consolidation are true to the European directives[293] and contain various precisions to this respect. We synthesize as follows some of the most significant aspects. The titles that are in equivalence are specified in the consolidated balance sheet when an entity included in the consolidation has a significant influence over the operational and financial policy of an associated company in which it holds an interest title. The part of profit or loss of the associated companies that is assignable to such interests is presented in the consolidated profit and loss account at the elements "Profit or loss of the financial year afferent to the associated companies". The investment in an associated company is accounted using the *method of equivalence* since the day it becomes an associated company. If in the countries of continental Europe the equivalence is considered a method of consolidation, in Anglo-Saxon countries it is seen rather as a method of valutation.

Another particular feature of the structure is that only the consolidated accounts refer to the *differences of conversion* as a result of the foreign enterprises' conversion of financial statements in the consolidation currency. IAS 21 "The fluctuating effects of the exchange rate", revised, keeps a single method of conversion, as compared to the previous standard, i.e. the closing price method which means that the assets and debts for each presented balance sheet must be conversed at the closing price of the balance sheet date, the revenues and the expenses must be conversed at the exchange rates of the transaction dates (or at a medium course) and all the resulting exchange rate differences must be acknowledged as a separate

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[290] **Raffegeau, J.,** ş.a., *Comptes consolidés, Solutions françaises et internationales*, Editions Francis Lefebvre, Paris, 1999, p. 71 (according to Săcărin, M., *Op. cit.*, p. 91).
[291] *** **IFRS 3** "*Business combinations*", par. IN7, lett. f and g.
[292] **Săcărin, M.,** *Fair value: history, adoption, valences and critiques*, in the Journal: "*Business Accountancy, Expertise and Audit*" issue 3/2007, p.16.
[293] *** OMFP nr. 1752/2005 *for the approval of accounting regulations in keeping with European directives*, M. Of., Part I, issue 1080bis of 30/11/2005.

constituent of the personal capitals (exchange rate differences). In other words, when a group includes individual entities with different functional currencies, the results and the financial position of each entity are expressed by means of a currency they have in common, so as the consolidated financial statements could be presented.

Minority interests are the amounts attributed to subsidiary companies belonging to other persons than the entities included in the consolidation. The national regulations mention that they must be presented in the consolidated balance sheet in the form of personal capitals and distinguished by the capitals of the company owning the subsidiary companies as separated by two constituents: the profit or the lost financial year corresponding to the minority interests and other personal capitals. In the literature of the field[7], there are two theories with respect to the treatment of minority interests that is the theory of economic entity and financial theory. According to the former (mentioned by national references), the minority interests are included *in the personal capitals*, the quota to the net assets of the subsidiary company being genuinely determined for both categories of owners (the owning society and the minority ones). With respect to financial theory, the minority interests are mentioned in the balance sheet at *debts*, determined either by right book values or the subsidiary company assets and liabilities, the differences of purchase being presented only for the corresponding share of the parent company, as compared to the theory of economic entities, according to which the difference of purchase is applied to the whole value.

Problems encountered in the analysis of financial position and performances at the level of business groups

The analysis of financial position and performance at the level of business groups mainly involves the same techniques as in the case of individual enterprises but particular problems with difficulties of interpretation may also arise. In this sense, we could mention the following difficulties: problems created by the evolution of the consolidation perimeter, the incapacity of the group's financial statements to give full information on the transactions between the subsidiary companies of the group and difficulties encountered in the analysis of activity department results.

If, at the level of an individual enterprise, its size and structure are known at any time, at the level of company groups, there can be changes in size from a period to another, according to the purchases and cessions of subsidiary companies that took place. Certainly, the analysis of group performances is directly linked to the *evolution of the consolidation perimeter*, as a purchase or cession of a subsidiary company brings important changes and affects both assets and financial flow. Such significant changes should be eliminated so as to ensure a proper comparison and the right interpretation of the performance registered by a group from a period to another. In most cases, modifying the integration rate of the subsidiary companies is determined by reasons of financial improvement, as an entity with favorable results that aims at global integration, while the equivalence method is chosen for a society with negative results. In order to come to apply the aforementioned methods, the group acts as directed.

The transactions between group companies have in view the fund transfer between them, sometimes, with the purpose of manipulating the results of financial improvement. We are aware that a group of enterprises is also a fiscal entity because each company of the group brings profit and pays taxes for it. In this case, there can be transfers of benefits from the entities of highly fiscal areas towards the companies of low or null fiscal countries. Besides the fiscal objectives, a group of enterprises definitely aims at improving its value. The policy for establishing the internal cession prices influences all performance indicators. For instance, in the case of a sale transaction between the parent company and a daughter one, if the cession price is lowered, the the parent company result will also be diminished, while the daughter's one will be raised. Thus, when the price of sale is raised, the situation changes the other way round, the result of the parent company being raised as opposed to minority interests. At a group level, the result will be the same after the carried out eliminations, also if the revenue tax quota is the same for both entities. If the revenue tax quota is different, for example, higher for the parent company and lower for the subsidiary one, in this case, the result will be higher for a price of sale and lower if the the price of sale is increased. Consequently, an increase of the group result is performed when the internal cession prices are lower, in the aforementioned tax conditions.

[7] **Săcărin, M.,** *Business groups and landmarks of consolidated account interpretation*, Economic Publishing House, Bucharest, 2002, p. 117.

Another aspect usually encountered at the level of business groups is *department information.* In groups with diversified activities on various geographical areas, segment reporting is necessary and unavoidable, as long as accountancy, by its products, must give new and useful information to the interested parties in their decisions. In IFRS 8 "Operational segments"[8], it is mentioned that segment information is always necessary to satisfy the needs of financial statement users. More precisely, the international norm regulates the principles of financial reporting on operational segments to help the users of financial statements understand better the entity's prior results, evaluate better the risks and benefits and give more pertinent opinions on the entity as a whole. The IFRS 8 approach is called "management approach" and it ensures the conformity of external financial reporting to the internal one which allows the external users to see the entity segments as same as the managers. With respect to segment reporting, the initial accountancy standard, before the revision, asked for the information to be reported on segments of activity departments and on geographical segments. On the contrary, the revised standard asks for the information to be reported on activity segments **or** geographical ones. Although the department information has a strong informative content for the users of financial statements, there are also cases in which the company management is reluctant to the publishing of department information because it might cause prejudice to their own interests, as the competition might use it. However, one thing is clear, i.e. publishing department information allows a better management of risks and benefits of the group activities as they can be observed for each department or geographical areas.

Another issue that is noted only at the level of groups and enterprises refers to the date of drafting the consolidated financial statement. The accountancy regulations see to the established date for the drafting of consolidated financial statements to be the same with the date for drafting the financial statement of the parent company. If the reporting dates are different (i.e. that of the parent company and of the subsidiary ones), some completions must be carried out due to the effects of transactions or significant events that have taken place between these reporting periods. It is important for the difference between the reporting date of a subsidiary company and the one of the parent society not to be longer than 3 months.

We know that the performances of the enterprise can be appreciated, firstly, from the perspective of the *result,* as main indicator of financial statements, both individual and consolidated (included in the balance sheet, the profit and loss account, the situation of personal capitals and of treasury flows, when drafted according to the indirect method). Yet, another performance indicator of the entity, even more objective than the previous one is the cash-flow determined and included in the treasury flow statements. Even if the framework of the consolidated treasury flow abides to the same drafting regulations as the one for individual enterprises, a series of peculiarities might arise, as we would like to point below. *Firstly*, the treasury flows between the parent company and the entities comprised by the consolidation must be eliminated and, according to the consolidation method applied (global integration, proportional or equivalent), they will be included in the framework of treasury flows, the cash flows of consolidated entities. *Secondly*, the cash-flows correspondent to the purchase and cession of subsidiary companies must be presented separately in the category of flows generated by investments[9]. *Thirdly*, in the framework of consolidated treasury flows, exchange rate variations may appear, as a result of financial statement conversion of foreign subsidiary companies. The latter ones, even though presented separately in the category: "Effects of currency exchange rate variation", do not appear as classified according to the three operational categories: exploitation, investment and financing, so as to quantify the influence of exchange rates to the level of each flow category.

A few aspects of gainfulness and risk at the level of society groups

Gainfulness can be viewed as a homogeneous indicator for the performance of an entity because it takes into consideration the results and capitals invested to obtain these entities. However, at the level of entity groups, a series of features may appear, firstly linked to the type of result had in view, if we take into account the fact that several results are found here: the result of the group, of the parent company, the global result (both of majorities and minorities), etc. Secondly, both gainfulness (especially the economic one) and the result per share are influenced by the purchases and cession performed by the group. In most

[8] **Feleagă, L., Feleagă, N.**, *A new dimension of the convergence process between the international accountancy references and the American one: IFRS 8 Operational segments publishing*), in the Magazine "Contabilitatea, expertiza şi auditul în afaceri" (Business Accountancy, Survey and Audit) no. 1/2007, p. 38-42.
[9] *** see the annexes to IAS 7 "*Cash flow statements*".

cases, a diminution of economic gainfulness (caused by the growth of assets) and a result reduction per share (due to the increase in the number of shares) mark the group's purchase of other enterprises.

In the following part, we will focus on highlighting some particular aspects in the analysis of *financial gainfulness* at the level of company groups. The features are a result of the fact that, as opposed to individual financial statements, the consolidated ones are defined by a lower homogeneity, generated by the existence of majority and minority share holders, on the one hand, and the heterogeneity of group companies, together with the consolidation methods used (global, proportional and equivalent integration), on the other hand.

We know that financial gainfulness means result reporting, that is net result as a general rule, to capitals invested by the share holders. In the case of company groups, the following variables can be taken into account: the global result and the personal global capitals (both of majorities and minorities), the result of parent company, its own capitals or group result (which returns to the majorities) and its own capitals. We could ask ourselves which would be the most objective choice from all possible alternatives? We believe that it is the following example: the parent society owns 80% of the actions of a subsidiary company. The former sells products to the latter at a cession price: a) lower; b) higher. After calculations and consolidation, the results, the personal capitals and the financial gainfulness are the ones presented in the table below.

Table no. 1. Establishing financial gainfulness for a company group

Indicators (Ron and %)	**a) Lower price of sale**	**b) Higher price of sale**
Global profit	555,000	555,000
Group profile	457,800	465,000
Parent society profile	69,000	105,000
Minority profile	97,200	90,000
Personal capitals – Total	3,155,000	3,155,000
Personal group capitals	2,617,800	2,625,000
Personal capitals of the parent company	2,069,000	2,105,000
Minority personal capitals	537,200	530,000
Global financial gainfulness	17.59%	17.59%
Group financial gainfulness	17.49%	17.71%
Financial gainfulness of the parent company	3.33%	4.99%
Minority financial gainfulness	18.09%	16.98%

From the data above, we notice that global financial gainfulness (both of majorities and minorities) is the same, regardless of the changing value applied to the price of sale. This is because the mutual transactions are eliminated. However, group financial gainfulness is greater, if the price is higher (17.71%, as opposed to 17.49%). Financial gainfulness of the parent company shows growth, but from the group's perspective, this is not a relevant indicator as it is incomplete. The decreasing financial gainfulness, with respect to minority interests, leads to the fact that changing cession prices damages them, as opposed to majority and minority financial gainfulness, as result of the fund transfer from the subsidiary company to the mother one. Thus, we conclude that in the case of a company group, its financial gainfulness is more relevant than its global financial gainfulness or other partial gainfulness. Moreover, it was proved each time that any fund transfer from subsidiary companies to the parent ones (which own a higher percentage) makes the majorities' result grow as opposed to the minorities' one.

The risks that an entity can be exposed to are in direct ratio with the entity, being directly related to its gainfulness and because all options regarding gainfulness determination at the level of group companies also influence the risk degree. Furthermore, in the case of a company group, the operational space is much larger than in an individual enterprise so, the risk can also be diminished. In the literature of the field[10], we can find various cases of analysis and interpretation. For instance, a group's indebted degree is established on the basis of individual capacities belonging to the group and not according to the consolidated balance sheet, if the latter is in its advantage. As a conclusion, the interpretation of the pieces of information must be performed cautiously.

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LEGAL AND ACCOUNTING ASPECTS REGARDING SUBSIDIES RECEIVED FOR HIRING STUDENTS AND GRADUATES OF EDUCATIONAL INSTITUTIONS

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Romanian legislation stimulates company management to practice a estimative management of work positions, by granting them public aid for sustaining the effort to train and adapt personnel to the complexity of work tasks. Within the present paper we have proposed to approach legal and accounting aspects regarding public aid awarded to companies for hiring students and graduates of educational institutions. For this purpose, we have analyzed legal texts which regulate the aspects of the theme of the paper and we have solved actual cases inspired by the activity of Romanian commercial companies.

Key words: employer, incentive, financial, subsidies, accounting.

Legal aspects regarding subsidies received for hiring students

According to the provisions of Law no. 72 of March 26th 2007 regarding the stimulation of integrating students in the labor market „The employer hiring students during their vacation time benefit from a monthly financial incentive equal to 50% of the national gross minimum wage guaranteed, for each student".

The financial stimulus is awarded by employer request from the unemployment insurance budget, for a period of 60 working days within a calendar year.

According to the methodological norms for the application of the provisions of Law no. 72/2007 regarding the incentive for hiring students, approved by Government Decision 726 of July 4th 2007, in order for the employer to benefit from the monthly incentive he must fulfill the following criteria:

a) To conclude for each student, throughout the holiday period: a) an individual labor contract for a predetermined period, full-time or, as the case may be, part-time; or b) a temporary labor contract only if the duration of the temporary work mission is equal to or smaller than the period of school vacation.

b) To conclude a convention with the county workforce agency, or the Bucharest workforce agency, within 30 days of the date the students on vacation were hired. The template for this convention is included in the methodological norms.

In order to benefit from the monthly amount, the employers have the obligation of forwarding the following documents to the agency:

a) The monthly statement regarding the nominal evidence of the insured persons and the payment obligations to the unemployment insurance budget corresponding to the respective month, in original and in facsimile.

b) The nominal table elaborated according to the model outlined in the Norms.

c) Working time and payroll, in facsimile.

The deadline for turning in these documents is the 25th of the month following that for which the monthly incentive is requested.

Accounting of financial incentives received for hiring students

The financial incentive is awarded to the employers, monthly, for each student, proportionate with the actual time worked by the students in question throughout their vacation period for that month, without exceeding the number of hours corresponding to the normal work program.

The amount representing the financial incentive is deducted by the employer from the contribution for unemployment insurance which he is obligated, in accordance with the law, to transfer monthly to the unemployment insurance budget account.

In case the amount due representing the financial incentive is larger, then the difference is paid through the county workforce agency, or that in Bucharest, from the unemployment insurance budget, within 5 working days of the date the documents were forwarded to the entity: 1.monthly statement regarding the nominal evidence of the ensured and of the payment obligations to the unemployment insurance budget corresponding to the respective month, in original and facsimile; 3. working time; 4. copy of the payroll.

Example: t the beginning of 2008 an economic entity has 50 employees who are entitled to monthly salaries in the total amount of 41,000 RON. In February 2008, 4 temporary labor contracts have been concluded, with 4 students, each of the students with a salary of 600 RON. Each student has a time sheet of 5 working days, with 8 hours a day; the month of February has 21 working days.

Solution:

According to the valid legislation:

a) the total salary fund is equal to 41,000 RON + 4 students x 600 RON/21 working days in the month x 5 days worked for each student = 41,571 RON ;

b) for salaries awarded to the 54 graduate employees the company does not owe a contribution to the unemployment fund, and therefore the contribution of the employer to the unemployment fund is: 1% x 41,571 RON = 416 RON

c) company benefits from subsidies in the amount of 238 RON, i.e. :

500 RON/21 working days x 5 days of work x 4 students x 50% = 238 RON

Where 500 RON represents a gross minimum base salary for the economy, during 01.01-06.30.2008.

d) the amount of 238 RON will be retrieved through deduction from the employer's contribution to the unemployment fund.

Statement: According to the dispositions of art. 17 letter a) of Law no. 387/2007 for the approval of the state social insurance budget for 2008 the contribution owed by employers to the unemployment insurance budget according to art. 26 of Law no. 76/2002, with modifications, is 1% during January-November and 0.5% starting with December

Observation: For the payment of the contribution to the unemployment fund, the employer will perform a transfer of 178 RON, i.e. the difference after the monthly incentive is deducted.

Accounting analysis

Explanation	***Debit account***	***Amount***	***Credit account***	***Amount***
Salaries owed to personnel:	***Expenses with personnel salaries***	***41.571 RON***	***Personnel-salaries owed***	***41.571 RON***
The contribution of the unit to the unemployment budget:	***Expenses regarding the contribution of the unit to the unemployment aid***	***416 RON***	***Liabilities regarding the contribution of the unit to the***	***416 RON***
The deduction of the monthly incentive :	***Liabilities regarding the contribution of the unit to the unemployment fund***	***238 RON***	***Income from operational subsidies for personnel payment***	***238 RON***

Statement: In the spirit of the disposition of art.8 of Government Decision no. 726 of July 4th 2007 for the approval of the Methodological Norms of applying the provisions of Law no. 72/2007 regarding the stimulation of hiring students “Establishing and ending the right of employers to benefit, according to the law, from monthly financial incentive contained by the law is made based on the decision issued by the executive director of the county workforce agency, or the Bucharest workforce agency.”.

Legal aspects regarding the subsidies received for hiring graduates of educational institutions

According to the provisions of art. 80 of Law 76/2002 regarding the unemployment insurance system and the stimulation of employment, employers which hire graduates of educational institutions for an undetermined period are exempted, throughout a period of 12 month, from paying the contribution owed to the unemployment insurance budget, corresponding to the hired graduates, and receive monthly, throughout this period, for each graduate:

a) 1 national gross minimum base salary, valid at the time the graduate was hired, for high school graduates or graduates of vocational schools;
b) 1.2 national gross minimum base salary, valid at the time the graduate was hired, for graduate of superior secondary educational institutions and post high school institutions;
c) 1.5 national gross minimum base salary, valid at the time the graduate was hired, for university graduates.

Provisions regarding subsidy grants are applied in case the employers hire, indefinitely, graduates of educational institutions, which, were not employed on the date of their graduation. Also, the subsidies are awarded for situations in which employers hire university graduates that did not pass third diploma examination.

In order to benefit from these subsidies, employers must sign a convention with the county workforce agency or with the Bucharest workforce agency. The convention is concluded annually for each generation of graduates.

According to legal provisions, graduates should be hired indefinitely only to cover a vacant position. Positions that have be recreated after less than 6 months since the date the work relation was terminated for personnel reduction purposes are not considered vacant positions.

The period for awarding subsidies has a duration of 12 months since the date the convention was concluded. The monthly amount is calculated proportionate with the actual time worked by graduates in the respective month. Employers benefiting from subsidies have the obligation to keep the persons for which they receive these subsidies for a period of at least 3 years since the date the labor contract was concluded.

The law states the penalty for the employer that decides to terminate the labor relation prior to the three year term. The penalty consists of the employer's obligation to return in whole to the workforce agency the amounts received for each graduate, plus the corresponding interest, calculated at the level of that awarded by the state treasury for the unemployment insurance budget.

These dispositions have the role of preventing downsizing for reasons that cannot be attributed to the employee.

It is necessary to mention that graduates may be eligible for obtaining subsidies only once for each form of education, within 12 months of the date they graduated their studies.

The accounting of subsidies received for hiring graduates of an educational institution

In order to establish the monthly amount, employers have the obligation of handing the county workforce agency or the Bucharest workforce agency, along with the monthly statement regarding payment obligations to the unemployment insurance budget, a nominal table elaborated according to the requirements stated by the Methodological Norms.

Example: At the beginning of 2008, an economic entity has 50 employees, who are entitled to monthly salaries in the total amount of 41,000 RON. In the month of February, 4 labor contracts were concluded, indefinitely, with 4 university graduates, each graduate with a salary of 1,000 RON.

Solution:

According to the valid legislation:

a) the total salary fund is equal to 41,000 RON + 4 x 1,000 RON = 45,000 RON ;

b) for the salaries given to the 4 graduates, the company does not owe a contribution to the unemployment fund, therefore the contribution of the employer to the unemployment fund is: 1% x 41,000 RON = 410 RON;

c) the company benefits from subsidies in the amount of 3,000 RON, i.e. : 500 RON x 1.5 x 4 employees = 3,000 RON

Where 500 RON represents a gross minimum base salary for the economy, during 01.01-06.30.2008.

The amount of 3, 0000 RON will be retrieved as follows:

a) 410 RON by deduction from he employer's contribution to the unemployment fund;

b) 2.590 RON from the unemployment insurance budget.

Total 3.000 RON

Accounting analysis:

Explanation	*Debit account*	*Credit account*
	Expenses with personnel salaries	***Personnel-salaries owed***
Salaries owed to personnel:	***45.000 RON***	***45.000 RON***
	Expenses regarding the contribution of the unit to the unemployment aid	***Liabilities regarding the contribution of the unit to the***
The contribution of the unit to the unemployment fund:	***410 RON***	***410 RON***
	Liabilities regarding the contribution of the unit to the unemployment fund	***Income from operational subsidies for personnel payment***
The deduction of the monthly incentive :	***410 RON***	***410 RON***
	Other amounts to be received similar to subsidies	***Income from operational subsidies for personnel payment***
Receivables for the difference to be retrieved:	***2.590 RON***	***2.590 RON***

Observation: In this case, the employer benefits from the following two facilities: 1) exemption from the contribution to the unemployment insurance, corresponding to the hired graduates; 2) the partial retrieval of the salaries granted to the graduate.

In case students and graduates are hired the economic entity receives a single financial stimulant, materialized in the partial recovery of the salaries of the hired students and graduates.

Legal provisions regarding the accounting of operational subsidies for the payment of personnel

According to no. 1752/2005 subsidies may be classified in two major categories: subsidies corresponding to assets and subsidies corresponding to income. The subsidies analyzed within the present paper are part of the second category, i.e. subsidies corresponding to operational revenue.

Within the Romanian accounting system these subsidies are the object of records in the credit side of account 7414 “Income from operational subsidies for the payment of personnel” and are reported in the ”Profit and loss account” with the minus symbol, in the Personnel Expenditure position.

In conclusion, the analyzed subsidies appear as a form of compensation for the personnel expenses paid for in a previous accounting period.

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ELIMINATION OF PARTIALLY AMORTIZED FIXED ASSETS

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The present paper analyzes the accounting and fiscal aspects of the elimination operation for tangible fixed assets that are partially amortized. For this purpose, we have started from the definition of the elimination operation and observations have been made regarding the capacity to approve the elimination of fixed assets. Two ways have been presented to solve the operation of removing fixed assets that have not been fully amortized from accounting. A fiscal analysis has been outlined regarding: the contribution to the environment fund, adjusting the value added tax and the fiscal deductibility of expenses, that can be diminished with the value that has not been amortized.

Key words: elimination, tangible fixed assets, VAT adjustment, fiscally deductible, tax, contribution.

General Notions

Elimination is a complex way of exiting consisting of operations such as demolitions, disassembly of tangible fixed assets, capitalization of assemblies, subassemblies, spare parts and resulted materials.

According to the dispositions of art. 21 of Law no. 15/1994, republished, the elimination of the activity of a fixed asset is made with the approval of the board of directors of the economic entity. Within the month following the approval of the elimination, for the fixed assets for which the entry value has not been fully recuperated, the calculation of the amortization will be ceased.

After the approval of the elimination of the fixed asset, the company is going to proceed to its capitalization. The capitalization procedure is approved by the entity that has approved its elimination.

The capitalization of the components resulting from the elimination of fixed assets may be made by one of the following methods:

a) the sale of the resulting components, in their present state;
b) using the resulted components for the creation or completion of other fixed assets;
c) the capitalization of the resulted components, by turning them into recoverable materials.

The elimination of fixed assets is made by an elimination committee appointed by decision of the administrative entity that has approved the elimination. Upon elimination, the company proceeds to the disassembly of the fixed assets and to the capitalization of the resulted components by either selling them or using them as spare parts within the company. Establishing the value of the resulted components is the responsibility of the elimination committee. ....

Upon elimination, the fiscal value that has not yet been amortized is taken into consideration; this value represents the difference between the fiscal entry value and the value of the fiscal amortization, out of which the amounts resulted from their capitalization are deducted.

Accounting aspects

The following are recorded in accounting: • the elimination of the tangible fixed assets from the accounting evidence, • the expenses corresponding to the demolition, or disassembly operations, • material values resulting from the elimination. The recording value of the fixed assets that were eliminated from accounting by elimination can be partially or fully amortized.

Example: The elimination of a partially amortized tangible fixed asset.

A company eliminates a means of transport with an entry value of 15.000 lei, normal working life of 5 years, 80% amortized. The expenditure incurred with the elimination is equal to 5.000 lei. From the disassembly, the following have resulted: spare parts amounting to 500 lei and metallic waste amounting to 900 lei. The spare parts are received in the unit's storage facility, and the metallic waste is sold to an authorized collector.

Solution:

Explanation:	6xx Expense accounts	3xx Inventories	28x Amortizations regarding fixed assets	xx Third parties
Expenditure brought on by the elimination	5.000	500	80	4.420

Materials resulted from the Disassembly	3024 Spare parts	3021 Auxiliary materials	7588 Other operational income
	500	900	1.400

Version 1

	3024 Spare parts	3021 Auxiliary materials	2133 Means of transport
Version 2	500	900	1400

Commentaries: In specialized literature a solution arose according to which the metallic waste resulting from the elimination should be reflected in the debit side of account 346, "Residual products".

In regard to this situation, we believe that using account 346 is adequate for companies who perform either of the two as a main activity: production or processing of ferrous or non-ferrous materials. As regards the recording of the materials resulted after the elimination by debiting the inventories account in correspondence with the credit side of an income account, we believe that it is more adequate to adjust directly the value of the means of transport that is not amortized, with the equivalent of the materials resulted from the elimination (formula: 3xx = 21x).

The respective alternative offers the possibility of eliminating the income account from the accounting formula for the recording of materials obtained after the disassembly and is supported for the following reasons: (1) the condition for recognizing an income are not met, because an input of materials is reflected, thus the opposite of transferring the property right; (2) the value recovered through an input of materials diminishes the expenditure with the value that has not been amortized (6583 = 21x).

Eliminating the means of transport from the accounting, by taking into account the cumulated amortization, amounting to 15.000 lei x 80% = 12.000 lei. In the first version, the remaining value is 15.000 lei – 12.000 lei = 3.000 lei.

Explanation	*6583 Expenses regarding transferred assets and other equity operations*	*2813 The amortization of installations, means of transport, livestock and plantations*	*2133 Means of transport*

The outflow of the means of transport that was incompletely	***3.000***	***12.000***	***15.000***

In the second version, the record value was reduced with 1,400 lei.

Explanation	***6583 Expenses regarding transferred assets and other equity operations***	***2813 The amortization of installations, means of transport, livestock and plantations***	***2133 Means of transport***
The outflow of the means of transport that was incompletely	***1.600***	***12.000***	***13.600***

The sale of the metallic waste, under the hypothesis that the sale price is 900 lei, the supplier and the beneficiary are legal persons that are registered for VAT purposes:

Explanation	***461 Various debtors***	***7588 Other operational income***
Sale invoice	***900***	***900***

Observation 1: According to the dispositions of the Fiscal Code, art. 160, the delivery of metallic waste is part of the program to simplify procedures regarding VAT. Starting with December 1st 2007, for the invoices issued for deliveries for which simplification measures regarding VAT are applied, suppliers are obligated to add the notification "reverse taxation", without writing the corresponding tax.

Observation 2: In the sale invoice of the metallic waste the contribution to the environment fund is written, calculated by applying the 3% percentage to the income generated by the sale of ferrous and non-ferrous metallic residue. This contribution is calculated, withheld and declared by collector agents, authorized under the conditions specified by OUG no. 16 of January 26th 2001, republished, regarding recyclable industrial waste management (M.O. no. 104 din February 7th 2002).

Explanation	***6021 Expenses with auxiliary materials***	***3021 Auxiliary materials***
The auxiliary materials sold are eliminated from	***900***	***900***

For the analyzed case, the contribution is 900 lei x 3% = 27 lei, and it is withheld and transferred to the collector agent.

Explanation	***5311 Cash***	***635 Expenses with other taxes, fees and assimilated transfers***	***461 Various debtors***
Receipt of cash payment for the value of the metallic waste sold minus the 3%	***873***	***27***	***900***

Tax adjustment

The provisions of art. 149 (4) letter d) of the Fiscal Code impose the adjustment of the tax which was initially deducted in the situation where the capital asset ceases to exist, with the exception of the cases in which it is proved that the respective capital asset was the object of a delivery or of a delivery to self for which the tax is deductible.

The adjustment is performed only once for the entire period of adjustment remaining, including the year in which the obligation for adjustment occurs, and amounts to 1/5 or, as the case may be, 1/20 a year, of the value of the tax initially deducted.

Example 1: A taxable person buys a fixed asset whose normal working life is 7 years, on November 30th 2007, costing 100,000 lei + VAT (19% = 19.000) and deducts 19.000 lei. On December 2nd 2009, the fixed asset is eliminated.

12. 2007	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***11 2014***
					1/5	***1/5***	

Fig. 1 Adjustment period remaining 5 years – 3 years including the year of elimination

In this case, there is an adjustment in favor of the state, of two fifths of 19.000 lei, i.e. 7.600 lei.

In the month that the adjustment is made, the following recording is also made:

Explanation	***635 Expenses with other taxes, fees and assimilated transfers***		***4427 Collected VAT***	
VAT in favor of the state	***7.600***			***7.600***

The amount of 7.600 lei is reported in the VAT statement, line 24: "Adjustments for equity goods"

Observation: The adjustment of the tax is not performed in case of equity goods that have been destroyed by natural calamities or in case of force majeure. Also, the adjustment is not performed in case it is proven that the respective equity good has been the object of a delivery or a delivery to self for which the tax is deductible.

According to the Methodological Norms for the application of art.149 of the Fiscal Code "the adjustment of the deductible tax corresponding to equity goods is not performed, in case the amount resulting subsequent to the adjustment is smaller than 1,000 lei".

Profit Tax

According to the Methodological Norms for the application of the Fiscal Code, the expenses recorded as a result of eliminating a fixed asset with a fully amortized entry value are expenses that are performed with the purpose of generating taxable income. We believe that these dispositions refer to expenses generated by the disassembly of fixed assets.

Considering the provisions of art. 21 of the Fiscal Code, according to which: "In order to determine the taxable profit, only expenses made for the purpose of generating taxable income, including those regulated by valid legislation are considered deductible.", we believe that, in case of fixed assets that have not been fully amortized, the difference between the value remained and the value of the materials resulting from the disassembly is a non-deductible expense upon the calculation of the taxable profit.

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS AND PUBLIC ACCOUNTING REFORM IN EUROPE

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Abstract: Different political, economic and cultural traditions give rise to great diversity between public sector accounting systems in different countries. The paper presents a literature review of the accounting principles and financial reporting in Europe, the financial statements and the relationship between financial and budgetary accounting.

The IPSAS perhaps provide an opportunity for European accounting, and in future, national governments should attempt their accounting systems to the IPSAS.

The paper contributes to the development of some points of view regarding the adoption of the IPSAS by the European countries accounting systems and the harmonization of the European public accounting systems.

Key words: International Public Sector Accounting Standards, European Union institutions, public accounting.

1. Introduction

During the last decade the public sector has been affected by the introduction of significant reforms in the public accounting system in the international context. The aim of the public sector reforms is to overcome bureaucratic obstacles so that managers can use their limited resources more efficiently (Pina, Torres, 2003). Acounting played a crucial role in the public management development once the autonomy in public service organizations increased (Lapsley, 1999).

Under the new public sector reform, different public institutions have transformed their financial statements to incorporate accrual accounting principles. In several countries there is considerable debate regarding the scope and format of accrual accounting systems (Heald & Dowdall, 1999, Hodges & Mellet, 1999).

2. An international comparative view of public sector accounting

The use of the cash or accrual basis of budgeting and accounting was seen as a great divide between the public and private sector with the public sector practicing cash accounting and budgeting, and the private sector using accrual methods. The better the financial information, the increase in the cost transparency and the valuation of public sector assets (Graham A., 2005) have persuaded many countries to adopt the accountancy system to their own needs. During the reform process they have put into practice numerous intermediate variants between the extremes of cash and accrual budgeting and accounting. The reasons for the different national systems may be due to the culture, the historical background or the structural elements of these countries. Also the specific objectives and the principal users of the financial reporting, the financial resource suppliers and the influence of public accounting regulatory bodies imply different national accounting systems.

In the Western democracies there are two main broad styles of public management: Anglo-American and European Continental types. Anglo-American countries (Australia, Canada, New Zeeland, United Kingdom and the United States) have undertaken territorial decentralization and have adapted the private sector experience to the public sector. They are more likely to introduce market mechanisms and notions of competitiveness and envisage the citizen primarily as a consumer of services or as a client (Pina, Torres, 2003). The European Continental countries (Belgium, France, Germany, Greece, Portugal, Romania and Spain) are influenced by structures inherited from a bureaucratic and hierarchical public administration, grounded in administrative law (Pina, Torres, 2003).

With regard to the connection between accounting and budgeting in the international context three alternative models (Brusca, Condor, 2002) stand out:

1. The accounting system is limited to the registration of budgetary operations

In this case the financial accounting is limited to the budgetary information and only the transactions that affect the budget are registered. This is the general case in Germany.

2. The budgetary system and the accounting system are connected

The connection between accounting and budgetary information is established in such a way that the accounting system allows the monitoring of the budget. In this group are generally the Continental European countries (Italy, Portugal, France, Romania and Spain) where the influence of budgeting concepts and law of the accounting and reporting system is very important. Therefore, given that the resources are allocated through the budgetary process, the budget is converted to the primary instrument for accountability.

3. The budgetary and the financial accounting systems are two independent systems

In this alternative there is no connection between the budgetary and the accounting information, so that on the one hand accounting statements are produced and contained in the Financial Report, and on the other hand budgetary statements are produced to fulfill legal requirements. The public institutions produce the financial information presenting the same statements as the business entities, without taking into account budgetary obligations. This is the case in the Anglo-Saxon countries: Australia, Canada, New Zeeland, United Kingdom.

Table 1 shows the status of accrual accounting and budgeting in some countries, revealing that most countries have introduced aspects of accrual accounting and more are intent to do so in the future.

Although there is a wide acceptance of the application of the accrual systems for the production of accounting statements, there is no consensus with regard to the production of the budgetary statements. The tendency of most countries is to produce budgets according to the accrual criterion, producing a forecast statement of revenues and expenses, cash flows and the financial situation. European Union member countries are required to prepare government forecast and financial statements in accordance with the European System of Accounts (ESA 95) (Athukorala, Reid, 2003). It appears that all the European countries have adapted or are intending to adapt ESA 95. In the European Union the free circulation of information is essential. An important item is the converging and the harmonization between the public accounting system in different countries.

COUNTRY	**ACCRUAL BUDGETING**	**ACCRUAL ACCOUNTING**	**CONSOLIDATED ACCRUAL REPORTING**
DENMARK	ESA 95. Is introducing full accrual budgeting	Some	Some
FRANCE	ESA 95. Intends to move to modified accrual basis	Being introduced accrual accounting	Full accrual being introduced
GERMANY	ESA 95. In preparation	Cash statements supplemented with accrual information	No
GREECE	ESA 95. Modified accrual	Some	Consolidated accrual reporting
HUNGARY	No, but will be introducing modified	Cash statements supplemented with	No

	accrual budgeting in accordance with ESA 95	accrual information	
ITALY	ESA 95. Accrual budgeting	Accrual basis	Accrual basis
PORTUGAL	ESA 95. Is introducing additional accrual information	Yes	No
ROMANIA	In preparation ESA 95.	Being introduced accrual accounting	No
SPAIN	ESA95. Modified cash	Modified accrual	Modified accrual
SWEDEN	ESA 95. Is introducing full accrual budgeting	Accrual accounting since 1994	Consolidated accrual reporting since 1994
UNITED KINGDOM	ESA 95. Accrual budgeting since fiscal year 2002	Accrual accounting since fiscal year 2000	From fiscal year 2006

Table- 1: The Basis of Budgeting and Accounting Systems in the Public Sector in different countries (2003)

Note: ESA 95 = European System of Accounts 1995;

Source: Athukorala S.L. and. Reid B (2003), Accrual Budgeting and Accounting in Government and its Relevance for Developing Member Countries, Asian Development Bank, Regional and Sustainable Development Department, pp. 22-24

The need for public accounting system harmonization in European Union countries is justified by the existence of a European common market, because of which it would be desirable to elaborate complete financial statements for the European Union which allow us to give a complete image of the financial situation of the whole, with the object of easing the decision-making processes at the European level. In particular, the reasons and benefits for demanding trans-national harmonization of governmental and financial reporting in the European Union are the following:

- The need to establish comparisons between different countries, so that the accounting systems are more comparable.
- The need for consolidating financial statements of the member countries to get an overall picture of the financial situation of the Community.
- The need for an equal treatment of European Union grants and European Union dues in the national accounting systems, so that for example, the use of funds awarded by the European Union is more transparent and national governments can better be held accountable for proper and efficient spending.
- The need of the citizens, as well as possible investors, to compare the situation of different member countries, who would need comparable information on the financial position and changes in the financial position of the member countries. The citizens should also be able to compare the performance of different countries.
- European Union Institutions could adopt the generally accepted accounting principles in the European Union and their financial statements could be understood by all European citizens. Thus, we would have comparable accounting systems between different countries and between them and the European Institutions.
- The harmonization of public accounting could contribute to guarantee the proper functioning of the common market.
- The harmonization of public accounting systems would bring about the comparability of the values that are used in analyzing whether different countries comply with the parameters established in the Treaty of Maastricht, which is, without doubt, an important question.

- The European professionals of public accounting and auditing would have a common benchmark of reference.

To the above reasons we could add accounting harmonization at international level referring to the Macroeconomic Accounting. In spite of the European System of Integrated Economic Accounts (ESA), which makes National Accounting comparable and useful for economic comparisons between countries, it can be said that this information is insufficient in a world of continuous and growing international political, economic and financial interdependencies. In the framework of public accounting transformations and the implementation of accrual accounting in the public sector, The International Federation of Accountants (IFAC) submitted the "Guideline for Governmental Financial Reporting" in 1998 to assist governments at all levels in the preparation of their financial reports on the accrual basis. This IFAC Guideline, together with the International Accounting Standards (IAS) submitted for the private sector, provide the basis for the International Public Sector Accounting Standards (IPSAS) developed by the Public Sector Committee (PSC) of IFAC.

The application of international accounting standards to the public sector could obviously contribute significantly to the provision of comparable, relevant and understandable financial information by European governments. There are a lot of reasons for the updating the accounting systems at central, regional and local government level. In the case of Anglo-Saxon countries, preconditions for adopting IPSASs are doubtless more positive, especially because of the world-wide influence of other countries with this cultural background which is working hard to promote the development of IFAC international standards.

The use of alternative criteria in public accounting systems leads to different results concerning the financial statements, the income and expenditure statements and the balance sheet. In spite of these, public accounting harmonization is taking its first steps through the efforts of INTOSAI (International Organization of Supreme Audit Institutions) and IFAC (International Federation of Accountants) at global level. The standards of INTOSAI have mainly focused on the elaboration of a conceptual framework for public accounting information. The IFAC standards entered into more detailed recommendations on accounting practices adapting the International Accounting Standards for public entities under the influence of the Anglo-Saxon Model and passing over the importance of the budget from the Continental European Model or of the features of public sector accounting (Brusca, Condor, 2002).

Although some international organizations (OCDE and European Union Institutions) have adapted the International Public Sector Accounting Standards (IPSAS), different countries, especially from the Continental European area, are not very interested in adopting them because of the difference to the continental accounting tradition.

3. Conclusions

In this paper we have tried to offer a complete view of the situation of public accounting information in the international context, showing that in recent years most of the countries studied have introduced important reforms in their public accounting systems. The most characteristic aspects of these reform processes are the implementation of accrual accounting, the approximation to business accounting and a general concern to introduce techniques that allow the improvement of public administration management.

Although the reforms have taken some similar directions and in this sense the degree of convergence is perhaps higher than ten years ago, the truth is that public accounting systems show very little homogeneity, accounting diversity being one of their characteristics.

The main differences appear between the accounting systems of the Anglo-Saxon area and Continental European countries, because the accounting traditions vary considerably between them. In the Continental European area more importance is given to the budget and legal control, and the information is mainly directed towards the legislative and executive power. On the other hand, in the Anglo-Saxon area more importance is given to the electorate and general public and operational accountability is preferred to legal accountability.

In any case, neither can it be said that within these groups there is homogeneity, because similar criteria are not adopted and furthermore the state of the reforms varies from one country to another.

Although it may appear that diversity in public accounting systems has no negative effects, it leads to a lack of comparability of information and the consequent difficulties of interpretation for the user who is not aware of the accounting standards. Nevertheless, it is true that the effects of diversity, at least for the moment, do not have the same transcendence as in the business sector.

Among the reasons and benefits that can be put forward in favour of international accounting harmonisation in the public sector, we can highlight the following: externalisation of financial activity of public administrations, aiding the elaboration and comparability of macroeconomic accounting and easing the generalised modernisation of accounting systems in less developed countries. To these reasons, we should add, in the case of the countries of the European Union, the existence of a common European market, because of which the member countries and multinational organisations need comparable and true information about the financial situation of the countries in the Union, which will ease the analysis of the Maastricht Treaty requirements.

We must also be aware of the existence of diverse obstacles and difficulties which indicate the hard and costly road it is still necessary to walk, such as the importance of the legal framework, cultural and language differences and, above all, the attitude of public administrations themselves, inasmuch as they do not see the benefits of the comparability of the information at supranational level.

In spite of the difficulties, public accounting harmonisation is taking its first steps and some international bodies have begun a process that illustrates this, and which has the objective of lessening the differences between different countries. At global level we can highlight especially the harmonisation efforts carried out by INTOSAI and IFAC.

We can ask ourselves to what extent IPSAS can really be a useful tool in the harmonisation of public sector accounting, bearing in mind that different countries are not very interested in adopting them. This is especially true in the Continental European area, because IPSAS have a different philosophy to the continental accounting tradition.

At the moment, there is an open debate about the necessity of these standards and what success they will have. It is too early to know what will happen in the future, and it will also depend on the final situation in the business sector. Even so, it is true that these standards are serving as a stimulus for accounting reform in some international organisations, such as OCDE or European Union Institutions.

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PARTICULARITIES OF ACCOUNTING REGULATORY PROCESS IN SEVERAL EASTERN EUROPEAN AND FORMER SOVIET UNION COUNTRIES

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Abstract: After the break up of the Soviet Union in 1992, Russia and other former soviet members were forced into changing their planned economic system into a viable market economy. In such a market economy the means of production are mainly privately owned, the state creates the general legal framework in which economic activities take place, and these activities are supposed to respond to market forces. The respective transition obviously has important consequences on accounting - which used to be State's instrument of economic administration and it nowadays became an instrument at the disposal of the business community.

Our study is a descriptive and explorative research about the accounting regulatory process in the sample countries. The main goal of our analysis is to find out which are the significant changes in accounting regulations and identify the particularities of the regulatory process.

Key words: accounting, EE countries, IAS/IFRS, DAS

Introduction

Over the last years, considering the multilateral and rapid development of international economic cooperation, free capital flows and multinationals' activities – all of these actively sustaining the growing role of international accounting harmonization and international accounting standards in the national accounting systems - a special attention was given to research on accounting regulatory process. Keeping in mind above all that this issue has not been investigated sufficiently in the specialized scientific literature; we have selected carefully the topic of the present research. Several times researchers had been encouraged by the interest of financial statements' users and preparers in analyzing only the standards with less consideration to the dynamics of the process itself - which implies new standards' elaboration and existing standards' improvement. Such approach is incoherent and it oversimplifies the accounting regulatory process. It is impossible to judge upon the necessity or relevance of standard setting, if there is no understanding of the historical accounting traditions/conditions of a particular state, cultural determinants, business environment and other factors influencing regulatory process.

We consider that only by identifying the reasons that lie behind standards' elaboration and improvement, the particularities of this process and the evolution over the years, it is possible to draw conclusions on a consistent pattern of accounting regulatory development and point out its future trends.

Our paper is structured as follows. The next section consists in a review of the main literature works conducted in the last decade, highlighting the relevant issues of accounting regulation changes in several Eastern European and former Soviet Union countries (referred to as sample countries from now on). Within this section, based on the literature analysis, it is also discussed briefly how the organizational change theory and the phased approach can be used to analyze the accounting changes within a specific country. In the third section, the authors state the research topic and describe the research methodology concerning the present paper. The subsequent two sections refer to the accounting regulatory process in the sample countries, by presenting firstly the theoretical aspects of the regulatory process as well as the factors influencing the respective process; secondly, the development and implementation of Domestic Accounting Standards (DAS) in accordance with IAS/IFRS. The last section includes concluding remarks on the study.

Literature review

The study of the accounting regulations in Eastern Europe, and especially in the former Soviet Union, is a rather new research area, which has evolved during the last decade after the fall of communism. Earlier research done by Seal (1995: 659) viewed the post-communist countries „as a bloc" with common problems and challenges. However, as expressed by Roberts (2002: 9), there are not two countries with identical accounting systems. In a similar manner, Bailey (1998: 1462) estimates the Central and Eastern European countries as heterogeneous ones, finding themselves at different stages of conversion from the commanded economy. During the last decade, a number of papers have been dedicated to the practice and development of accounting in the Eastern and Central European countries. Several publications (Kosmala-MacLullich, 2003; Strouhal, 2007; Jindrikovska, 2007; King, 2001) address the subject of financial accounting and auditing in Poland, Czech Republic, Hungary, Romania, Slovenia and other CEE countries but fewer publications refer to countries like Ukraine, Moldova or Russia, (Enthoven, 1998; Bailey, 1982; Richard, 1998). Preobragenskaya and McGee (2003) did research on the relationship between IAS and foreign direct investments (FDI) in Russia and on the state of auditing.

In general, these publications can be broadly divided into three groups. The first set of papers describes the development of a particular country's accounting system in general terms. In majority, these investigations indicate state-of-the-art-type studies, are mostly descriptive in character and not use any strong theoretical framework (Bailey, 1995; Alver, 1998). The second set is dedicated to particular issues that are analyzed based on a certain theoretical framework, in the context of an individual country. For example, the true and fair view concept (Sucher, 1996; Kosmala-MacLullich, 2003), organizational aspects of the accounting reform (Seal, 1995), the relationship between accounting and taxation (Jaruga, 1996; Holeckova, 1996). In the third group, the works have a comprehensive and comparative character, analyzing various aspects of accounting development in several transitional countries (Bailey, 1995, 1998; Parker and Nobes, 2002). These sets of investigations on different countries of Eastern Europe provide a framework for analysis and exemplify some of the issues encountered when accounting practices are developed which may be relevant for evaluating the sample countries experience in our study.

Previous research analyzed the accounting system's changes in different EE countries using the theories of organization and organizational change as theoretical framework for their investigation (Laughlin and Gray, 1988; Laughlin, 1991; Seal, 1995), while others concerning the transitional countries suggested application of a phased approach to the accounting reform (Bailey, 1998; Seal, 1995; King, 2001; Haldma, 2003).

Our methodological approach

When doing research there are two ways of gathering and processing data: quantitative and qualitative research. Quantitative research is commonly used for statistical purposes where there are many measurable data presented. The nature of the data is easily validated and can be presented numerically (Lundahl & Skarvad, 1992). Qualitative research could be described as research for "soft" data, which means that data is not easily presented in diagrams and figures and answers the questions "how?" and "why?" rather than "how many?" (Merriam, 1992).

Andersen (1998:18) describes several different goals of a research with a deeper involvement for each step: descriptive, explorative/problem-identifying, explanatory/understanding, diagnostic, problem-solving/normative and intervention-oriented.

Our research subject is the accounting regulatory process and how it is reflected in theory and practice. As pointed out in the introductory section, the aim of this paper is to describe the accounting regulatory process and its particularities as a consequence of IAS/IFRS implementation in the sample countries. This study will qualify as *descriptive research* since the main goal is to describe an issue rather than to interpret it. Furthermore, it is also *explorative or problem-identifying* research and because of its relative novelty may represent a good basis for further studies in the same area of research.

Since we depict the accounting regulations in the sample countries we believe that our study belongs, as we pointed out above, to the descriptive research field that has the purpose "*to document the phenomenon of interest*" (Remnyi et. al., 1998). Miles and Huberman (2000:10) describe a qualitative analysis as three flows of activity, namely:

- data reduction,

- data display and
- conclusion drawing/verification.

In our study we rely on secondary and not on primary data. This is in accordance to Arbnor and Bjerke (1997) who argue that in descriptive studies it is useful only to use existing secondary data. When writing about secondary data we refer to Howard and Sharp (1983), who define secondary data as information that were already collected by others and published in some form. In our case, we used books, previous research reports, articles and homepages as main secondary resources.

Theoretical aspects of accounting regulatory process

As the comparative analysis of literary sources shows, there is no consensus among the researchers on the types of accounting regulatory processes. Most of the scientists underline the concepts of accounting standardization and harmonization, but forego to define these concepts, confining themselves only to establish the differences among them. For example, Radebaugh and Gray point out that harmonization has more flexible approach than standardization, which aims unification. On his turn, Nobes defines harmonization as the creation of coherent, still not obligatory, standardized accounting practices. According to him, this is the way to achieve the general information's commensuration. Russian scientist Stukov connects the concept "harmonization" directly to the modalities of potential development of European continental accounting, which historically bases itself on German accounting tradition; but refers "standardization" to the process of IAS/IFRS elaboration and application, which still is greatly influenced by the Anglo-Saxon accounting practices. Arpan defines harmonization in a very picturesque way: "feasible, yet slow and wandering process".

Accounting regulatory process is not just a mechanical process, which is expressed as a compilation of existing accounting methods. This is creative work, being under influence of a multitude of factors. None of the accounting theoreticians denies this thesis; still complete consensus has not been reached yet about the factors range. Without any doubt, accounting regulation is an integral part of national accounting system. However, in the same time, there are factors, which define accounting regulation do not touch other aspects of accounting system.

After, studying ample literary sources, the authors concluded that the most important factors influencing accounting regulatory process are as follows:

- legislative and taxation system;
- business financing sources and international corporate activities;
- professional accounting organizations;
- accounting doctrine;
- economical and cultural factors;
- involvement of the national, regional and international institutions;
- inflation.

Accounting regulations in the sample countries

The accounting regulations enforced by the transition countries during 1991-1996 contributed their integration into the international accounting environment. Therefore, among other improvements that took place in accounting, during the transition period, the main priority was represented by the financial accounting. This approach was justified, as it was foremost necessary to guarantee that all national companies are able to prepare their financial statements in compliance with national accounting regulations and the generally accepted accounting principles. However, it is evident, that both accounting as a whole and financial as well as management accounting in EE transition economies underwent revolutionary changes in the first half of the 1990s. The main problem was how to build a forward-looking and flexible accounting regulatory system, which would enable to surpass the transition-related difficulties and to integrate into the European accounting framework.

Table 1. Sample of countries

Russia	Ukraine	Moldova	Georgia	Kazakhstan

The traditional system (see Table 2) based on accounting laws would have been too inflexible to reflect the rapid changes in transition circumstances. Nevertheless, Van Hulle (1993: 390) expressed the idea that the use of the law as a means of standard setting can also be seen as an interesting mechanism against too frequent and sometimes unnecessary changes. But this was not the case of our sample countries, because of the lack of a stable and effective accounting regulatory system.

On the other hand, breaking free from a central planned accounting regime had caused a spread of accounting disharmony among the former socialist countries. Our sample countries based their legislations on Codified Roman Law principles. Therefore, one of the first priorities was to set up an accounting regulatory system based on accounting laws. The enforcement related data of the new accounting legislations in the sample countries are listed in Table 2.

Table 2. Accounting regulations in the sample countries

Country	Enforcement year	Accounting regulation
Russia	1996	Law on Accounting
Ukraine	1993	Law of Ukraine on Accounting and Reporting (Accounting Law) Law of Ukraine on Auditing Activity (Auditing Law)
Moldova	1995	Accounting Law Auditing Law
Georgia	1999 Supplemented in 2005	Law on the Regulation of Accounting and Financial Reporting (Accounting Law) Draft Law on accounting and Audit
Kazakstan	1995 recently amended – February 2007	Law on Accounting and Financial Reporting (Accounting Law) Law on Audit Activity

(Source: www.iasb.org.uk; European Accounting Guide, 1995)

Professional accounting bodies

As previous research reveals: in all CEE countries there are professional accounting organizations reestablished after the collapse of the communist regime and which are more or less involved in the accounting regulatory process (Bogdan, Cristea, 2008). This is also the case of all the sample countries. We have to underline that these countries also have an institution functioning as regulatory body (Ministry of Finance / Ministry of Justice) and an Accounting Council or Board.

Table 3. Regulatory and professional accounting bodies in the sample countries

Country	Law on companies	Regulatory body	Professional accounting and auditing bodies
Russia	Companies Act (1995)	Ministry of Finance	Audit Chamber of Russia Institute of Professional Auditors (IPAR) Moscow Chamber of Auditors National Federation of Consultants and Auditors (NFKA) Russian Collegium of Auditors Association of Accountants & Auditors of the Commonwealth

Ukraine	Law of Ukraine on Companies (1991)	Ministry of Finance Accounting Methodology Board	Chamber of Auditors Union of Auditors Ukrainian Federation of Professional Accountants and Auditors (UFPAA)
Moldova	Joint-Stock Company Law -1996	Ministry of Finance Division of Accounting Methodology and Audit	The Association of Professional Accountants and Auditors (ACAP) Association of Auditing Firms of Moldova (AFAM)
Georgia	Law on Entrepreneurs	Ministry of Justice Accounting Commission and Audit Council	Georgian Federation of Professional Accountants and Auditors (GFPAA)
Kazakhstan	Law on Joint-Stock Companies	Ministry of Finance	Chamber of Auditors of the Republic of Kazakhstan (COA) Chamber of Professional Accountants and Auditors (CPAA) Collegium of Auditors Union of Accountants and Auditors of Kazakhstan

Developement of DASs in the sample countries

The purpose of the current paragraph is to present the status of DASs development in the sample countries, underline the role of MoF and/or of the national standard setter and to refer shortly to the main particularities of the national accounting environment.

Thus, **Moldavian Accounting and Auditing Standards (NAS and NSA)** are issued by a Division of the Ministry of Finance mostly through translation of IAS/IFRS and ISA. Article 9 of the Law on Accounting states that „the Ministry of Finance shall develop the methodology of accounting, unified chart of accounts, samples of accounting registers, forms of financial reports, methodological instructions for their completion, as well as accounting standards, compulsory for entities, required to keep accounting books." The preparation of the standards is carried out by the Division of Accounting Methodology and Audit, which consists of twelve permanent working staff of the MoF with Civil servant status. The Division of Accounting Methodology and Audit issued the existing NAS and NSA respectively between 1996 and 1998 and in 1999-2000 for the most part, with the support of international donors, mainly USAID. According Article 13 of the Accounting Law, a so-called Methodological Consultative Council under the MoF is in charge of „reviewing and development of proposals on disputable issues regarding accounting and financial reporting."

Modova's NAS have been initially developed on the basis of IAS, but they have not been extended or updated for a number of years. None of the changes made to previously adopted IAS are reflected, and later IFRS have no equivalent in Moldova. The MoF has issued „Comments on the application of NAS" for a number of standards in order to provide guidance on how standards should be used in specific circumstances considering theoretical examples. In the absence of a NAS on important matters that can involve material amounts - and because the level of disclosure under NAS is less demanding than under IAS/IFRS - the financial information prepared under the NAS is incomplete, if not inaccurate in certain cases.

An important aspect is that the *MoF has developed a specific accounting standard for small and medium enterprises,* which is useful for bookkeeping but needs some simplification and does not provide SMEs with a clear financial reporting framework. NAS 4 *Accounting by Small Business Entities* was developed pursuant to Article 14 of the Accounting Law in order to provide a set of „principles of accounting, preparation of accounting registers and financial statements" adapted to SMEs' less complex transactions and resources. It includes an indicative chart of accounts that limits the types of entries to a few basic categories of assets, liabilities, equity, revenues and expenses, as well as certain off-balance sheet items. Financial statements prepared in accordance with NAS 4 are defined as follows: „balance sheet, income statement, annex to the financial statements and explanatory notes" (NAS 4, paragraph 42). However, no definition is given of the content of those notes, or which of the disclosures required by NAS 5 *Presentation of Financial Statements*, can be omitted or adapted. Moreover, NAS 4 does not set out any principles for the recognition of transactions and for assets and liabilities' measurement.

As we pointed out previously in our study, accounting in **Kazakhstan** is generally governed by the provisions of the Law on Accounting and Financial Reporting. This Law was amended quite recently on February 28, 2007. Under the new Law, individual entrepreneurs using a special taxation regime in accordance with taxation legislation do not have to keep books and compile financial reports. The other categories of SMEs are required to report using **KAS**, developed on the basis of IAS/IFRS. A more simplified KAS will be developed for subjects of small entrepreneurship such as those who prepare simplified taxation declarations. The new Law does not restrict SMEs from choosing to apply IFRS. The recently amended Accounting Law requires that all public interest entities and large businesses prepare their financial statements in accordance with IFRS. Thus a certain part of the accounting and financial reporting standards applicable in Kazakhstan are set by the IASB. *The Ministry of Finance is responsible for the development and approval of the national accounting and financial reporting standard - KAS*.

The ROSC team conducted a compliance gap analysis, which shows that while there is a generalized belief that IAS/IFRS and KAS (for large enterprises and financial sector) are broadly aligned, the gap is quite significant. There are significant differences between the accounting policies used and disclosures made under KAS and those which would be required under IFRS. This suggests that the differences between KAS and IAS/IFRS are bigger than claimed. The following examples highlight the most significant differences between KAS and IAS/IFRS and their likely impact on the financial statements of *public interest entities*:

- The carrying value of property, plant and equipment (PPE) under KAS differs significantly from that under IAS/IFRS. There is no requirement in KAS similar to IAS 29 Financial Reporting in Hyperinflationary Economies, to apply adjustments to non-monetary assets and liabilities. Companies revalued PPE using „capital assets coefficient cost increases determined by the State Committee of Kazakhstan on Statistics and Analysis".
- Impairment of assets (PPE) may not be recognized. There is no equivalent to IAS 36 Impairment of Assets, in KAS, which may lead to the overstatement of PPE.
- Recognition and measurement of financial instruments. There is no equivalent of IAS 39 Financial instruments: Recognition and Measurement, and also there is no concept of financial instrument or fair value measurement in KAS. The measurement principle under KAS 8 Accounting for Financial Investments may significantly mislead users of financial statements and raises significant concerns about the stewardship of the lender.
- Provisions for employment benefits may be understated. KAS do not have a standard similar to IAS 19 Employee Benefits.
- Provisions for legal or constructive obligations may be understated. There is no standard similar to IAS 37 Provisions, Contingent Liabilities and Contingent Assets, though contingent liabilities and contingent assets are briefly addressed in KAS 27 Unpredicted Items and Subsequent Events.
- Deferred tax liabilities may be under or over-stated. KAS 11 Accounting for Income Tax, on accounting for deferred tax is based on the original version of IAS 12 Income Taxes, and does not include recent IAS revisions.
- KAS do not include any provision similar to those of IAS 41 Agriculture. Agricultural enterprises apply a transaction-based, historical cost accounting model, so do not report any

income until the sale of the product. Bookkeeping is done in accordance with the Model Chart of Accounts and Methodical Recommendations developed by the Ministry of Finance and costs incurred as a result of agricultural activities are initially posted to a „temporary manufacturing account" and subsequently transferred to „inventories of finished goods" at harvest and „cost of goods sold on eventual sale".

Since **Ukraine** gained its independence, two major developments occurred with respect to the accounting standards: (i) the development of National Bank of Ukraine (NBU) accounting rules, and (ii) the development of **Ukrainian Accounting Standards.** While the legislation suggests that these standards are consistent with IAS, a review of the existing standards made by the ROSC team in 2002 highlights a couple of interesting points:

- *NBU accounting rules* – developed by the National Bank of Ukraine in cooperation with various contributor agencies – are fairly consistent with IAS. However, a large number of differences remain.
- *Ukrainian Accounting Standards* produce financial statements that are intended principally to meet the information needs of the tax authorities. For instance, UAS 7 Tangible Assets allows the use of tax depreciation methods (among other methods) that may not reflect the pattern in which the asset's economic benefits are consumed by the enterprise. Prepares of such financial statements tend to use tax methods where permitted, and do not give much attention to the quality of information that does not directly affect tax computation. UAS financial statements differ materially from IAS/IFRS financial statements.

As we noted above, there are significant differences between UAS and IAS/IFRS. Thus, many of the IAS/IFRS requirements do not exist in national accounting. Some significant differences between UAS and IAS are found in the World Bank ROSC Accounting and Auditing in Ukraine (2002, 15 August), described below:

- *UAS do not appear to embrace the comparability attribute*. Comparability is necessary for users to evaluate the financial statements of an enterprise over time to identify trends in its financial position and performance. Certain changes in accounting policies were required by the adoption of a new or revised UAS.
- *The Accounting Law sets out that the going concern is a principle rather than an assumption (IAS).* Nevertheless, this positioning is specific to countries with European-continental accounting model. Under such circumstances, it is not clear whether an enterprise should prepare its financial statements in the event that circumstances indicate it may not operate based on going concern.
- *The Ukrainian disclosure requirements are very limited in comparison with IAS/IFRS.* Some major existing differences may mislead a reader who is not well informed about UAS. For example, sales are reported in the income statement inclusive of value-added tax (UAS 3 *Income Statement*) and there are limited disclosure requirements.
- *There is not yet a requirement, as in IAS/IFRS, to identify reportable (business or geographical) segments.* There is also no requirement to disclose detailed information on the reportable segment's revenue, results, assets and liabilities.
- *Ukrainian disclosure requirements on related-party transactions are not as detailed as those of IAS/IFRS.*

The following issues in accounting standard-setting process in Ukraine should be underlined:

- In spite of the efforts made by the Accounting Methodology Board, a gap exists between local requirements and IAS. AMB resources are not sufficient to keep up with the ongoing changes and adjustments to IAS/IFRS.
- The AMB's standard-setting process is slow and gradual.
- While UAS and the existing accounting standard-setting process play a significant role for SMEs, they fall short of the expectations and needs of financial statements' users when it comes to banks, insurance companies, listed companies, and any other appropriate public interest entities.

On the other hand, in **Georgia** there has been ambiguity in the legal framework as to what accounting standards actually applied in the corporate sector. The ambiguity results from potentially conflicting requirements and lack of clarity as to what standards have legal backing:

- The Law on Entrepreneurs sets out simplified financial reporting requirements for small enterprises, defined as enterprises employing less than 20 employees with an annual turnover not exceeding GEL 500.000 (approximately US $ 279.000);
- However, the Law on the Regulation of Accounting and Financial Reporting dated February 5, 1999 states that all legal entities, except small enterprises, are required to prepare financial statements in conformity with IAS and temporary accounting standards. The Accounting Law was supplemented in 2005 by two Regulations of the Accounting Commission as follows:
- Regulation no. 9, dated April 5, 2005 enacted „simplified (temporary) accounting standards" for small enterprises;
- Regulation no. 11, dated April 6, 2005 adopted IAS/IFRS issued by IASB in 2004 as the standards applicable in Georgia.

It has to be noticed that the proposed draft Law on Accounting and Audit had clarified the financial reporting requirements for Georgian companies. Thus, under the draft Law, banks, insurance companies, stock and commodity exchanges, issuers of securities and investment institutions must apply IFRS and all other private entities can apply either IFRS or domestic standards. There are no exemptions for „small enterprises". It is worth mentioning that there are two main processes involved in setting accounting standards in Georgia: (i) the translation of IAS/IFRS, and (ii) the development and adoption of „temporary accounting standards" applicable to those entities not required by Law to use IFRS. Both processes are currently overseen by the Accounting Commission.

The GFPAA has developed a reduced set of accounting standards, which have been approved by the Accounting Commission and adopted by the Ministry of Justice. These *„temporary accounting standards"* for small companies are derived from IFRS and exclude the IFRS provisions that the GFPAA deemed irrelevant for small companies. The GFPAA has also developed a further reduced set of standards for use by non-profit legal enterprises. The draft Law adopts these standards for entities that do not have an auditing obligation. Both of these sets of reduced standards are seen as temporary in anticipation of Accounting Standards for SMEs, which are being developed by IASB. The Accounting Commission intends to adopt the IASB SME standards once these can be translated.

The GFPAA also develops and publishes user guides in Georgian for IFRS and for both sets of temporary accounting standards. These guides are comprehensive and are similar in length to the published translations of IAS/IFRS and the set of reduced standards. While Georgian legislation, including the proposed draft Law, recognizes IFRS or IFRS-based requirements as the applicable financial reporting standards, late and poor translation of the standards is overridden by regulators, leading to „standard gap" differences between Georgian accounting requirements and „full IFRS". As the World Bank's Accounting and Auditing ROSC emphasizes the general perception that - with the exception of banks - the financial statements in Georgia are of low quality.

Conversely, all companies in **Russia** are required to keep accounting records in order to provide complete and reliable information on business activity for external and internal users. There are some alternative accounting requirements for small companies. Thus, small companies may have simplified accounting records and present simplified accounts. Current accounting regulations are based on the Law on Accounting (1996), Russian Accounting Standards and various regulations of the Ministry of Finance.

The Russian government has been implementing a program to harmonize its domestic accounting standards with IAS/IFRS since 1998. The Ministry of Finance developed Russian Accounting Standards, which aimed to correspond as far as possible to IAS/IFRS. Despite these efforts essential differences between DAS and IFRS remain. Since 2004 all commercial banks are obliged to prepare financial statements in accordance with both DAS and IFRS. Full transition to IFRS is delayed and is expected to take place starting from 2011.

Table 4. Russian Accounting Standards vs. IAS/IFRS

Russian Accounting Standards	**IAS/IFRS**
Accounting policy of an organization	IAS 8

Registration of construction contracts	IAS 11
Accounting for assets and liabilities whose value is denominated in a foreign currency	IAS 21
Financial statements of an enterprise	IAS 1
Accounting for inventories	IAS 2
Recording of the fixed assets	IAS 16
Post balance sheet events	IAS 10
Economic contingencies	IAS 37
Income of an enterprise	IAS 18
Expenses of an enterprise	No equivalent
Accounting information on the affiliated persons	No equivalent
Segment information	IFRS 8
Recording of state assistance	IAS 20
Recording of non-material assets	IAS 38
Accounting for loans, credits and the related service costs	IAS 23
Information on discontinuing operations	IFRS 5
Research & development cost accounting	No equivalent
Accounting for tax profit calculations	IAS 12
Accounting of financial investments	IAS 32, IAS 39, IFRS 7
Interests in joint ventures	IAS 31

Another point that could be made about Russia's adoption of IAS/IFRS is that even the standards that have been adopted may not always represent the current original version. For example, the Russian standard on income taxes is based on the old version of the IAS income tax standard, not the new one. This fact is acknowledged within the Russian accounting community but it may not be well-known outside Russia.

Another less known fact about DAS is that the Russian versions of the standards that have been adopted are not mere translations from the English language. In many cases these are abbreviated, simplified versions of the original English IAS/IFRS. RAS tend to be much shorter, more detailed and conceptual. They usually cover only a fraction of IAS/IFRS content. In short, it may not be accurate to state that Russia has adopted IAS/IFRS. It would be more eloquent to say that RAS are simply based on IAS/IFRS. Often the differences between RAS and IAS/IFRS are not large or important. However, the difference may be substantial, such as in the area of accrual principles.

But not all Russian enterprises that are trying to attract foreign capital are using IAS/IFRS. Some of them are using US GAAP. One of the deciding factors when selecting which set of internationally recognized financial reporting standards to use has much to do with the preferred capital market where to get listed in the future. If they are targeting the US capital market, they often decide to use US GAAP. Those who decide to tap into the European capital market often choose IAS/IFRS.

Conclusions

First - as results from previous research conducted by other authors and the present study - there is no driving force of the accounting reform in the sample countries, from an organizational perspective. No organization wants to protect both accounting and the public interest. The pressure to reform the accounting in the sample countries is coming from the market. Enterprises that want to raise capital, either by debt or equity financing, need to prepare financial statements according to IAS/IFRS. Potential investors demand it. That is the reason that causes the change, not government bureaucracy.

Also, as an outcome of our attempt to review the main particularities of the accounting regulatory process in the sample countries, there are certain preliminary conclusions to be stated:

- accounting is part of the legislative system in all the sample countries;
- there are professional accounting bodies in all the sample countries;
- in some of the sample countries (Ukraine, Moldova, Georgia) beside the professional bodies there is a Council or a Board involved in the standard setting process;
- in almost all the sample countries except Georgia, beside the Law On Accounting and specific regulations, there are DASs applicable in practice;
- similar to the CEE countries (Bogdan, Cristea, 2008) we recognize a tendency to assimilate the IAS/IFRS in each sample country's accounting regulations.

The stated conclusions are to be considered only preliminary; as we intend to develop a more comprehensive and extensive research on this topic in the nearest future. Nevertheless, it is worth mentioning that one valid conclusion of our present research is that the convergence towards IAS/IFRS has to be accomplished by valuing the particularities of domestic accounting doctrine.

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ONLINE FINANCIAL REPORTING DISCLOSURE REQUIREMENTS ACROSS CENTRAL AND EASTERN EUROPEAN COUNTRIES

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Abstract: The business community has admitted that the accounting is "the language of business". They are using the accounting to communicate the existence and the evolution of the financial situation and also of the performance for the economical entities. Financial information is a form of a language. The purpose of this paper is to investigate the various elements of financial reporting frameworks and practice in the context of the Internet. The Internet has emerged as a recent medium of presentation of corporate information in the United States, Germany, Great Britain, but also in the Central and Eastern European Countries. Actual disclosure by companies from CEE was investigated in order to compare de jure and the facto financial reporting disclosure.

Key words: financial reporting, Internet, disclosure, CEE countries

Introduction

In the modern business environment the objective of financial reporting is to assemble financial information useful for investors, information simplifying decisions related to investment and granting loans. In the last fifteen years, the Internet and applications of it have been increasingly widely employed in modern business operations. In developed countries, the Internet is used with increasing frequency for financial reporting. In our days, numerous Internet applications are successfully employed in business, such as e-commerce, Internet banking and advertising.

Currently, the levels of disclosure vary widely between companies within countries and on an international level, in relation to financial reporting disclosure on websites. Our intention in this empirical research is to identify the national and international regulatory frameworks that shed light on the minimum level of disclosure required of companies. Thus, the financial reporting elements were broadly classified as basic financial reporting elements such as financial reports, corporate social responsibility reporting elements, corporate governance elements and audit reports. A sample of the 10 largest listed companies, by market capitalization, was selected from each CEE country. The companies' websites were then investigated in relation to financial reporting disclosure on the Internet.

In the Czech Republic, Estonia, Hungary, Latvia, Lithuania and Poland all 10 of the companies surveyed in each country have an English language website. 94% of the 110 CEE companies surveyed have an English language website. 85% of the 110 CEE companies surveyed have either a 2004, 2005 or 2006 English language annual report online by April 15, 2007. In general, companies in the Czech Republic, Hungary, Poland and Slovenia disclose the most information online. Companies provide more information on corporate governance than on environmental or social policy. Also, corporate governance codes continue to significantly impact reporting on corporate governance issues in certain countries. Nine Polish, seven Czech and seven Slovene companies disclose implementation of a corporate governance code in their annual report.

In our study one reporting language, called the XBRL is also investigated. XBRL is short for eXtensible Business Reporting Language. It's an XML – based markup language developed for financial reporting. XBRL transforms financial information from blocks of text into interactive data by providing an identifying tag for each line item of data. Using tags, XBRL can be leveraged to facilitate better and faster financial analysis model building, and comparisons between companies and across borders.

The results of the empirical research carried out show that CEE largest listed companies have a lack of a uniform approach to financial reporting disclosure on the Internet. Financial reporting disclosure on the Internet ranges from none to extreme detail, including voluntary reporting disclosures for corporations on the Internet. Also it was found that XBRL reporting language used by CEE companies is at this point in time, in its experimental stage.

Literature review on financial reporting disclosure requirements

Adhikari and Tondkar (1992) identified the disclosure requirements of various countries. The hypotheses developed by Adhikari and Tondkar (1992) relevant in respect of this research included:

H1: In countries with higher GDP per capita, stock exchanges are likely to have more rigorous levels of disclosure requirements;

H5: In countries with greater number of domestic listed companies, stock exchanges are likely to have more rigorous disclosure requirements.

Their sample for the study was 41 stock exchanges, each located in a different country. Additional data were gathered from the International Financial Statistics, National Account Statistics and other sources for numeric data gathering.

Adhikari and Tondkar (1992) found that H1 emphasizing the relationship between the degree of economic development and the level of disclosure requirements was not supported. No significant relationship was found between the type of economy and the level of disclosure requirements. H5 stating that stock exchanges with more domestic listings would have more rigorous requirements was not supported by the results either. Also they found that the most disclosure required was by the New York Stock Exchange, followed by the London Stock Exchange, Singapore being in third place, followed by Toronto, Hong Kong and Japan, France, Kuala Lumpur, Amsterdam and finally Sydney. Frankfurt ranked even further down after Milan. Adhikari and Tondkar 's (1992) research may suggest that larger stock exchanges have more rigorous financial reporting disclosure requirements.

A research on the practical application of financial reporting on the Internet in individual countries was carried out in Sweden by Hedlin (1999), concluded that most of the Swedish corporations that are quoted on the Stockholm stock exchange do use Internet financial reporting. Similar research was carried out into quoted Spanish companies, in which it was shown that only 19% of the companies in the sample presented any extensive financial information on the Internet, according to Growthorpe and Amat (1999). Research done in Ireland in 1998 showed that 37% of quoted Irish companies published their financial reports on the Internet (Brennan and Hourigan, 1998). A recently research done by Pervan (2006) showed that twenty of the sample companies made use of Internet financial reporting and eighteen had no such practice. This investigation was carried out on a sample of 38 joint stock companies quoted on Croatian bourses, the shares of all of them being actively traded. Companies that use Internet financial reporting on the whole publish the annual reports together with the reports of their auditors. Empirical data showed that the firms that used Internet financial reporting were on the whole larger and more profitable and their shares were more active on the bourses than the shares of companies that had no such reporting practice.

Another approach in this research area is to discover what differences are in the financial reporting on the Internet of listed corporations from different countries. An example of such an investigation is the comparative research on the application of financial reporting on the Internet by American, British, and German quoted companies of Deller, Strubrnrath and Webber (1999). The investigation showed that 91% of American, 72% of British and 71% of German corporations practiced Internet financial reporting. It was shown, also that only rarely in all three countries investigated was a format suitable for calculations used (7-13%).

Khan (2006) focused on the domestic regulatory requirements in relation to financial reporting in various countries. The requirements have been used as a benchmark for comparison. If sample companies have not met the disclosure requirements, then the concept of a gap between de jure and de facto financial reporting will be supported, in relation to financial reporting on the Internet. The regions covered in Khan's study included: high income countries, upper middle income countries, lower middle income countries, low income countries and other countries.

Khan (2006) used a sample of 177 companies selected from four sub-groups: hotels, diversified companies, multinational companies listed on the NYSE and multinational companies listed on the LSE. The companies' websites were investigated in relation to financial reporting disclosure on the Internet. For companies that did not have their own primary websites, further investigation was carried out as to whether financial reporting information was provided on secondary websites. It was found that 82 companies had annual reports on their websites and 7 companies had interim results only. The financial reports of these companies were then studied in order to determine the nature and level of disclosure in relation to the financial reporting elements and disclosure scores were formulated. In relation to the adoption of the Internet for financial reporting purposes, it was found that 33 companies had no financial information on their websites and that 55 companies did not have annual reports online because they did not have websites. The research conducted indicates that only 67 percent of the companies with websites had some kind of financial information on their websites.

Theoretical grounds – Globalization and the Internet

According to Tomlinson (1999) globalization is a process in which complex interconnections are rapidly developing between societies, institutions, collectives and individuals world wide. Thus the reports provided by a Chinese company can be accessed by a user in another country. This is leading to better and more transparent reporting in order to attract capital.

Barr (2000) has described the Internet as a paradigm shift for communication. McMahon (2006) has suggested that this definition provided by Barr (2000) has come from Thomas Kuhn's work "The Structure of Scientific Revolutions" (1962). Kuhn (1962) has described paradigms as universally recognized scientific achievements that for a time provide idealistic problems and solutions to a community of practitioners. McMahon (2006) has claimed the Internet to be "the greatest surveillance tool known". In his study McMahon (2006) has extended this concept to consider the affect of the Internet as a surveillance tool in countries like China, which are based on the Confucian system. In these countries the individual is strongly a part of the system, the family and the nation. This impacts the company as well, since these companies were owned by the government not long ago. As results of the privatization process and the listing on the stock exchange locally and internationally, the reporting requirements of these companies have changed as well. There are more stakeholders interested nationally and on a global scale.

McMahon (2006) has pointed out that in such countries the government has maintained power by controlling what information is released to the public. But with the introduction of mediums like the Internet this control is diminishing and globalization is coming into play in these countries as well.

According to the modern framework, the objective of financial reporting is to supply useful information to stakeholders. Financial reporting as understood in this paper implies the creation and presentation of accounting information useful to stakeholders. It is well known that accounting information is contained in financial reports that have to be prepared according to a national or international conceptual framework. For the current age is characterized by the globalization of economies and the increasingly liberal flows of people, goods, and capital, financial reporting takes on a new dimension, and is gradually become the language of global business. In this context it is realistic to expect a growth in all Internet based business applications as well. Corporations may, if they want, publish their financial reports on the Internet and thus make them easily accessible to a large number of users, all around the world. If the financial reports are Internet published, users can find them fairly simply and rapidly if they know the URL. But even if they do not know the exact address, they can search for the financial reports that interest them with the help of various Internet search engines.

Webster (2002) has mentioned the concept of "Globalization of Communications" and had described it like a phenomenon as supportive as well as contradictory. He has expanded on this point by mentioning that the information provided by companies via mediums such as the Internet may have a negative consequence for the company. An example can be a news release that would negatively affect the share price of the firm. At the same time, mediums like the Internet are offering exposure of the company to many more audiences than was possible without the presence of the Internet. Webster (2002) further explains that globalization requires and at the same time enhances an "information infra-structure". According to this author following are the elements of this infra-structure:

- World-wide expansions of services that collect information, analyze and distribute it, and add value by analyzing and collating it.
- Globalization requires the construction and where necessary, enhancement of computer and communications technologies.

- This information structure has resulted in the growth of information flows at a quite extraordinary rate.

The point Weber (2002) has made is that technologies such as the Internet are supporting and are being supported by the globalization process. This exposes the company to a wider range of users, thereby increasing responsibility to provide quality information to not just one, but multiple sets of users.

Research methodology

In order to investigate the usage of corporate reporting on Internet by CEE countries, we explored the company websites selected by market capitalization in the PFS Program USAID. This PFS Program has done in February 2008 a Survey of Websites of the Largest Listed Companies in 11 CEE Countries. In most cases, the market capitalization statistics are dated December 31, 2007.

Table 1 CEE countries

Bulgaria	***Croatia***	***Czech Republic***	***Estonia***
Hungary	***Latvia***	***Lithuania***	***Poland***
Romania	***Slovakia***	***Slovenia***	

The survey analyzes information available on the company website and/or in an annual report available in electronic format on the company website. The record date for disclosures is February 15, 2008. This survey distinguishes whether the company provides information on management, management board members and board of directors/supervisory board members directly on the corporate website or indirectly, meaning that information is not found on a separate page of the company website but instead is noted in an annual report available in electronic format on the company website. The criteria for the survey were determined after analyzing best practice among blue-chip companies in the EU and internationally.

Table 2 List of Companies Surveyed – CEE Countries

Country	**Companies**
Bulgaria	Bulgarian Telecommunication, Chimimport, CB First Investment Bank, Sopharma, CB Bulgarian American Credit Bank, Druzhba Staklarski Zavodi, CB Economic & Investment Bank, CB Central Cooperative Bank, Zarneni Hrani Bulgaria, Lead & Zinc Complex PLC-Kardzhali
Croatia	Zagrebacka banka, Privredna banka Zagreb, HT-hrvatske telecomunikacije, INA, Pliva farmaceutika, Erste&steiemarkische banka, Konzum, Adris grupa, Societe generale-splitska banka, Croatia osiguranje
Czech Republic	Cez, Erste Bank, Telefonica O2 Cezech republic, Komercni banka, Central European Media Enterprises, Unipetrol, Zentiva, ORCO Property Group, PRAZSKA Energetika Group, Philip Morris
Estonia	Eesti Telekom, Tallink Grupp, Olympic Entertainment Group, Tallinna Kaubamaja, Tallinna Vesi, Merko Ehitus, Silvano Fashion Group, Eesti Ehitus, Arco Vara AS, Saku Olletehase
Hungary	MOL, OTP, Magyar Telekom, richter, Orco Property Group, ELMU, TVK, Egis, FHB, Danubius
Latvia	DnB NORD Banka, Latvijas Gaze, Latvijas kugnieciba, Ventspils nafta, Liepajas metalurgs, Latvijas Krajbanka, Grindeks, Olainfarm, Valmieras stikla skiedra, Latvijas balzams
Lithuania	Lietuvos Energija, VST, Rytu slirstomieji tinklai, TEO LT, Lietuvos Dujos, Lifosa, DnB NORD bankas, Lietuvos Elektrine, Sanitas, Snoras
Poland	PKO Bank Polski, PKN Orlen, Bank PEKAO, KGHM Polska Miedz,

	Telekomunikacja Polska S.A., Bank Zachodni WBK, GTC, Polskie Gornictwo Naftowe I Gazownictwo, BRE Bank, Polimex-Mostostal
Romania	Petrom, BRD – Groupe Societe Generale, ALRO, Banca Transilvania, CNTEE Transelectrica, SIF Transilvania, SIF Oltenia, Rompetrol Group N.V., SIF Banat Crisana, SIF Muntenia
Slovenia	Krka, Petrol, Telekom Slovenije, SAVA, Mercator, Gorenje Group, Luka Koper, Pivovarna Lasko, Intereuropa, Istrabenz
Slovakia	Slovnaft, Tatra banka, Vseobecna uveroba banka, MATADOR, Dexia banka Slovensko, OTP Banka Slovensko, Tatravagonka, Smurfit Kappa Sturovo, SES Tlmace, Chemko Strazske

Our study is based on secondary data provided by the PFS Program in the survey, mentioned above, conducted in two phases. The aim of our research is to analyze the first phase of the survey that analyzed whether each of the companies included in the sample provided the following:

- A local-language website;
- An English-language website;
- A list of management and management board members available online;
- Additional information on management/management board members available online (brief biographical information about each member of management);
- A list of board of directors/supervisory board members online; and
- Additional information on board of directors/supervisory board members available online (brief biographical information about each member of the board).

Undoubtedly, Internet Financial Reporting will become increasingly popular worldwide. The IFR implementation by companies creates new challenges to management in charge of establishing the control framework and to internal auditors in charge of reviewing the controls. Lymer (1997) has argued that fulfilling the apparently straightforward model of IFR (companies provide, users use), in practice, leads to many complex issues in four aspects:

- What to report
- When to report
- How to report
- Who is responsible to report.

These are some main problems occur when such a study is done. Our research is oriented also, towards finding answers for the questions rose above.

The research findings are based on the search on company profile, the analyze of Reporting on Corporate Social Responsibility (CSR) by the largest listed companies in 11 CEE countries, and the data provided by the PFS Program surveys – Investor Relations Online and Reporting on CSR published annually. The PFS program surveys analyzed disclosure of Environmental, Social and Governance (ESG) data by listed companies in CEE in order to:

- enable these companies to benchmark their disclosure reporting against peers on a national and CEE regional basis;
- enable these companies to benchmark their disclosure against peers in other emerging markets;
- collect time series on CEE corporate disclosure that practitioners can use to chart progress and identify trends;
- collect time series on CEE corporate disclosure that researchers can use as control data or analyze in greater detail;
- identify best practice in the CEE region;

- report on the corporate disclosure practices of this CEE peer group to a wide range of constituencies;
- collect practical micro-economic data that can be presented at conferences, seminars and workshops;
- stimulate the writing of case studies about the disclosure practices of this peer group.

PFS Program Survey's Findings for the Ten Largest Listed Companies in 11 CEE Countries

On February 15, 2008 in nine of the sample CEE countries surveyed, each of the ten largest listed companies has a local-language website. In Bulgaria and Lithuania, nine of the ten companies surveyed have a local-language website. Each of the ten companies surveyed in Czech Republic, Estonia, Hungary, Latvia, Poland, Slovakia and Slovenia has an English-language website. 90% of the companies surveyed in Bulgaria and Lithuania have an English-language website. 80% of the companies in Croatia and Romania have an English-language website. The percentage of companies with an English-language website has remained relatively consistent for the past three surveys. It has increased steadily since the first survey was conducted in August 2001, when only 71% of the companies surveyed had an English-language website.

According to the conducted survey at the same time 90% of the 110 companies provide a list of management online and 63% provide additional information on management online. The best performers are Czech Republic, Estonia, Hungary, Latvia, Poland and Slovenia, where 100% of all companies surveyed provide a list of management online. Disclosure of additional information varies widely, ranging from a short biography, previous work experience and description of duties. Information available online about management increased significantly in comparison with the previous survey and all previous surveys. 87% of companies surveyed provide a list of board members online and 52% provide additional information on board members online. The best performers are: Hungary 100%, Czech Republic and Slovenia 90% and Estonia 80%.

As an important result of the survey mentioned above, 51 of the 110 companies from CEE provide information on all categories surveyed in the basic PFS Program: local-language website; English-language website; list of management, list of board members; additional information on management and additional information on board members. These 51 companies were analyzed further regarding the ideal website recommendations.

Companies from our sample that use Internet financial reporting on the whole publish the annual reports together with the reports of their auditors. In addition, most of the companies use the PDF format for the reports that they publish.

XBRL: Online Financial Reporting Language

XBRL is an extension of XML, which stands for Extensible Mark-up Language. Extensible is a useful feature that allows the user to use XML in more than one way. Mark-up means that XML gives definitions to text and symbols. Language implies that XML is a method of presenting information that has accepted rules and formats. XBRL is an open specification language for software that uses XML data tags to describe financial information for public and private companies and other organizations. It allows different parties to enhance the creation, exchange and comparison of business reporting information. Business reporting includes, but is not limited to, financial statements, financial information, non financial information and regulatory filings such as annual and quarterly financial statements.

XBRL is a technical reporting language and the most important component of it is the taxonomy. XBRL taxonomy is a fundamental component of the language, in simple terms it can be defined as a set of codes based on a set of accounting principles, which can be used to classify various elements of a company's financial statements. According to Richards & Tibbits (2002) the minimum information required to build XBRL taxonomy is the XBRL specification and the appropriate accounting standards, plus two sets of information including the sample financial statements for the Big 4 accounting firms and the actual annual reports of companies.

The XBRL taxonomy based on the IAS/IFRS has gone through various stages of evolvement. Most countries have adopted January 2005 as the date for incorporating the IAS/IFRS in the national financial reporting. From Khan's (2006) point of view this can cause uncertainties for certain corporations, who may not have specific guidelines to follow regarding particular items, if they were use XBRL for reporting purposes, using the IAS/IFRS. These elements would relate specifically to industries such as the banking industry as well as in general.

According to Zabihollah and Turner (2002) the advantages of XBRL include more accurate financial reporting, with fewer errors due to reduction in human involvement, resulting in more reliable and relevant information. Other benefits described by the authors mentioned above include faster, more accurate electronic searches for information, because of identification of each instance of information specifically through the attached label. Another benefit mentioned is continuous auditing. Bovee et al (2002) has emphasized that XBRL has the capability of providing near continuous financial reporting. This continuous release of data should prevent major fluctuations in stock prices following periodic release of financial information. Rogers (2003) has described XBRL as the promise to help make public companies more uniform in the way their financial data are communicated, presented and reported to investors. Rogers has also projected that XBRL would also promote truly transparent financial information in annual reports, quarterly statements and other documents. SEC's mandatory stand on the use of XBRL would encourage all organizations to adopt XBRL as their reporting language.

Cuneo, on the other hand, (2002) has shifted the focus to the viewpoint of executives as far as XBRL and its adoption is concerned. Cuneo (2002) has pointed out that PriceWaterhouseCoopers and the Economist Intelligence Unit have presented a five-step recovery plan for financial institutions suffering from lack of public confidence including endorsement of XBRL. Cuneo (2002) has proposed that the use of XBRL would make it harder for managers to hide information in footnotes, thus increasing the integrity of financial reports. This point relates back to the study done by Hodge, Kennedy & Maines (2002) where it was found that the use of XBRL would allow better and faster extraction of data and would thus make it easier for users to get a better picture presented in the whole of the financial data rather than just the body of the financial statements.

On the other hand, Hannon (2003) has pointed out that presently SEC can only review 16% of the 14.000 annual corporate filings by public companies. The solution presented by Hannon (2003) is the use of XBRL based analytical software that would allow the SEC to analyze all the 14.000 corporate filings and thus discovering anomalies in financial reporting an easier task.

Concluding remarks and further research

Due to recent developments in information technologies, CEE companies are using the Internet to disclose accounting information and other non-financial data through their web sites. CEE countries are thus following a universal trend to use the Internet as a way to provide instant and simultaneous access to accounting information, particularly to existing and potential investors. As we mentioned already this paper investigates the degree to which the Internet is being used by CEE companies listed on stock markets, to voluntary disclosure financial and non-financial information. The web sites of these companies were examined according to PFS Program Survey conducted in 15 February 2008.

The web offers a number of possible features for corporate reporting. Financial reporting practices on Internet requires adequate preparation, proper regulations, control and effective structure for its better functioning. In this context of Internet Financial Reporting and results derived from the PFS Program Survey, our paper drew the attention to the following main issues:

- the standard setters, for example IFAC and FEE and regulatory body for listed companies SEC, are to extend the content of standards to regulate the content of digital financial reporting;
- necessary Internet specific rules with respect to interlinking of information, performance data, press releases on recent events and price sensitive information and updating web site data after a certain interval are required to be developed;
- the domain name of individual companies must be highly restricted so that it cannot be used by others;
- instead of other formats of financial reporting on Internet, consistent use of XBRL should be encouraged so that extraction of specific information by data identification and analysis of the same will be easier;

- further research should be carried out in order to prevent manipulation of digital data and guarantee the authenticity and reliability of the corporate information distributed via Internet to the users' satisfaction.

These are only preliminary conclusions. Our attempt will be continued and developed in further researches.

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THE INFORMATIONAL SYSTEM AND THE MANAGEMENT OF ENTITY

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Abstract: A decision is a judgment. It is a choice among alternatives. It is rarely a choice between good and bad. In the best case it is a choice between "almost good" and "probably bad". In the best case it is a choice between two action directions of which none can say it is closer than the other one of what is good. Our demarche is included on the line of granting the decision maker with the most important weapon, information. In this paper, I tried to emphasize those instruments that help the manager in carrying out the performance criteria in the conditions of global economy. The complexity of the economic activities in competitive conditions imposed by the market economy determines the growth of the role of the economic-financial information in taking decisions. The quality of the current decisions and those taken on long term and also the results predicted by the entity depend on the quality of information.

Key words: managerial accounting, decisional processes, information, control systems.

Systems of managerial control

A system of managerial control is a method of gathering and using information in order to support and coordinate the planning and control decisions as part of an organization and for guiding the behavior of managers and employees. The system of managerial control gathers and presents information for the managerial control at different levels:

1. The general level of organization- for example, the stock exchange course, net profit, the investments profitableness, the exploitation treasury flow, the total number of employees, the control of pollution and community contributions.
2. The consumer's level/ of market- for example, the consumer's satisfaction, the necessary time for answering the consumers' requests for certain products and the cost of competitive products.
3. The level of individual production means- for example, the costs of raw materials, labor costs, the rate of absenteeism and accidents in certain divisions or economic functions (such as research and development, production and distribution).
4. The level of individual activity- for example, the necessary time and costs afferent to receiving, stocking, assembly and coordination with the goods from a warehouse the proportions of rejects, the break downs and the number of processed units repeated on a line of production, the number of selling operations and the income per employee in sales, the number of deliveries per employee at the distribution centers.

As these examples indicate, the managerial control systems collect financial information (for example, the net profile, the costs of the raw materials and the stocking costs) and non financial information (for example, the necessary time for answering the clients' changes, the rate of absenteeism and accidents). A part of information, such as the net profit or the number of deliveries per employee, is obtained from inside the company. Another part, such as the stock exchange course or the costs of the competitive products, is obtained from outside the company. Some company's present non financial and financial information in a single report named *balanced board panel.*

The managerial control systems refer to formal and informal control systems. The formal managerial control system of an entity includes the settlements, procedures, performance indicators and motivation plans that determine the managers and employees' behavior. The formal managerial control system is made of several systems. The system of management accounting is a formal accounting system that offers information regarding costs, incomes and profits. Other formal control systems are the human resources system, which offers information regarding the personnel recruitment, training, absenteeism and accidents such as the quality systems, that offer information regarding rejects, break downs, repeated processing and late deliveries to clients.

The informal managerial control system includes aspects such as common values, mutual obligations of the company members, its culture and unwritten norms regarding an acceptable behavior from the part of the managers and employees. Examples of slogans of a company meant to strengthen the values are:

"To us, quality is the number 1 task" and "The low prices are only the beginning".

The evaluation of the managerial control system

On order to be efficient, the managerial control systems must be tightly related to the company strategies and objectives. Different examples of strategies develop innovative products in order to increase the market quota in the key segments or the maximization of the short term profit through reducing costs and giving up on long term risky investments in research and development. Let us imagine that management decides, in a wise way or not, to maximize the short term profit. In this case, the managerial control system must support this objective. The control system should offer managers information, such as the marginal contribution for each product, in order to help them take short term decisions. Also, the control system should establish the bonuses obtained by managers according to the short term profit.

The managerial control systems must be projected in order to be in conformity with the entity structure and managers' responsibility to take decisions. For example, the situation of the manager responsible for the research and development department of a pharmaceutical company. In his case, the managerial control system should put the accent on certain research and development activities that re necessary for certain projects, on the necessary number of specialists, on the dates programmed for the conclusion of different projects and on the elaboration of reports through which are compared the effective results with the budgetary ones.

In continuation, we will analyze the case of a manager of operational level responsible with the production, selling and distribution of food products. The managerial control system of his entity should offer information about the clients' satisfaction, the market quota. The costs of production and profitableness of the production line, information that helps the manager plan and control better the operations. The manager of the production line needs totally different information from those necessary to the manager of the research and development department of the medicine company. Still, in both cases, the information offered has the purpose of helping the manager in the decisional process.

The efficient managerial control systems should also motivate managers and employees. The motivation is the desire to reach a certain objective (the aspect of purpose agreement) combined with the ulterior tracking of that objective (the effort aspect).

The purpose agreement appears when individuals and groups work in the direction of reaching the objectives of the organization, meaning the managers that work in their own interest, undertake actions according to the general objectives of the superior management. For example, in the budgeting of the capital expenses, taking decisions based on the bringing up to date the long term treasury flows at the requested rate of profitableness leads to the closest results to the objective of the entity. But if the managerial control system evaluates managers on the basis of short term profit according to the cumulative accounting, the managers will be tempted to take decisions that maximize the profit of the cumulative accounting, but which do not correspond to the long term interests of the organization on the whole.

The effort represents the actions undertaken on order to reach a certain objective. This is more than a physical effort, such as a worker's effort to produce in amore alert rhythm and includes physical and intellectual actions.

The managerial control system motivates managers and employees to make efforts through a variety of rewards related to the reaching of objectives. These rewards can be financial (under the form of money, company shares, the use of a company car or the quality of a club member) or non financial (such as the power and the pride to work for a successful company). The managerial control systems must be according to the organizational systems. An organization that has a decentralized structure has an extra element that must be taken into consideration, meaning the efficiency of the managerial control system.

Decentralization is the freedom to take decisions, which is given to managers from all the inferior levels of the organization. Autonomy refers to the degree of freedom in taking decisions. The greater the freedom is, the greater is the autonomy. As we talk about aspects related to decentralization and autonomy, we use the term subunit in order to refer to each part of the organization. Decentralization gives managers and employees the right to undertake decisive actions.

Total decentralization means minimum constraints and maximum freedom to take decisions for managers situated at the lowest levels of the organization. Total centralization means maximum constraints and minimum freedom to take decisions for managers situated at the lowest levels of the organization. The enterprises structures are situated somewhere in the middle of these two extremes because there are benefits and costs afferent to the decentralization.

Which is the best degree of decentralization? Managers try to choose the degree of decentralization that maximizes the benefits in comparison with costs. From a practical point of view, the superior management rarely quantifies the benefits or costs of decentralization. Still, the cost - benefits approach helps concentrate on problems. The supporters of the taking decisions decentralization process and choosing responsibilities by the subunits managers identify the following benefits (Marchand, D.A. 2000):

1. It increases the sensibility towards the local necessities. Good decisions can not be taken without good information. In comparison with the superior managers, the subunit managers are better informed regarding clients, competitors, suppliers and employees, and also in which concerns the local factors that affect performance, such as the reduction method of costs and quality improvement. There can also be identified two advantages of decentralization: the improvement of the company knowledge related to market and the improvement of clients attendance.
2. It leads to gains thanks to the acceleration of the taking decision process. Decentralization accelerates the taking decisions process generating an advantage in the competitive area in comparison with the centralized organizations. Centralization slows down the decision process as the responsibility for decisions increases form one level to the other on the organizational structure.
3. It increases the motivation of the subunit managers. The subunit managers are more motivated when they can put into practice their own initiative: “Decentralization= Creativity= Productivity”.
4. It supports the development and learning at a managerial level. Through the distribution of more responsibilities to managers there can be made groups of experienced and talented managers that can meet the responsibilities at a higher managerial level. In this way, the company can also determine who do not have the necessary managerial qualities. The decentralized units offer an environment of training for the general managers and a transparent confrontation environment of the best ideas concerning the product.
5. It increases the concentration of the subunit managers. The manager of a subunit of small dimensions concentrates better in a decentralized environment. A small subunit is more flexible than one of large dimensions and can adapt faster to the opportunities that are always changing on the market. Also, the superior management, exempted from the burden of the daily operational decisions, can offer more time and effort for the strategic planning oriented towards the organization as a whole.

The supporters of a more centralized decisional process (Charles T. Horngren, 2006) identify the following costs afferent to the decentralization of the decision process:

1. Suboptimal decision process (named also non congruent or non functional decision process) which appears when the benefits obtained by a subunit after some decisions are exceeded by costs of the benefit losses for entity. This cost is registered because the superior management renounced at the decision process.

A suboptimal decision process can appear when:

a) It lacks harmony or congruence between the general purposes of the entity, the purposes of subunits and the individual ones of the decision factors or

b) The subunit managers are not informed about the effects of the decisions on other behaviors of the entity.

The suboptimal decisions are taken mostly when the subunits of the entity are mostly interdependent, like in the case in which the final product of a subunit is used or sold by another subunit. For example, a production manager evaluated on the basis of production costs may not respond to the request from the part of the marketing department to program an urgent order for a certain client if the production program changes and that will lead to the increase of the production costs. Still, from the point of view of production, the supply of that product to the client can be preferable for the reason that the client is ready to pay a higher price, and also from the point of view of the company, which expects this client to make many other orders in the future.

1. The manager's attention focuses on subunits and not on entity, on the whole. The managers of certain subunits can be considered in competition with the managers of other subunits of the same entity as they were competitors form the outside. In consequence, the managers can be reticent in which concerns the partitioning of information or offering help when another subunit faces an emergency situation. Also, the subunit managers can use in their own interest the information they have referring to the local conditions and not for reaching the entity objectives. For example, they could request from the mother enterprise more resources than they need in order to reduce the effort they must make.
2. The costs afferent to the information gathering increase. Managers can spend too much time obtaining information about the subunits of the entity in order to coordinate their activities.
3. It is reached a duplication of actions. More subunits of the company can develop the same activity separately. For example, there can appear a duplication of the personnel functions (accounting, human resources, judicial aspects) if an entity is strongly decentralized. The centralization of these functions helps with the strengthening, organization and the reduction of the resources necessary for these activities.

In order to choose an organizational structure that can implement the strategy of an entity, the superior managers must compare the benefits and costs afferent to decentralization. Often, this comparison must be made for each function. For example, the function of the financial inspector can be extremely decentralized in other purposes (such as the management of receipts from accounts and the development of strategies for the profit taxation). The budgetary decentralization and that of report allows the subunit marketing manager, for example, to adapt the already made report to the specific information that he needs in order to take better decisions an increase profit. The centralization of the profit taxation strategies offers the organization the possibility to balance the profit obtained by a subunit with the losses registered by another subunit in order to evaluate the impact on the organization.

The carried out studies put into evidence the fact that the majority of the decisions taken at a decentralized level and less at a corporative level, are those that are related to provisioning, to the range of products and promotion. In these compartments, the subunit managers must take fast decisions on the basis of local information. The decisions related to the type and the long term financing source are often taken, and not so often at a decentralized level. In these cases, the managers have better information about the financing conditions on different markets and can obtain the best interest rate. The decentralization benefits are in general bigger when the entities face uncertainties in their activity area, situations that request a good knowledge of methodology and less interdependency between divisions.

In order to measure the subunit performances in the centralized and decentralized entities, the managerial control system uses a type or a combination from the four types of responsibility centers:

- Costs center- the manager is responsible only for costs
- Income center- the manager is responsible only for incomes
- Profit center- the manager is responsible for costs and incomes
- Investment center - the manager is responsible for investments, incomes and costs.

A wrong conception that can be observed in the majority of cases is the conception that a profit center and in certain cases an investment center is the synonym of a decentralized unit, and a cost center is the synonym of a centralized unit. The profit centers can be combined with a strongly centralized organization and the cost centers can be combined with a strongly decentralized organization.

For example, the subunit managers of a division organized as a profit center can have less freedom in taking decisions. They could be obliged to request the agreement form the central head office for each expense that exceeds let us say 10.000 euro and can be obliged to make what the personnel desires at the head office. In other entities, the divisions can be organized as cost centers, but their managers can have great freedom in which concerns the capital expenses and the choice of the services and raw materials sources. Shortly, the denominations of "profit centers" and "cost centers" are independent from the centralization or decentralization degree of a company.

Conclusions

The management of the activity of an organization implies the carrying out of a decisional process whose complexity is determined by the hierarchic level on which is situated the responsible human factor and the necessity for documentation and substantiation of that decision. Costs represent a key element in the management of the economic systems.

Information is a product of the human mind, is the fundamental capital, the central cost and the essential resource of economy (P. Drucker). That is why, for the development of the management control it is necessary the study of the relation between information and decision. The relation between these two elements can take different shapes, according to the decisional universe in which is situated:

1. As part of the cybernetic vision on enterprise, "the decision is taken according to information; the most important thing is to improve the information offered to the decision maker" (H. Loning, 1998). This postulate is based on:
   - The informational determinism – the information determines and explains the decision;
   - Sequentially – the information precedes the decisions;
   - Pertinent information- according to the reality
2. Reality is not something exterior, but it is a construction, because the observer is part of what he observes: this vision bears the name of constructive paradigm. In this case, "to decide means to produce the possible and the impossible".

Essential in the process of decision elaboration and the post-decision analysis, accounting introduces evaluation instruments of the enterprises performances. It is possible and necessary the improvement of the accounting information qualities, with influences on the decisional act, in this sense we can underline:

1. The five phases of the decision process are: information gathering, the prevision establishment, the choice of an option, the application of decision and the results analysis.
2. In order to be significant in which concerns taking a decision, a sale or an expense must satisfy two conditions: a) must be a future sale or expense and b) the total amount must depend on the decision.
3. The decision criteria can be quantitative and qualitative. The quantitative criteria are expressed through numbers. Some can be expressed in monetary units, others not. The qualitative criteria, such as the employees' mood can not be measured through numbers. The decisions must be based on these two criteria categories.
4. The unit costs can mislead the decision factors in two ways: a) when the unit costs include the expenses that are not significant for the examined decision and b) when the unit costs calculated with different volumes of production is compared. The fixed unit costs are often misinterpreted as variable costs. It is suggested the use of total costs rather than the unit costs in order to analyze the elements of a decision.
5. There are often met two traps when the significant expenses are studied: a) to believe that all the variable expenses are significant and b) to believe that no fixed expense is significant.
6. The opportunity cost represents the loss of gain that results from the fact that we give up to allocate a limited resource to an alternative operation. The notion of opportunity cost appears when a resource may have different utilizations and when we renounce to some of them. The opportunity cost that must be included in the significant costs in which concerns a certain

decision represents the net profit of the best utilization of the resources in the lack of taking that decision.

7. For choosing from more products under the capacity constraint, the decision factors must privilege the product for which the reserve per unit of the factor is rarely maxim.
8. The sales and expenses established for the future are the only ones that must be significant in taking decisions. The accounting net values of the equipments represent the expenses of the past. It is not significant in taking the decisions of renewing these equipments.

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APPLICABLE ACCOUNTANCY THEORIES ON THE CAPITAL MARKET

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Abstract: Traditionally the accountancy theory developed as a structure of principles that describe the practice.The sufficient conditions for a market to be efficient are: the lack of the costs of the title transactions; all the information to be valid, free and balanced for all the market participants; transaction participants in the capital markets to have homogeneous foreseeing regarding the implications of the obtained information.

Key words: capital market, accountancy theory, decisions, financial information.

Traditionally the accountancy theory developed as a structure of principles that describe the practice. This conventional structure evolved step by step in time as a pragmatic ground that makes the role of the user of the accountancy not to be recognised until recently in the literature of speciality.

Ideally the accountancy theory has to provide to those who make the decisions or elaborate the accountancy politics tools that permit accepting the best solutions, in these procedural problems that come in contact with there is a 'collection' of accountancy theories that are frequently in conflict. The difficulties regarding the working out of a general valid and acceptable theory devolve from the discrepancy regarding the accountancy goals.

The accountancy theory can be defined as a logical way of thinking, represented by a set of exhaustive principles that:

- offer a general frame to refer to through the accountancy practice to be evaluated;
- to direct the development of new practices and procedures (Hendrikson E., 1991)The accountancy theory has to be used for explaining the present usage; the goal is to realise their understanding.

By definition each theory is a set of clauses or sentences interconnected with the help of some logical rules or judgement. The theory has to contain hypotheses or premises that can be tested or conclusions based on valuable judgements. The main test of the theory is its ability to explain and foresee (Walt and Zimmerman, 1986). The traditional orientation of the accountancy theory (before the adopting its standards) was interested mainly in distillation the practical experience. So, at first the accountancy theory was first descriptive concentrating especially on the observation of the accountants' behaviour instead of noticing the real world phenomena (Sterling, 1967). The conventional theory couldn't distinguish between a theory set up and the testing of this theory implications (for example, the accountancy principles are selected as part of the theory, due to the general acceptances, the acceptance is the sole valid condition of these principles).

Efficient market theory

Efficiency is frequently considered as one of the essential goals in economy and accountancy, But what does the efficiency concept represent and how does it manifests on the capital market, with a strong international character? The answers to these questions come next.

The examination of the capital market reactions at the accountancy data publishing supplies a set of testable theories that don't depend on the individual usage of the investment, because it analyses the aggregate behaviour of all the participants. The capital market study is concentrated on the society as a whole and it would be a mistake to assume that the market ideal behaviour determination can be realised through the concentration of attention at each individual level.

The capital market role is to provide funds for those who make efficient decisions. The importance of the financial information result firstly from the necessity of ideal allocation of the limited resources among the procedures so that the gross internal product to be maximised. Secondly the piece of information is necessary to allow the persons who invested to have an ideal portfolio of titles at an accepted risk level (Hendrikson, 1991).

The efficient market theory is based on the assumption that the capital market is highly competitive. That the price of the valuable titles is moving free, up to the balance point between the demand and offer for each title when new pieces of information are available and liable to alter the expectances. The valuable title price is modified up to a new balanced position (it is about the relative price that modifies when new relevant information appears).

The level of the price will be the result of a certain number of factors regarding the general economic conditions (interest level, inflation level) and some specific factors connected to the situation and evolution of the emitter's title or psychological elements (rumours).

A capital market is considered efficient when the valuable titles prices reflect integral and fast every piece of information considered relevant (irrelevant information are not taken into consideration on the market). As a conclusion, every information that is proved to be relevant is rapid and with accuracy prevailed by the price of the valuable title. In the economic way an efficient market is not necessarily a perfect market.

It is important to mark that the capital market efficiency is not a perfect predictive power from the behalf of those who invested. The current prices of the valuable titles represent the best evaluation of economic value on the base of the existent information. The sufficient conditions for a market to be efficient are (Hendrikson, 1991):

- the lack of the costs of the title transactions;
- all the information to be valid, free and balanced for all the market participants;
- transaction participants in the capital markets to have homogeneous foreseeing regarding the implications of the obtained information.

These aspects are sufficient in the set up of the theoretic model of the efficient market, but they are not necessary in the real world. The only necessary condition for a market to be really efficient is that every relevant information to be included and without prejudice in the price of the valuable title. When the efficiency of the capital market is discussed in the financial literature, in fact it is about the problem of price set up. The process through which the value of a title is decided is not discussed. In the capital market it has to exist a certain number of potential buyers and sellers of the same titles, the opinions regarding the real value of the title are different. Some of those who invest can be more informed, others will try to estimate the next results, using past pieces of information.

The last price represents the general agreement of these litigious opinions when we notice the homogeneity of the ideas and actions it means that the efficiency of the capital markets is lees certain. Here it is the problem of the way in which we put together the different opinions and individual tendencies of all the participants on the market. If the capital market is efficient then the valuable titles prices should reflect all the available pieces of information.

A market is efficient if, due to a set of information it is impossible to obtain economic benefit from transactions because of knowing some points of view (Watt and Zimmerman, 1986). So that, having a number of pieces of information (for example the accountancy results annually published) this is worldly accepted by all market participants and the competition determines on a certain level the prices to allow the obtaining of an income equal with the market risk (the economic profit is zero because the profit is the same as the paid price).The market risk can be obtained from the market return. In an uncertain world there are several levels for return instalment for every risk level.

The tests done ignored the costs of the obtaining information. These costs vary considering the wanted set of information (for example the cost for obtaining information referring to the preceding periods is low compared with the costs for obtaining confidential information from the managers of the companies.

We can divide the ways of manifestation of the efficient market into 3 categories (depending on the conclusions resulted from the empirical researches): the weak form, the half strong form and the strong form of the efficient market.

1. **The weak form of the efficient market** considers that the set of information Et contains only the past pieces of valuable titles or only the information about the old values of the title transactions. This kind of information is available for a high number of users at a low cost so that no unusual benefits can be obtained this way. The new information is included in the

price; if the new information will be gradually included in the price, the modification of the price of the title could offer a hint about the size and direction of the next change of the price.

A capital market is efficient in the weak form if it doesn't permit the obtaining of a profitable stock exchange evaluation of the valuable titles, using the included information in the past prices. On such a market all the available information was already used and taken into consideration in the price of the transactional assets. This means that the prices on such a market will have a random evolution because at random means unexpected. This theory comes in contradiction with the chartist thinking which sustains that the practice of shares can be foreseen by studying the past change of the prices, using conventional tendencies and methods.

2. **The half strong form of the efficient market** considers that the information It contains all the available information (both past and the present ones) existent on the market at a determined (t) time. These pieces of information are already available at a low cost, so we can not notice unusual income in this case. Although the accountancy information doesn't represent the only source of public information about the companies it is an important element in the decisions. This form of am efficient market assumes that when the annual accounts are published the information contained in these reporting documents had already been known or anticipated (for example the current profit of the financial activity can appear in the newspapers before the publishing of the annual accounts.

So that the price of the valuable title will reflect the information in the moment when this becomes available through publishing or anticipating, no more price adjustments are necessary when the annual accounts are published (the information was already included in the price. The annual accounts still represent a confirmation of the foreseeing of those who invested and permit checking the relevance of the other alternative sources of information. Empirical researches done to test the efficient forms of the capital markets draw the conclusion that nowadays only the half strong form or the efficient market theory can be revealed in a certain number of value stock exchange around the world (NYSE, London Stock Exchange).

3. **The strong form of the efficient market**: in the empirical tests realised for validating this form the information will have all the pieces of information known by everybody at the t time. All the information about the past, present and future of the companies include the confidential information about managerial plans for interests, price strategies. There are still very few chances for such a market to be real.

If the accountancy would serve social functions then it should publish all the relevant information as soon as possible to minimise the possibility that some participants to use the advantage of holding some private information, information that permit them to obtain an outstanding gain. Here we deal with the gain's transfer from one participant to another. Another consequence of the using of the private information by a small group of participants would be the fact that in this case the resources aren't ideally allotted.

The next question is on what level the available information analyse on the market is appealing for emitting a high income if the efficient market theory proves to be real? Many statistics resulted from empirical researches proves that this theory is valid only in some stock exchange in the world, at least in its half powerful form (Samuels and others, 1995). In 1985 Jensen sustained that ' the efficient market theory is the best-settled fact among the social studies. No theory was better documented than the efficient market theory. And there are several scientific studies which indicate that in stock exchange from USA the price of the valuable titles contain all the existent information (Jensen, 1986).

It also has to be noticed the difference between the American and European stock exchange. The New York and London stock exchanges proved to be efficient while the Paris and Frankfurt had provided little proves and about the other European stock exchanges can't be said anything (Samuels and others, 1995).

Scientists on both sides of Atlantic keep analysing for more than twenty years the way in which the price of the title react at new information. It could be considered a blasphemy that the stock exchanges are not efficient. That the valuable title price reflects all the available information on the market it doesn't mean that the price is equal with the fundamental value of the title. The essential problem here is that we don't know what does the fundamental value of a title is (we have to count on evaluating methods which are based on assumptions).

Other difficulties result from the lack of understanding or misunderstanding of the efficient term in the efficient market theory context. Efficiency in these theories means that the price of the valuable titles is adjusted to reflect all the available information and that not everybody interprets in the same way the information.

We also have to present the importance of information asymmetry. In the 80's the managerial policy of reflecting the company results in the most attractive way it became a subtle art representing a frequently used practice in USA and in Great Britain

The manipulation of the results can determine that a small group of participants on the market to have information of which the others can't benefit. In a world in which information is transmitted through multitude channels the capital market learns to make the difference when a company has money problems which can't be hidden forever through accountancy subterfuges. If the difficulties about the cash of some companies become known and the capital market is efficient at least in its half-strong then the present price of the valuable title includes the implications of the difficulties connected by cash flow over the results.

The price will be decided so that those who invest to earn on average the adjustment rate of the market, adjusted at its risk (in the half strong form of efficiency the capital market isn't tricked by the accountancy sums.

Modigliani a Nobel Price winner for economy expressed his concern regarding the capital market efficiency, pointing that there still are irrational participants who make the 'high rationalism' theory of all the valuable market participants, which is the base of the financial models, to be false (Modigliani, 1988). Modigliani thinks that the market failed in evaluating the valuable titles in the important inflation period, which concluded to predictable and repetitive mistakes. Modigliani and Cohn provide a scientific explanation of the capital market shortcomings – the irrationality of a group of participants (Modigliani and Cohn, 1978).

The assertion that the best stock exchanges in the world are efficient was, for a long time accepted as the ultimate truth. To sustain the contrary would have been a conceptual misunderstanding or the agreement with the numerous empirical researches that sustained these rules. But recently these were analysed again and a number of anomalies were repeated.

Fama and French also proved that it is possible to foreseen the shares price from the small companies, contrary to the tests results concerning the efficient market theory done on big companies (Fama and French, 1988). The statistical tests can't detect the possible inefficiency of the market – there are differences between the valuable title prices and their real value.

Nowadays the idea of a efficient market in its strong and half strong forms is weaker because the critics have at least two directions. The firs one refers to the question if we can test the efficiency or inefficiency of a capital market. The new mathematics analyse techniques shows us that there is always an unexplainable foreseeing of the market (the software models offer the opportunity to exceed in performance the market, at least for a certain period). The second direction of the critics is based on the existence of black wholes that are exploited by sophisticated participants:

- Unusual changes of prices on short terms – the market has the tendency to exaggerate on short terms. Highly evaluating the information and low evaluating the base data (for example those who invest exaggerate the income sum and determine the gap between the price and the real value of the share because they have a restrictive orientation about the close future). Those who sustain of the efficient market sustain that these short-term anomalies are rectified or adjusted in a longer period of time.
- Temporal and temporary anomalies – researches from USA demonstrated the modifying tendencies of the prices of the valuable title determined by a set of astonishing elements. When the transactions take place (the prices rise in the first 15 min from the opening of the stock exchange meeting then decrease in the next 45 min – an explanation could be the wick-end effect); the days of the week (it was proved that the income obtained from the transaction of the titles on Mondays are lower than during the rest of the week); months of the year (January demonstrates that the highest income can be obtained due to transactions done in this month; in Great Britain was demonstrated the same phenomena on April, an explanation can be connected with the end of the fiscal year when the necessity of decreasing of the tax base comes and rises the need fir cash)
- Companies size anomalies. On long term the income obtained by share holding of small and medium companies are higher than the average performances of these companies. If the

market is efficient this should happen only when the risk is higher than the average risk of the market. Do the small and medium companies' shares have a higher risk than that of the market? There was an attempt to explain this phenomena from the lack of information point of view. The small and medium companies offer less information than the big ones, so the price of the title doesn't reflect the real value of the companies. The small companies risk, paradoxically its tendency is to rise the average risk of the market but it is not a complete explanation, yet.

- The successful foreseeing possibility of future prices using indicators of price earnings or dividend yield.

On the other hand the theoretical conditions for a market to be efficient are not valid in practice. For example the available information on the market aren't equally given to all the participants. There are confidential pieces of information that are known by the managers of the companies or a small group of persons. The valuable title transactions on the capital market imply high intermediate costs that decrease the hypothetical income. Not all the market participants have a rational behaviour, there are the so called noise traders who use transactions at random or those who take into consideration only the numbers of the economic result.

But which are the conditions for a market to be efficient? The efficiency dynamics is determined by competition: the capital markets will become competitive when there will be several buyers and sellers on which will evaluate the titles trying to obtain unusual high income. The market efficiency doesn't mean that it isn't possible to obtain abnormal income but impossibility of getting them only with the published information. As a conclusion, the role of the market efficiency is that the valuable titles won't be over or low evaluated due to a set of published information. The changes that appear because of the accountancy embellishing of the financial situation of the companies don't modify those title markets.

Even in the functional fixation theory the participants are concentrated on numbers and not on the information content. In the case of the efficient market the content and the meaning of the information will be included in the price and not in the accountancy sum. The efficient market will read only those pieces of information that have a meaningful signification.

Without a direct evaluating method of the benefits supplied by accountancy information to the capital market, the attention will concentrate on the costs. Several types of costs should be taken into consideration:

- the direct costs of the production and publishing information;
- the direct costs of the alternative sources of information;
- the evaluating and analysing costs of the information;
- the cost that those who invested should pay if they would produce the information;
- the indirect costs – for example the negative aspects of publishing the information over a company activity.

The statement cost-benefit indicates that the information which is understood and used by only few persons, it should not be produced. Also the synthetically accountancy documents shouldn't exclude relevant information because the understanding difficulties for some of the users .

In the last years a new research area developed surprisingly – the behaviourist science. This study the way in which the persons look for, modify evaluate and combine the information to draw a conclusion and make a decision. This new subject on the psychology, statistics and management borders is extremely relevant in specific areas like accountancy, marketing and finances.

With all the importance of the economic theories that offer an objective point of view in such a debated domain of the decisions is still important to understand the way individuals evaluate and use information. Of course the economists and psychologists will agree (that is very seldom) that the individuals don't react rationally all the time and in contact with the environment they learn to become more propitious.

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HOW WE CAN REDUCED DIFFERENCES IN ADOPTION OF IFRS BETWEEN DIFFERENT COUNTRIES – A POINT OF WIEV BASED ON ROMANIAN ACCOUNTING SYSTEM REALITY –

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Résume : Changer, s'adapter, sont des mots qui circulent beaucoup en Roumanie depuis 18 ans. Faisant partie de l'ancien bloc communiste de l'Est européen, la Roumanie a fait sienne les principes de l'économie planifiée, dont le système comptable, de contrôle et d'audit spécifique à cette période. Apres 1989, le système comptable roumain a connu, pendant la période de 18 ans qui s'est écoulée depuis le changement de régime, trois changements ayant un caractère significatif. Ces évolutions se sont produites sous l'incidence d'un certain nombre de facteurs externes, mais également internes.

Quel doit être le rôle des organisations de normalisation et des organisations professionnelles régionales et de quelle façon peut-on soutenir le processus d'uniformisation des standards face à une mondialisation croissante?

Mots clés : changer, normalisation, organisations professionnelles, standards IFRS

Changer, s'adapter, sont des mots qui circulent beaucoup en Roumanie depuis 18 ans. Il faut accepter de remarquer combien il est difficile de changer, de s'adapter, d'intégrer de nouvelles visions, méthodes, attitudes, etc. Comment accepter facilement de considérer des qualifications, des concepts, des formations, des diplômes, des titres professionnels, du jour au lendemain comme obsolètes, comme inadaptés ? Cela représente pour certains esprits des efforts quasi insurmontables que le temps et les nouvelles générations devraient assumer. Et pourtant le pays, son économie, ses entreprises doivent réaliser cet effort à tout prix.

Il est démontre le lien direct entre la politique économique d` un Etat et son système comptable. Ce lien est encore plus évident dans les pays avec des systèmes de droit bases sur des codes de lois.

Faisant partie de l'ancien bloc communiste de l'Est européen, la Roumanie a fait siennes les principes de l'économie planifiée, dont le système comptable, de contrôle et d'audit spécifique à cette période.

Il est également nécessaire de discuter quelques caractéristiques significatives de cette période étant donne que beaucoup d` entre eux manifestent encore leur reminecence aujourd' hui.

L`économie planifiée a induit l `existence d`un système comptable base sur un plan de compte standardise, avec des opérations comptables unitaires et limitées, sans provocation pour les spécialistes. L`inflexibilité du système comptable a présuppose l` élimination jusqu a la disparition de la nécessite des rationnements en comptabilité. Ceci a génère l`accentuation de l`aspect technique au détriment du concept, changeant la tonalite des discours sur la comptabilité.

Les orientations politiques qui se sont faites jour après la fin des années 1989 ont conduit la Roumanie vers l'adoption d'un modèle de référentiel économique différent : l'économie de marché de type libéral et les méthodes comptables utilisées par une des économies développées de l'Europe, plus particulièrement celle d'un pays vis-à-vis duquel il a existé une relation culturelle compatible forte et profonde. C'est ainsi que le système comptable roumain a assimilé, pendant les premières années, période dite de transition, les éléments fondamentaux de la culture comptable française.

Malgré cela, la reforme du système comptable roumain s` est produit sur fonds de concepts simplistes a propos du système comptable.

Nous ne faisons pas référence aux aspects lies a la normalisation même si celui-ci a connu des dérapages inhérents. Nous devons accepter le fait que la reforme d un système comptable réussit quand se produisent les changements prévus au niveau pratique. Les comptables professionnels sont ceux qui sont appelles a mettre en œuvre et a valider la reforme d` un système comptable. Que se passe t-il si au même moment l` organisation professionnelle est elle-même en reforme ?

La compréhension des difficultés issues d` un changement nécessite aussi le fait d` assumer avec exactitude la conjonction existante. En Roumanie de 1990, la majorité des personnes détenant des fonctions supérieures, y compris dans le domaine comptable et dans la zone de réglementation de celle ci, étaient le produit de l éducation du système communiste. Beaucoup d` entre eux n` avaient plus l` age pour lequel un changement soit une provocation. Pour cela, les années de reforme du système comptable roumain ont été marquées souvent par des attitudes nostalgiques voir même de recul.

Cette conjoncture, un rapport comptable oriente de façon prioritaire pour l` information fiscale et une profession comptable en formation donne un contour des coordonnées d actions de la comptabilité roumaine de l époque.

Le système comptable roumain, a subi l'influencé par les changements et événements qui ont eu lieu au plan international au début de l'an 2000 et qui ont touché des entreprises multinationales de premier plan, sans négliger les décisions réglementaires qui ont suivi et qui ont engendré des modifications significatives du système comptable roumain, suite à des débats politiques difficiles entre ceux étant pour le maintien de la référence au plan comptable français et ceux proposant l'adoption des US GAAPS, voir les UK GAAPS, voir les standards IAS/IFRS.

De ce fait, le système comptable roumain a connu, pendant la période de 18 ans qui s'est écoulé depuis le changement de régime, trois changements ayant un caractère significatif.

Ces évolutions se sont produites sous l'incidence d'un certain nombre de facteurs externes, mais également internes.

I. La réaction immédiate du Président Bush aux USA, suite aux affaires ENRON, WORLDCOM, etc., dont des effets se sont propagés jusqu'en Europe et en Asie est à l'origine de modifications essentielles par rapport aux référentiels comptables et d'audit.

Sous l'influence impérieuse de ces modifications, le système comptable roumain a essayé de s'adapter, tout en continuant de stabiliser un système comptable crédible.

Une caracteristique de ces scandales financiers aete le degre eleve des rapports errones de la situation financiere emis par les. La perte de credibilite des informations financieres a cree une situation sans precedent, amenant des mesures sans precedent. La loi Sarbanes-Oxley, a cree le Public Company Accounting Oversight Board – P.C.A.O.B.

On a parle alors d` un fait sans precedent , la fin de l` autoreglementation des professions comptables aux Etats Unis.

- La perte de credibilite en l'informations fournies est devenue un probleme prioritaire sur l'agenda de l'organisme international des professions comptables. La Federation Internationale des Experts Comptables - IFAC - a sollicite a un groupe operatif de travail un rapport pour constater la situation et proposer des solutions. Une des constatations du rapport s est refere au fait que la globalisation des marches financiers cree une dimension internationale aux problemes , ou l'interaction entre le national et l'internațional aux rapports financiers, est critique. Les Reglementations nationales existent et dans la majorite des cas , les situations financieres sont presentees en conformite avec celles-ci. Les compagnies qui ont des titres quotees en bourse en dehors de leurpays d origine vont continuer a etre non seulement sujettes aux regles comptables de leur pays d origine mais aussi a celles des pays ou leurs titres sont quotes a la bourse. La presence sur le marchea plusieurs sets de situations financieres emis par la meme firme , mais avec des contenus differents, chacun pretendant qu il offre une image fidele, faiblit la credibilite des informations fournies.

La solution a ces problemes n'est pas l' adoption par chaque pays de standards emis par un autre pays. L` alternative est l` adoption d` un set neutre de standard , emis par l`IASB, qui peut etre accepte dans chaque pays , pour etre adpote comme standard national ou l` incorporer dans les standards existants.

II. A coté de ce type d'influences externes, les milieux politiques, économiques et professionnels roumains, les changements de cadre de vie, ont influencé de façon importante l'organisation de la comptabilité, du contrôle et de l'audit au plan légal. Pour comprendre, il faut mettre en évidence les attitudes des normalisateurs, des organisations professionnelles concernées ainsi que des professionnels eux-mêmes, sans omettre de tenir compte de ces effets par rapport aux marchés des capitaux, à la fiscalisation, la formation, etc.

Bien évidemment, l'influence des facteurs externes sur le système comptable roumain et sur l'organisation professionnelle comptable, a été indirecte. Cependant, les normalisateurs roumains ont essaye de tenir le pas aux changements produits au niveau européen et international. Par ceci s` explique le fait que des 1999 ont été élabores des règlements comptables destinées aux grandes entreprises, dans lesquels ont été repris les lignes directrices des Standards Internationaux de Comptabilité et en 2001 des reformes significatives du système comptable roumain ont vues le jour par la modification des lois comptables dans lesquelles ont été introduites un vocabulaire comptable qui incorpore la système comptable roumain dans le cadre conceptuel international.

Apres l'amendement de la Directive Européenne 4- a en 2003, le normalisateur roumain a pris des mesures nécessaires pour la modification des règlements comptables en accord avec le contenu de la Directive.

En plus des faits de ci-dessus, les organismes professionnels ont prépares des professionnels dans 1le sens des responsabilités et des mesures assumées par l' IFAC. Début 2000, les programmes de formation professionnelle continue contient les thèmes a propos de International Accounting Standards. Dans le même sens, les démarches professionnelles pour les missions de audit font référence a l' International Standards of Auditing.

III. Depuis le 1er janvier 2007, la Roumanie est devenue membre à part entière de l'Union Européenne. Les efforts qui auraient du être consentis aux domaines du chiffre avant cette date n'ont pu être entièrement respectés. Quels sont les challenges qui nous attendent au plan comptable, du contrôle et de l'audit vu le nouveau statut de notre pays ?

Depuis le 1 Janvier 2007, les sociétés commerciales de Roumanie ont a la disposition un cadre légal d` organisation dans lequel ont été introduits les éléments significatifs des principes de gouvernement corporatif de l` OCDE.

A la date de rédaction de cet article (Avril 2008), existe en Roumanie un projet de loi sur l` audit statuaire et la création d un conseil de surveillance des activités d audit statutaire, projet qui a en vue l` implémentation de la Directive 8 sur l'audit statutaire.

Bien évidemment , vont suivre d autres changements qui affecteront, de façon directe ou indirecte, le domaine de la comptabilité et d audit, dans le but de situer le cadre légal et réglementaire roumain dans les coordonnées de l` européen.

Reste en discussion les aspects lies a la perception de chaque professionnel comptable roumain sur son rôle et sur la reforme de la comptabilité et au mode de compréhension des rigueurs déontologiques qui supposent la qualité de professionnel.

Sous quelle forme ceux-ci peuvent-ils contribuer à l'élimination et/ou disparition des décalages existants entre les différents systèmes de rapport financier au niveau européen, entre les pays francophones, voir au plan international?

Quel doit être le rôle des organisations de normalisation et des organisations professionnelles régionales et de quelle façon peut-on soutenir le processus d'uniformisation des standards face à une mondialisation croissante?

Il faut partir d'un double constat :

1/ - Tous les pays européen, leurs entreprises, ne sont pas égaux face à l'adoption des standards internationaux, pour ainsi offrir les meilleurs critères de transparence au plan économique aux investisseurs, renforcer la confiance des fournisseurs et des clients.

2/ - Pourtant, ils affrontent tous de façon égale, avec des armes et des critères différents, les obligations de l'Organisation Mondiale du Commerce, les difficultés d'un marché devenu mondial.

Regardons avec attention ici, les aspects financiers de l'adoption du référentiel IFRS. Est-ce que le fait que certains pays ne disposent pas de moyens financiers suffisants pour assimiler rapidement ces standards ne représente pas pour ceux-ci des handicaps au développement normal de leurs économies, de leurs entreprises ?

Est-ce que cette situation ne justifie pas pour certains un moyen convenable de manque de transparence, utile à exploiter pour favoriser des intérêts particuliers spécifiques, au détriment des citoyens et du pays ?

Ne pourrait-on imaginer un système favorisant l'adoption par les pays d'un standard unique, universel, permettant de conforter une même vision, une même image, une analyse égale où que l'on soit sur notre planète et quel que soit notre langue d'origine pour ainsi renforcer la crédibilité, la sécurité, la qualité des informations financières ?

Une solution pourrait être envisagée, vu les coûts que cela implique pour certains pays : que les pays riches aident les pays qui n'ont pas les moyens, au travers la coordination d'organisations tels que l'UNCTAD et l'OCDE, l'Association Francophone de Comptabilité, vu ses spécificités ayant un rôle central à jouer face aux pays francophones. Les financements étant orchestrés par le FMI et/ou la Banque Mondiale.

Car dit Ovide « le fardeau est plus facile à porter quant on le porte avec de la bonne volonté ».

Ainsi, sans que cela soit une utopie, les pays disposant d'une économie développée, seront en mesure d'agir de façon concrète pour réduire les inégalités existantes dans les pays concernés par le dialogue Nord-Sud, qui trouvera de cette manière un nouvel élan.

Le décalage qui existe entre les pays du fait de cette Tour de Babel que constitue encore aujourd'hui l'adoption définitive d'un standard applicable à l'ensemble des états financiers des entreprises au plan universel se trouve aggravé par les coûts des investissements financiers que leur intégration suppose et que beaucoup de pays ne sont pas en mesure d'assumer, d'affronter dans de bonnes conditions ou en perdant un temps important.

Ne peut-on pas imaginer, dans une prise de conscience générale, que puisse naître un élan de solidarité susceptible d'aider les pays dans le besoin ? Peut-être cette idée, cette initiative, peut prendre forme au sein de la communauté francophone qui ainsi donnera l'exemple.

Sur un autre plan, cette initiative aurait l'avantage et le mérite de forcer la communauté internationale à se mettre d'accord sur le contenu précis et nécessaire de ce standard « universel ».

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CONTINUING PROFESSIONAL DEVELOPMENT – A CONCEPT AND REQUIERMENT FOR PROFESSIONAL ACCOUNTANTS

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IES 7 IFAC Standard prescribes that member bodies implement a continuing professional development (CPD) requirement as an integral component of a professional accountant's continued membership. Such a requirement contributes to the profession's objective of providing high-quality services to meet the needs of the public (including clients and employers).

This Standard introduces the concepts of continuing professional development as relevant, verifiable and measurable learning activities and outcomes.

Key words: continuing professional development, International Education Standards, professional accountants

Financial scandals that culminated with ENRON and WORLDCOM firms' bankruptcy provoked in USA the providing of some measures concerning the accountancy and audit. Sarbanes-Oxley law, published in July 2002, introduced public surveillance mechanisms of accountancy and audit firms, together with other measures due to assure an increased protection of investors by improving the honesty and safety of information published by the quoted companies.

On this basis, the international organism of professional accountants initiated a series of measures that have as main purpose the regaining of public's trust in the quality of services provided by its members.

Among these measures those initiated by The Committee for Education and finalized by publishing of International Education Standards for Professional Accountants (IES) may be found.

In October 2003, IFAC published the first six education standards (IES 1-6), whose stipulation foreseen, in essence, the following: the establishing of a conceptual frame of international standards for education; access requires in a professional education program (IES 1); the content of professional accountancy education syllabus (IES 2); professional skills (IES 3); the values concerning the ethics and professional behavior (IES 4); practical experience requires (IES 5); the professional capacities and competences assessment (IES 6).

In May 2004 followed the publication of International Standard of Education 7 (IES 7) entitled Continuing professional development: a permanent education program and continuous development of professional competence. The purpose of this standard is to offer references to member organisms in order for these to adopt an engagement concerning the organization of permanent compulsory education for professional accountants, as well of the resources of these programs, to establish for its members the development and maintenance conditions for professional competence, necessary for public interest protection and to monitor and assure the continuous development and maintenance of professional competence of professional accountants members.

The stipulations of this standard are based on the principle of professional individual accountant's responsibility for maintaining and development of professional competences necessary for providing high quality professional services to its clients, employees or other interested persons.

The attendance of the programs implemented by professional organisms concerning the continuous professional development constitutes an integrated part of the requires necessary for maintaining the member quality of each professional accountant.

We have proposed to present and comment upon some of this standard's settlements.

The member organisms should promote the importance of continuous professional competence improvement and should assume the obligation of continuous preparation for all professional member accountants.

Also, all professional accountants have the obligation to maintain and to develop the professional competence according to the nature of their missions and to the professional responsibility that it is presumed. This obligation concerns altogether all professional accountants, no matter whether they are involved in traditional missions of accountancy nature or in other missions.

The permanent education process starts early, in the same time with the general education, it continues with the study program designated to obtaining of the professional qualification and afterwards it is a part from each individual's professional carrier. The continuous professional training program is an expansion of education process that leads to qualification as a professional accountant. The professional knowledge, the abilities, the professional values, ethics and behavior are obtained on the basis of continuous training and are improved according to professional activities and responsibilities of each professional.

The professional organisms should facilitate their members the access to opportunities and resources concerning the continuous professional training and to assist the professionals during these activities.

Also, the professional organisms should require all the professionals the maintenance and development of relevant professional competence for missions that are exerted and in according to professional responsibilities that are engaged.

The continuous professional training program is applied to all professionals, no matter the activity sector where they work and the size of the business, because all professionals have professional ethics obligations, both for clients and for partners of professional cabinets of other interested persons, and have to prove their capacities of engaging the responsibilities in a competent manner. Also it has to be taken into consideration the involvement of all professional accountants, from all activity sectors, in the process of financial reporting, their assuming of responsibility for public and the maintenance of public's trust in professional services. The public is relaying on the good reputation of professional accountants.

More than that, all professional accountants should be aware of the fact that any lacking in competence or digression from professional ethics supposes a consequence upon their reputation and profession's importance, no matter the activity sector or the position where it works.

It should be brought under discussion the fact that all economy sectors met quick environment changes and, in consequence, have to adapt strategic business plans appealing to specific competences of professional accountants.

Professional accountants should evaluate the professional training activities and its results according to continuous professional training program' requires of the organism from where is a part. The continuous training activity may be measured in terms of effort or time, or by other recognized methods that evaluates the competences acquired or developed.

This standard is also based on the principle that a certain part of the preparation activities may be checked. This supposes that the professional training may be checked in an objective manner by a competent source. The other activities of the professional may be evaluated but not necessary verified. For this, the professionals are obliged to keep all the files and documents concerning the continuous professional training, hereby, at professional organisms' request, to be able to provide sufficient elements in order to prove the conformity to the professional organism requires.

The aim of the continuing professional development is to assist the professional accountants in developing the professional competence with the purpose of providing high quality services with the purpose of satisfying the public interest. The achieving of this aim and the fulfillment of the continuous professional training's requires may be made by three different procedures:

- The intercession based on entries, by establishing a specific number of activities as being adequate with the maintenance and developing of professional competence.

This intercession supposes that the professional organisms to solicit to their members to respect the following preparation rigors:

  - To attend at least 120 hours or its equivalent during the professional training activity for each three years period, from which 60 hours of its equivalent in preparation units, to be ascertainable;
  - To attend at least 20 hours or its equivalent each year;
  - The training activities' evaluation procedures and methods should satisfy the above mentioned requires.

The trials that the professionals may use for checking procedure are the following:

- Courses decks, technique materials;
- Attendance dossiers, enrollment papers or confirmation papers from the organizers of the continuous professional training activity;
- The independent evaluation of the attended training activity;
- The confirmation from a lecturer or program organizer;
- The confirmation for a partner of cabinet about the attendance to internal professional training program.

• The intercession based on exits, with the require that the professional accountant to prove, by the procedures that he/she followed, that the professional competence was maintained and developed.

This supposes that the professional organisms would require from the professionals to prove the maintenance and development of the necessary competence by periodic presenting of proves, concerning:

- That have made the object of a checking form a competent source ;
- That a recognized evaluation method was used.

Concerning this intercession, the following may be considered as proves:

- Verification of the obtained training or of the resulted performance;
- Evaluation on the basis of papers or materials published or reviewed;
- Publishing of articles as result of research programs;
- Periodical reexamination;
- Obtained professional qualifications (specializations or other qualifications);
- Activity consigned by objective verification, with reference to external qualification route;
- Qualification routes applied by professional organisms, others than the self-assessment and evidence supply;
- Evaluation objectives that should certify the preparation procedures from the partners of professional cabinets or of the organizers of training programs.
- The combined intercession, which is realized by the effective and efficient combination of the two above mentioned intercessions, establishing a number of compulsory activities and the evaluation method of the obtained competences by other procedures.

The professional organisms should establish systematic procedures to monitor the manner in which the professional accountants fulfill the professional continuous training requires and to establish corresponding sanctions for the digressions from these requires, including for reporting mistakes and for flows in maintaining and developing their competence.

In composition of monitor procedures, the professional organisms should take into consideration the members that have increased responsibilities against the public and to establish more rigorous procedures for them.

The monitor procedures may require that the professional accountant to satisfy periodically the following requires:

- To transmit a declaration concerning the manner in which they respected the ethical obligation concerning the maintenance of knowledge and abilities necessary to be competent;
- To hand in a declaration concerning the manner in which they respected the requires of continuous professional training; and/or
- To provide an evidence of professional training activities or of verification of competence maintenance and development.

Other monitor procedures may include:

- The audit of a sample among the professionals for verification of the conformity with the requires of continuous professional training;

- It may include the reviewing and evaluation of training plans or documents by means of practice inspection procedures; and/or
- To solicit to the partners of professional cabinets to include continuous professional training plans and systems to monitor it in their own programs of quality assurance.

In order to realize the maintenance and development requires of professional competence, the professionals may train themselves by different methods, such as:

- Courses, conferences, seminaries attendance;
- Self-training modules or training programs in the frame of the cabinet ;
- Publishing of papers in professional or university environment;
- The attendance at the technique committees;
- Teaching at courses or sessions of continuous professional training;
- The elaboration of official studies concerning the professional responsibilities;
- Active attendance to conferences, sessions, work groups;
- Writing articles, books on this field;
- Research activity, including the study of professional literature of specialty press, in order to put in practice the knowledge.

Concerning these activities it should be mentioned that a single repetitive activity cannot assure the requires of continuous professional training.

It also should be mentioned the aspect that the measure unit used in evaluation activity of performances is hour. As an alternative, the course hour may be used or its equivalent. In evaluation procedures, the time used for an activity, the units allocated to an activity by an organizer of continuous professional training or the units prescribed by a professional organism may also be taken under consideration.

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THE FINANCIAL AUDIT – THE GUARANTOR OF THE TRUE AND FAIR VIEW SUPPLIED BY THE FINANCIAL STATEMENTS

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Abstract Financial audit has the finality the issue of an opinion regarding the measure in which the financial statements are in according with the supreme scope of true and fair view and the respecting the referential of relevant accounting norms. Because of the subjectivity of this concept of "true and fair view" we can't say that there are relevant instruments for measuring the level of fidelity reflected by the financial statements. Despite the fact that the auditors know that there is no formula, mathematical or other nature, through which to measure, quantify the level of the fidelity, but they have the knowledge and the capacity needed to identify at least those situations in which the true and fair view is not respected, using the professional judgment for establishing the level in which the financial statements gives a true and fair image.

Key words: financial audit, financial auditor, true and fair view, financial statements

The role of the financial auditor is to increase the trust of the users in the financial information presented in the financial statements, to give a reasonable assurance that the accounting information was managed and presented in conformity with the accounting standards and with the general accepted accounting principles. In this way, *International Audit Standard (ISA) I20 "General framework of the audit standards"* says at the third paragraph:

"… the financial statements are made and presented annually and are designated to the common needs of informing of a large number of users. Most of these users take their decision based on these financial statements, being the only source of information, because they have no possibilities to get additional information which should satisfy the specifically informational needs. So, the financial statements should be made in according with one or combination of: International Accounting Standards, National Accounting Standards; and another general framework of financial reporting compulsory and comprehensive, which was settled for using in financial reporting and which is identified in the financial statements".

For underling the essence of the financial audit, the sense of containing and his scope, we consider that one of the relevant definitions of the financial audit is that one issued by the famous American specialist[294]: *"The audit consists in collecting and evaluating some evidence regarding information, in the scope of determination and reporting the level of conformity of the information regarding to a series of pre established criteria. The audit should be realized by a competent and independent person*."

In our opinion we consider that a definition which could completely reflects the essence of the financial audit would be:

„The financial audit is an examination realized by a competent and independent professional person, in that manner in which he can express an opinion very well argued and independently issued, regarding the validity and fairly applying of the standards and accounting principles from the initially referential system agreed and regarding the true and fair view, clearly, coherent and completely expressed in the final financial statements established and presented by a company, the supreme objective of the audit is that one to contribute at the improving of the quality of audit using."

[294] Arens A.& Loebbecke K., (2003), *Audit: O abordare integrată*, Editura Arc

The objectives of the financial audit are presented in the *ISA 200 "The objectives and general principles which governance an audit of the financial statements*" and in according with this the **objective of an audit** of the financial statements is to give the possibility for the auditor to express an opinion regarding the financial statements, if these are established respecting all the significant aspects in conformity with a framework identified by the financial report.

The expressions used in the issue the auditor opinion are **"give a true and fair view"** or **"present in a fidelity mode, respecting all the significant aspects",** terms which are equivalent. For issuing an opinion the auditor have to get the audit evidences enough and adequate, in the measure to be capable to formulate conclusions which will be base for its opinion.

The opinion of the auditor increase the credibility in the financial statements and give a higher level but not an absolutely of certification. The absolute (ideal) level of certification is impossible in audit because of few factors like:

- The necessity of applying the professional judgment of the auditor in his work;
- Using the tests for getting the audit evidence, which are mate on some sample, the testing of the whole information being very difficult even impossible;
- The most number of audit evidence available, through his nature are rather persuasive than conclusive;
- The obviously limits of every accounting systems and internal control.

Despite of increasing of the credibility in financial statements due to auditor opinion, the user of the financial statements do not have to consider the auditor opinion issued in the auditor report the absolute assurance, guarantee of the next viability of the company or of the company efficiency or its productivity generated by the management of the company. We saw the finality of the financial audit mission: the issue of an opinion regarding the measure in which the financial statements respect the supreme condition of true and fair view, and also the conformity with the relevant accounting standards.

Thinking at the fact that the defining the concept of true and fair view is a very moot situation is very hard to measure the level of the objectivity of the issued opinion of the auditor. This difficulty is generated by the fact that we do not have defined the objective instruments for measuring of the fidelity reflected by the financial statements. It is true that are issued norms and accounting standards and audit standards which applying should conduct at the true and fair view but at this moment we do not have a general formula to guarantee the quality of the true and fair view.

With this entire obstacle, the financial auditors faced this challenge having a permanent concerning for improving the method thus to obtain a high level of objectivity and assurance in expressing the opinion regarding the true and fair view. They use the principle that they have at least the necessary knowledge, they have the necessary qualities to identify those situations in which the true and fair view is not respected. To the professional judgment is assigning a major contribution in realizing their demarche in appreciating the true and fair view[295].

For a better understanding of the financial auditor role in evaluating the true and fair image supplied by the audited financial statements, we have to consider few elements specific for the financial audit which can have an influence in evaluating the quality of the true and fair view reflected by the financial statements:

- First of all, the financial auditor will check the conformity of the financial statements with some criteria defined before or much better with a referential accounting system. If this referential system includes the general accepted accounting standards than we can settle the hypothesis that respecting these norms in establishing and presenting the financial statements will assure in the most situations the respecting of the true and fair view. But we can't take to the absolute the certitude given by the respecting of the accounting standards, and this because the standards have settled some situations when it is possible to use alternative treatments, some derogation, in the context in which in this way it contributes to a better true and fair view supplied. These derogations represent the prove of the facts that standards didn't forecast all the complex situations, which could appear in daily activity of a company,

[295] McKee T.E.& Eilifsen A., (2000), W*hat is all the fuss about materiality*- Ohio CPA Journal, October-December, Vol. 59 Issue 4

and that emphasize the relative character of the true and fair view resulted by respecting the accounting standards.

- Another element that we have to consider is the fact that the financial auditor can't check or test every transaction that generates effects in the financial statements because the limited time allocated for the auditing. Because of this we have to accept from the beginning the error rate which could not be eliminated. We can notice here another aspect: **"Which is the level of this error rate which should be accepted, thereby the opinion issued regarding the true and fair view reflected by the financial statements to give a reasonable assurance level?"** The level of this error rate or significant threshold is very important, with direct effects for appreciating the quality of true and fair view reflected by the financial statements. The audit standards define the significant character of information being determinate by the effects which could have the ignorance or its inexact presentation on the economical decisions of the users of this information.
- Another important element is the link between the significant threshold and the user whom is addressed the audit report, the concrete form of the audit work. So, the auditor, when is establishing the significant threshold have to take into consideration the type of user whom is addressed the audit report, and the needs of information of this one. Practically, he has to identify the connection between the economical decisions which could be taken and the information presented in the financial statements. Depending of this connection, he will try to find that errors which if they appear they could have an important influence for the decisional process of the users of the accounting information and depending of these errors he will settle the significant threshold under that limit that the decisional process wouldn't be affected.

The importance of the right establishment of the significant threshold is important because of the next reasons:

- If it is settled at a lower level than is necessary we can have the risk that in the time dedicated to the audit mission to work much more in collecting the data and evidences which would be irrelevant;
- On the other side if the significant threshold is settled at a higher level than is necessary we can have another risk, that one when some important errors, with significant consequences on the decisions of users, wouldn't be detected and in this way the auditor to issue an opinion which assure the true and fair view of the performances and financial position of the company, but in the reality the situation is an opposite one.

The establishing of this significant threshold supposes two difficult problems like:

1. Which are the criterions which the auditor has to consider for settle the significant threshold?
2. How could be dimensioned the correct level for significant threshold for some or another audit mission?

In the most developed countries were made some empirical studies[296] for finding eventually relevant connections between accounting information supplied by the listed companies at the stock exchange and the quotation existing at the bourse. Despite of relevance of some interesting elements of these empirical studies, no one proves any utility for the financial auditors, which try to establish a level of the significant threshold which is a benchmark in the auditing of the financial statements. But these studies underline that the significant threshold is related to the level of the profit because this indicator reflects in the best way the performances of a company in a certain time.

The practical activity proves that the level of the significant threshold settled related to profit varies in an interval between 1% and 10% from the profit, considering in the same time also the criterions like: the company dimension, the specific of the developed activity and, of course, the professional judgment of the auditor. Starting from these premises appears the next question: *Which is the most relevant level of the profit whereat it should be settled the level of the significant threshold: gross profit or net profit?* But it could appears the situation when the profit for some period is out of the normal graphic of normal evolution, and in these circumstances there are used other indicators such as: total assets, total turnover, net

[296] Gray, Manson S., (2000), *The audit process: principles, practice and cases*, Editura Business Press, ediția a II-a, SUA

assets, or a combination between these. We don't have to forget the fact that in settling the indicators that will be considered for establishing the significant threshold we have to analyze a series of aspects: the domain of activity, the level of company, the specificity of the activity of the company, the environment of every company, and of course the professional judgment of the auditor which is affected by the experience and his professional preparation.

The finality of an audit mission of the financial statement is the audit report issued in the final form. The result of the auditor work is concretized in elaborating the audit report, this representing the instrument through which the auditor communicate to the users of the accounting information the characteristics of the financial statements, his argued opinion with the audit evidences, regarding the quality of the establishing and presenting the financial statements, and, of course, regarding the true and fair view reflected by the financial position, financial performances and the changes of the company positions. The signature of the auditor on the audit report should not be underestimated, because this represents a "certificate" which assures a reasonable level regarding the quality of the audited financial statements.

Considering the audit evidences from the audit process and the conclusions after the analyzing of these evidences, the auditor can issue one of the next opinions:

1. **opinion without reserves**

An opinion without reserves has to be expressed when the auditor can conclude that the financial statements present a true and fair view (or show, regarding all the significant aspects, with a high fidelity the financial statements), in according with the general framework of settled financial reported. An opinion without reserves indicates, also, in a deductive mode, that any changes which appears in the accounting principles or in the applying methods of those, and also the effects of these changes were implied and presented correctly in the financial statements.

2. **the opinion with reserves**

An opinion with reserves has to be issued in that situation in which the auditor gets at the conclusion that he can't issue an opinion without reserves, but the effect of any dissonance with the management is not such significant and profound in that measure to be compulsory an adverse opinion or the impossibility of issuing of an opinion. Generally, there are two factors which imply the issuing of an opinion with reserves, and these are:

- Some elements that determine the auditor not to be able to apply all the audit procedures needed for getting the audit objectives, such as the situation that the auditor didn't get the confirmations regarding some liabilities of the client. If the weight of these is significant reported to the total of liabilities, than the auditor can't appreciate objectively the fidelity of the statements regarding the liabilities presented in the financial statements, in this way, being forced to issue an opinion with reserves.
- The situation in which the auditor applies all the necessary audit procedures, in conformity with professional standards, but he discovers some significant errors in the audited financial statements, errors which are not such severe that to imply the issue of the adverse opinion, but imposes the necessity of the issuing of an opinion with reserve.

It is compulsory to mention in the audit report all the significant aspects which implies the issuing the opinion with reserves. This opinion is not an unfavorable one for the client who calls for the audit of his financial statements, because it implies an interpretation like this one: the financial statements present through their assembly a true and fair view, excepting some elements, which, from the point of view of the auditor, can't be used in the substantiation of the decisional process.

3. the impossibility of issuing of an opinion

The impossibility of issuing of an opinion appears when the effect of the limitation of the sphere is such significant and large than the auditor can't get enough audit samples and in consequence he can't issue an opinion regarding the financials statements. An example, in this way, is that one where the management has a negative influence, directly or indirectly, on the process of collecting audit evidences. Another factor that can have an influence for the financial auditor to pronounce the impossibility to issue of an opinion is that situation when there are some uncertain events, which could have an important impact for the financial statements, and because of this reason appears the impossibility to issue an opinion regarding the financial statements till that event haven't place, more exactly a trial which can have the finality in wining or losing the trial and the loosing the trial determines an uncertain future for the company.

Is absolutely necessary to mention in the audit report the reasons that cause the impossibility of issue of an opinion, but without insisting with explications and justifications, for implying subjective interpretation by the user, and this will give to this report a higher credibility than it's necessary.

adverse opinion

An adverse opinion will be issued in that situation in which the effect of an discordant elements is such profound and significant for the financial statements, and the financial statements didn't respect the true and fair view, than the auditor will conclude that is not opportune the issue of an opinion with reserves in the scope of presentation of the incomplete nature or distort of the financial statements. The impact for the user's perception of the adverse opinion is very strong, the message sent being that one the financial statements are completely wrong, they don't give a true and fair view and they mislead. We can consider that the adverse opinion is a warning regarding the quality of the financial statements, and these can't be used in the decisional process.

In the next table we will try to synthesize the types of the opinion which could be inserted in the audit report and also the criterions which imply the issuing of these types of opinion:

No.	*Types of opinion*	**Criterion which implies the issuing of these types of opinion**
1.	*Opinion without reserve*	• **the audit objective was touched** • **there is no significant incertitude** • **there were respected the accounting standards from the referential system settled**
2.	*Opinion with reserve*	• **the objective of the audit was not correct touched, but is possible to be issued an opinion** • **the accounting referential settled was not totally respected or the presentation of the information in the financial statements was not the most proper one, but the auditor considers, in this condition, that the criterion of true and fair view was respected in the assembly of the financial statements.**
3.	*Impossibility of issuing of an opinion*	• **the audit objective was not touched** • **there is significant incertitude with important impact**
4.	*Adverse opinion*	• **the deviation from the reporting criterion is so high that the financial statements don't reflect a true and fair view.**

Table no.1 „Types of opinion in the auditor report"

Conclusions:

1. the financial audit gives a reasonable character of assurance regarding the quality of the true and fair view reflected by the audited financial statement, and this starts from the fact that the financial auditor in getting the audit samples, which are the base of his audit opinion reflected in the audit report, was not confronted with significant anomalies.
2. the significant character is determined by the significant threshold settled at the beginning of the mission, being obviously the connection between the significant threshold settled at the mission start and the quality of appreciating the true and fair view supplied by the financial statements
3. the level of assurance from the financial audit is reflected by the type of the opinion issued through the financial audit report, which represents a message meant to the users of the financial statements regarding the quality of the audited financial statements and the quality of true and fair view reflected by the financial statements.

4. we appreciate that the financial audit gives a guarantee for the quality of the true and fair view supplied by the financial statements, and even if this isn't an absolute one, we consider that the auditor's contribution is very important for the increasing the quality of the financial statements drawn up by the economical entities.

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CONSIDERATIONS REGARDING THE INTERNAL AUDIT IN ROMANIA

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Abstract: The evolution of the economical environment, where the companies works, determines the companies to search all the time solutions for improving the control over the activities developed. A solution is adopting the internal audit function, which offer the answers to the questions which, usual, the managers of the company make them himself referring to the way they and their collaborators could have a better and efficient control as they could have over the activities they have. The necessity of the internal audit function begins to be more important in the context of the Romanian economical environment which is more and more competitive and dynamic. In this article I'll try to get a vision more realistic of the level at which is situated internal audit in Romania, and also I'll try to find that spaces of this complex system, where we have to pass different difficulties paying attention for finding the necessary solutions to resolve them, participating in this way to the progress of the researched theme.

Keywords: internal audit, internal control, internal auditors

The manager of an organization, from private sector or public sector, needs to obtain a reasonable assurance referring to the transactions they have, the decisions they have taken are under control and in this way are touched the scopes of the organization. So, we can say that the internal audit represents the important support of the management of the company for getting to the company's scopes using the systematical activities and very good organized for evaluating and improving the efficiency of the processes of the management and control. The adopting of the internal audit function permits to the management to have more courage in elaborating and adopting strategies, and this facts because the internal audit professionals are working in different spaces and locations of the organization for getting assurance referring to the correct application of the strategy whished by the company, and also how much this proves his efficacy.

The importance of the internal audit is bigger as much as possible the internal audit works in an independent way, without accepting compromises, without having as scope getting the power and without subjectivism. Realized in this way, the internal audit become a tool absolutely necessary to the organizations, and this because of the complexity of the different situations which could appear after mergers, realizing some projects together with other companies.

The result of an internal audit mission is the internal audit report, which is in essence a way of communication, but the value of the internal auditor's work is not gave by this report, and by the way in which the internal auditor have the capacity and possibilities of determining when his recommendations are applied, the evolution and the improving the efficiency of the internal control of the organization in which he activates. We can say in this way that the internal audit department is the key in realizing the internal control because the internal audit gives the assurance over the efficiency and efficacy of the internal control.

If we have in our mind the moment of the appearance of this concept of internal audit in Romania in accordance with the global context, we must admit that the recognizing of the importance of this field of internal audit have been realized late, but this in the context of the domination of the communism system till 1989. The transition to the market economy, which starts in '90 years, was realized very hard, the road to the stable economy was very difficult, finding in this period some bankruptcy of few mastodon organizations. This difficulty was determined also by the instable political strategies used in the economy, which instability we can see it very often in the economical sector.

Step by step the Romanian economy goes to a stable zone and in times with this evolution the managers of the organizations, from private sectors and public sector, have given more attention to the improving of the performances of the organization which they coordinate, and in this way to find efficient and pertinent solutions. If we draw a parallel between the appearance and the developing the internal audit function in

Romania, we can observe some differences which from a point of view are justified by the particularities of the economical environment and the everyone specifically culture.

An important difference which needs more attention could be the facts that in the Romanian economy the trend of internal audit evolution was from this point of view inversed those from the international space. If in the international plan the internal audit function was developed starting from the bigger companies and the multinational companies, extending after to the public sector companies, in the Romania was other way. The internal audit was important at the beginning for the public companies, and prove in this way is the regulations and the laws adopted which regulates the internal audit. After this begin the growing of investing in the Romanian economy, the multinational companies growing in the Romanian economy implies influences of the international practices through which there is the recognizing of the necessity and the efficiency of the internal audit. So, even if the internal audit is at a low level, the internal audit from the Romanian companies is more and more developed, the utility of the internal audit function being bigger and bigger.

The introduction of the internal audit in Romania is relative recent, representing the general effort of the management for a better control in this activity, in the public sector and in the private sector, in the harmonization activity of the internal law system with the European laws, keeping an eye on the efforts made on the integration way in the European Union member countries. The quickly progress of the internal audit implies some confusions, his scopes were not very clear understood by everyone implied in activities in touching with internal audit, and this confusions maybe because of facts that even internal audit's scopes at the global level have been growth very quickly and still progressing.

The concept of internal audit have begun to be used very much in some environments, maybe in excess, and this concept became a fashion, a trend in the context of the Romanian economical environment. This concept was used by different specialists from every sector of activity, some times without knowing what exactly internal audit means. For many times the practical activities prove that the use of this concept in some situations in which was some references to other concept like: internal control, financial control or other terms. Also, there were situations when the confusion was made in the opposite way, and I mean when they must use internal audit term they use other terms with total different signification.

A confusion made with a high frequency by the specialist's referring to this concept, on the evolution of the internal audit in the Romanian economical sector, is making equal the internal audit with the internal control. I have to consider that an influence in making this confusion was from the fact that these two concepts was not very clear delimitated from the beginning of the making laws activities, regulating this new internal audit function. The starting point in regulation of the internal audit in Romanian was the Government Order no. 119/31.08.1999 referring to internal audit and preventing financial control, publicized in the Official Monitor no. 430/31.08.1999. After that law, the regulators were trying to eliminate the confusions made in separating the internal audit by the internal control through the Order no. 332 from 25 February 2000 (which was also abrogated by the Order no. 38 from 15 January 2003 for approving the General Norms looking the realizing the internal audit activities) approving The General Methodological Rules for organizing and the function of the internal audit based on the Government Order no. 119/1999 referring to internal audit and preventive financial control, publicized in the Official Monitor no. 96/03.03.2000, where was presented some precise aspects:

- the internal audit represents a sum of activities and actions correlated between them, realized through specialized structures defined at the level of the public institution in case, or at the next high level of the public institution which based on the plan and on the clear agreed methodology are designated to realize a general diagnostic of the system from a technical point of view, managerial point of view, financial and account side.
- the internal audit is represented by a control type endogen and ex post, detailing the fact that when we refer to the ex post character we have in our mind the operation for the decision, and when we think about the global activity realized by the entire audited system for an year, the internal audit having a simultaneous character. This character is generated by the characteristic of the internal audit for watching to the operations from the aspects of the specifically scopes to check on every moment of its realization. So, the internal control of the public institution is the object of the internal audit.
- we don't have to make confusions between internal control, as a sum of tools used by the management of the public institution, whit the scope of an assurance of a good function of the

institution and internal audit which is a control of type endogen are a control of type evaluation and special a final control, the last from the series of controls made by the own structures of the institution in case.

While all this facts, even if one of the attributions of the methodological rules, mentioned in the up lines, was to bring more light over this two concepts: the internal audit and the internal control, even so there was few rules which still determines to make confusion between internal audit and internal control. A clear example could be the part of these methodological rules, Part 2 - organizing the structures of the internal audit, where are made few underline words:

- ex structures of managerial financial control will be absorbed by the internal audit structures, and this internal audit structures will take the attributions given by the Government Order no. 119/1999 and all the attributions of the ex structures of managerial financial control;
- where there wasn't a structure of managerial financial control will be made internal audit structures as the rule of art. No.6 align. (1) from the Government Order no. 119/1999.

After this, the regulators in this sector were preoccupied by the elaborating of some rules which to delimitate at the level of the public institutions the conceptual part of this two functions, and in this way were published rules for internal audit and separate for internal control, and in this way the confusion were eliminated between this two concepts.

The trend of the law for this concept was delimitated by the publishing of the next few rules:

1. Emergency Government Order no. 75/ 1 June 1999, published in the Official Monitor of the Romania, Part 1, no. 256 / 4 June 1999 was approved with the text modified and added text through the Law no. 133/2002, published in the Official Monitor of the Romania, Part 1, no. 230 from 5 April 2002 and was modified and its text was added through the Government Order no. 67 / 2002 and was approved with the text modified an added text through the Law no. 12 / 2003 published in the Official Monitor of the Romania, Part 1, no. 38 from 23 January 2003. This regulation specifies some terms: terms and conditions of realizing the internal audit activity, definition of internal audit and scopes of internal audit.
2. Ministry of Finance Order no. 1267 from 21 September 2000 for approving the Minimal Norms of internal audit (general framework), published in the Official Monitor of the Romania no. 480 from 2 October 2000, with the principal objective to approve Minimal Standards of internal audit for institutions, representing the general framework for setting the internal audit being compulsory in exercising the internal audit.
3. The Ordinance no. 72 from 2001 (settlement rejected by the Law no. 132 from 19 march 2002) referring to the public internal audit and preventive financial control for modifying and completion of Government Ordinance no. 119 from 31 august 1999 referring to the internal audit and preventive financial control, published in the Official Monitor of the Romania no 339 from 22 may 2002. This settlement underlines an important change of the conceptions and the activity sphere settled by the Government Ordinance no. 119 from 31 august 1999, for the first reason because the title of the ordinance „referring to the internal audit and preventive financial control" was changed to „referring to the *public* internal audit and preventive financial control".
4. Law no. 301 from 2002 referring to approving the Government Ordinance no. 119 from 31 august 1999 referring to the public internal audit and preventive financial control, published in the Official Monitor of the Romania no 339 from 22 may 2002 adds some completions to the settlement from Government Ordinance no. 119/1999 and Government Ordinance no. 72/2001.
5. Law no. 672 from 19 December 2002 referring to the public internal audit published in the Official Monitor of the Romania no. 953 from 24 December 2002 is structured in six principal chapters: generalities (through this are defined the public internal audit, public institution, are settled the objectives of the internal audit and the public internal audit sphere); structure (referring to the management of the public internal audit department from the public institutions and the organization of the central structures UCAAPI and CAPI); attributions (the attributions settled at the level of the of the public internal audit department from the public entities and from the central structures); the unfolding of the public internal audit (are

settled the types of audit); internal auditors (settled the selection, rights, obligations and incompatibilities); contraventions and sanctions.

6. Law no. 84/18 march 2003 for modifying and completion of Government Ordinance no. 119/ 31 august 1999 referring to the public internal audit and preventive financial control published in the Official Monitor of the Romania no. 195 from 26 march 2003. In this new law was settled the distinction between internal control and the public internal audit. In this way, it was modified inclusive the title of Government Ordinance no. 119/ 31 august 1999, becoming the ordinance *„referring to the internal control and preventive financial control”*. So, it is made a big step forward through a clear distinction between this two notions: internal control and internal audit, everyone of this are settled through two separated normative papers with the characteristics of the laws, making in this way the distinction between this two activities: the public internal audit and internal control from the point of view of organization and as realization.
7. Ministry of Finance Order no. 38 from 2003 for approving the General Norms referring to realizing the public internal audit activity published in the Official Monitor of the Romania no. 130 bis from 27 February 2003. The important elements of the Order are structured in five parts:

- **First part**: Application of the general norms of the public internal audit in Romania;
- **Second part**: Methodological norms referring to the public internal audit mission;
- **Third part**: Procedural guide book;
- **Part four:** Charter of the public internal auditor;
- **Part five**: The glossary.

1. Ministry of Finance Order no. 252 from 2004 for approving the Code of Conduct referring the ethics of the public internal auditor published in the Official Monitor of the Romania no. 128 from 12 February 2004. This order abrogates the Ministry of Finance Order no. 880 from 2002 issued with the same scope.
2. Romanian Government Ordinance no. 37/2004 for modifying and completion of settlements referring to the public internal audit, published in the Official Monitor of the Romania no. 91 / 31 January 2004 and the Law no. 106/2004 for approving of this, published in the Official Monitor of the Romania no. 332/16 April 2004. This new settlement represents a step forward for improving juridical framework and the settlements referring to the internal audit, and this brings significant changes for the Law no. 672/2002 referring to the public internal audit and the Emergency Government Ordinance no. 75/1999 republished referring to the financial audit activity.
3. Ministry of Finance Order no. 1702/2005 for approving the Norms referring to the organizing and exercising the activities of consultancy, published in the Official Monitor of the Romania no. 154 / 17 February 2006. This normative act settles the activities of advising from the internal audit activities, and the structure of the norms which regulates the advising activities referring to the internal audit has few elements:

- general instructions which includes the definition of the advising activity;
- advising forms: consultancy, facilitating the understanding, professional forming and perfection;
- types of missions of advising: formal advising missions, informal advising missions, exceptional advising missions;
- Stages and procedures needed for realizing the advising mission.

Conclusions:

Analyzing in assembly the rules referring to the internal audit from his introductions in Romania (1999) and till in present we could underline few conclusions:

1. There is regulated in especially internal audit from public institutions, being less regulated internal audit from private institutions. Private institutions have possibilities and in the same

time they are obligate to realize the internal audit activity in conformity with Internal Audit Standards issued by CAFR.

2. Despite the important confusions made at the beginning between the objectives of internal audit and internal control (this confusion are determined by the regulated system) we can affirm that in present we don't find this kind of confusions, or these are very rare.
3. At the beginning, the internal audit activity starts with some difficulties, but in the present we can consider that in this sector we are on the good road, the management became more and more dependent of internal audit and more aware of the needing and the importance of the internal audit and in this way the internal audit in Romania is at a stage of consolidation and maturating.
4. Looking at the actual stage of the internal audit in the public institutions we can say that we are on the right way of the internal audit, being generated the premises for creating of a real function of internal audit in conformity with the practices from European Union.

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EXPORT BY AGENT – A CHALLENGE FOR THE TRADING COMPANIES IN SUCH FIELD, AS PER THE NEW REGULATIONS AFTER THE ACCESSION OF ROMANIA TO EU

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Before the accession of Romania to the European Union, the export by agency, as means of indirect trade of goods aboard, was carried out by exterior trading companies (SCE), which carried out such activities on their behalf, but on the risk and account of export beneficiaries – usually manufacture facilities, which needed to find customers on the international market. After the accession of Romania to the European Union, we can notice two distinct situations for the goods' delivery carried out by means of an agent: 1. the agent acts as proxy, for and on behalf of the principal; 2. the agent acts as commission agent, on his own and for the principal.

Key-words: export, agency, mandate

Until 1.01.2007, namely until the accession of Romania to the European Union, the export by agency, as means of indirect trade of goods aboard, was carried out by exterior trading companies (SCE), which carried out such activities on their behalf, but on the risk and account of export beneficiaries – usually manufacture facilities, which needed to find customers on the international market. Thus, the financial results of the goods' export by means of agency were recorded in the beneficiaries' accounting documents, on whose behalf the export was performed and not in the accounting books of SCE.

After the accession of Romania to the European Union, in accordance with the new Romanian legislation regarding the value added tax, respectively the Law no. 571/2003 regarding the Fiscal Code, as subsequently amended and completed, we can notice two distinct situations for the goods' delivery carried out by means of an agent: 1. the agent acts as proxy, for and on behalf of the principal; 2. the agent acts as commission agent, on his own and for the principal.

1. The agent acts as proxy, for and on behalf of the principal

In such case, the manufacturer from Romania invoices the goods directly to the beneficiary. If the operation is an export (the goods leave the community territory), the invoice shall be VAT free. If the delivery is an inter-community operation (the goods leave Romania, but they are shipped or transported to another member state), the invoice shall be VAT free if the customer proves a valid VAT code and if the freight is proved to be performed between two member states.

Thus, in such case the agent's role is only to establish the connection between the export's beneficiary from Romania and the foreign customer, performing, as per the mandate contract, other duties such as: to pursue the payment of the counter-value of the exported goods, to contract and pay various services abroad – such as: transportation, insurance, etc.

Let's presume we have to export goods by means of agent, for and on behalf of the manufacture facility from Romania, therefore a mandate contract. The facility exports goods in amount of € 20,000, delivery condition – CFR (Romanian Railway Company) – Destination – the country of the foreign customer. The agent-proxy SCE cashes, according to the mandate contract with the facility, the goods' counter-value from the foreign customer by means of a letter of credit, which is then provided, in 2 days time, to the principal – the plant from Romania, according to the contract concluded between SCE and the plant, but not prior withholding the expenses made for the plant, such as the fee in amount of 3% of the CFR value for the exported goods. The export expenses made by SCE for the plant have been transportation expenses in amount of € 2,000. The evolution of the Romanian currency related to euro has been as follows: upon invoicing the external transportation: 1 € = 3.80 lei; for the payment of the external transportation invoice: 1 € = 3.70 lei; for invoicing the fee to the plant: 1 € = 4.00 lei; upon cashing the merchandise from export: 1 € = 3.90 lei, upon the payment of the goods to the plant: 1 € = 3.80 lei.

The accounting procedures related to this export are as listed below:

1. The proxy buys the external transportation service:

2,000 € x 3.80 lei / € = 7,600 lei

624 „Transport of goods and personnel" = 401.1 „Suppliers" (external transport) 7,600

2. Payment of the external transportation invoice

a) RON value upon invoicing: 2,000 € x 3.80 lei = 7,600 lei

b) RON value upon payment: 2,000 € x 3.70 lei = 7,400 lei

Favorable currency difference (a – b): 200 lei

401.1 „Suppliers" (external transport) = % 7,600

5124 „Cash at bank in foreign currencies" 7,400

765 „Foreign exchange gains" 200

3. Cashing the counter-value of the goods from the foreign customer by means of documentary letter of credit

20,000 € x 3.90 lei / € = 78,000 lei

5412 „Letters of credit in foreign currencies" = 462/x „Sundry creditors" (plant) 78,000

4. 4. Invoicing the 3% agent fee to the plant

3% x 20,000 € = 600 €; 600 € x 4.00 lei / € = 2,400 lei

411 „Customers" (plant) = % 7,600

704 „Services rendered 2,400

4427 „Output VAT" 456

5. Invoicing the transportation expenses made on behalf of the plant by SCE to the plant

411 „Customers" (plant) = % 9,044

7588 „Other operating revenues" 7,600

4427 „ Output VAT" 1,444

6. Withholdings borne by the plant out of the amount owed by the plant

Amount owed (credit cont 462/x) ……………..………………………20,000 €

Withholdings: ▪ external transport: …………………………..………2,000 €.

▪ Agent fee ……………………..……………………………..600 €

Net amount to be paid: 20,000 € – 2,600 € = 17,400 €

- RON value of the withholdings, calculated as per the current exchange rate:
- External transport: 2,000 € x 3.70 lei / € = 7,400 lei
- Agent fee: 600 € x 4 lei / € = 2,400 lei

Total RON withholdings as per the current exchange rate (2,600 €): 9,800 lei

- RON value of the withholdings calculated as per the exchange rate valid when the plant undertook the obligation: 2,600 € x 3.90 lei / € = 10,140 lei.
- Favorable currency difference: 10,140 lei – 9,800 lei = 340 lei

462/x „Sundry creditors" (plant) = % 10,140

411 „Customers" (plant) 9,800

765 „Foreign exchange gains" 340

7. Payment to the plant of the net amount of 1,400 €

a) RON value upon cashing: 17,400 € x 3.90 lei = 67,860 lei

b) RON value upon the payment to the plant: 17,400 € x 3.80 lei = 66,120 lei

Favorable currency difference (a – b): 1,740 lei

462/x „Sundry creditors" (plant) = % 67,860

5412 „Letters of credit in
foreign currencies" 66,120
765 „Foreign exchange gains" 1,740

2. The agent acts as commission agent, on his own and for the principal

According the new fiscal code, the commission agent, although only an agent, is deemed - in terms of value added tax - seller and re-seller of the goods, regardless of the fact if such agent acts on behalf of the seller or buyer, principal, with all the consequences arising thereon regarding the value added tax.

To illustrate this second case, let's discuss a practical example: SCE "EXIMTERRA" SRL is an exterior trade company, acting as agent, on its own, but on behalf of the manufacture facility. SCE performs during the fiscal year N the following operations related to *merchandise export by agent with cashing on spot.*

- On 30.05.N, SCE registers the purchase of the goods from the supplier (plant), in amount of € 15,000;
- On 1.06.N, it invoices the goods to the foreign customer, having as delivery condition – EXW, in amount of € 15,000. The fee of SCE is 5% of the external value of EXW, being invoiced on the same day as the goods for export;
- On 5.06.N it cashes, in foreign currency, the counter-value of the goods from the foreign customer;
- ON 5.06.N, it markdowns the currency with the manufacture facility;
- The evolution of the euro related to the Romanian currency has been as follows: on 30.05.N: 1 € = 3.85 lei; on 1.06.N 1 € = 4.00 lei; on 5.06.N: 1 € = 4.05 lei.

The accounting procedures related to this export by agent are as listed below:

1. 1. Registration of the purchase of the goods from the domestic supplier (plant)

15,000 € x 3.85 lei / € = 57,750 lei

% = 401 „Suppliers" (plant) <u>68,722.5</u>

461.2 „Goods for export by agent" 57,750

4426 „Input VAT" 10,972.5

2. Invoicing the goods to the external customer, EXW delivery condition

15,000 € x 4 lei / € = 60,000 lei

411 „Customers" (foreign) = 462.2 „Sundry creditors – export by agent" 60,000

3. Removal of the sold goods from stock

a) RON value upon purchase: 15,000 € x 3.85 lei = 57,750 lei

b) RON value upon sale: 15,000 € x 4.00 lei = 60,000 lei

Favorable currency difference (b – a): 2,250 lei

462.2 „Sundry creditors - export by agent" = % <u>60,000</u>

461.2 „Goods for export by agent" 57,750

765 „Foreign exchange gain" 2,250

4. Invoicing the fee for SCE to the plant

Fee in foreign currency: 5% x 15,000 € = 750 €

Fee in RON: 750 € x 4 lei = 3,000 lei

411 „Customers" (plant) = % <u>3,570</u>

704 „Services rendered 3,000

4427 „Output VAT" 570

5. Cashing the counter-value of the goods sold for export
   a) RON value upon invoicing: 15,000 € x 4.00 lei = 60,000 lei
   b) RON value upon cashing: 15,000 € x 4.05 lei = 60,750 lei

Favorable currency difference (b – a): 750 lei

5124 „Cash at bank in foreign currencies"	=	%	60,750
		411 „Customers" (foreign)	60,000
		765 „Foreign exchange gain"	750

6. Withholdings borne by the plant out of the amount owed by the plant

Amount owed for merchandise, VAT free (credit cont 401) ……………………….15,000 €

Withholdings: ▪ agent fee: ……………………………..….…………………………750 €

Net amount to be paid: 15,000 € – 750 € = 14,250 €

- RON value of the withholdings, calculated as per the current exchange rate:
- Agent fee: 750 € x 4 lei / € = 3,000 lei
- RON value of the withholdings calculated as per the exchange rate valid when the plant undertook the obligation: 750 € x 3.85 lei / € = 2,887.5 lei.
- Unfavorable currency difference: 3,000 lei – 2,887.5 lei = 112.5 lei

%	=	411 „Customers" (plant)	3,000
401 „Suppliers" (plant)			2,887.5
665 „Foreign exchange losses"			112.5

7. Payment of the amount of 14,250 € to the plant
   a) RON value upon invoicing: 14,250 € x 3.85 lei = 54,862.5 lei
   b) RON value upon payment: 14,250 € x 4.05 lei = 57,712.5 lei

Unfavorable currency difference (b – a): 2,850 lei

%	=	5124 „Cash at bank in foreign currencies"	57,712.5
401 „Suppliers" (plant)			54,862.5
665 „Foreign exchange losses"			2,850

8. Concomitantly, the plant pays the amount owed as VAT

401 „Suppliers" (plant) = 5124 „Cash at bank in foreign currencies" 10,972.5

The main conclusion which may be drawn related to the two forms of agency for exterior trade is that using a mandate contract, SCE might avoid "locking up" on short term funds for the payment of the value added tax.

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EU – THE REGULATING LEGISLATIVE ENGINE OF ROMANIA IN TERMS OF VAT AFTER THE ACCESSION TO EU

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The accession of Romania to EU involves the obligation to enforce the same rules as the other member states, VAT being a tax which must exist and which must not allow competition disturbance among the economic operators within different member states, as well as non-taxation or double taxation of the same operation in two different member states. The harmonization of VAT within EU has been done gradually. The value added tax (VAT) was established in the Economic European Community in 1970 by means of two "VAT Directives". Representing the indirect tax with the highest weight in the GDP (Gross Domestic Product), the European Union has established an obligation according to which the member states contribute with a share of the cashed VAT to the EU budget.

Key-words: EU, VAT, accession

A. EU regulations regarding VAT

The actions of EU regarding the indirect tax field have as legal grounds articles 90 and 93 of the Treaty for the establishment of EU. The rule governing this treaty is the unanimity one, being grounded, at the same time, on the principle of indirect taxes harmonization, and not their standardization.

The VAT harmonization in EU has been performed in several stages:

1. VAT implementation in all member states (until 1970)
2. standardization of the taxation basis for VAT and VAT shares (1977-1993)
3. passing to a transitory system for VAT, once the unique market is formed and suppression of the border customs (January, 1, 1993)
4. simplification of the VAT system and cooperation of all member states for decreasing the fiscal fraud

1. The value added tax (VAT) has been implemented in the Economic European Community since 1970 by means of two "VAT Directives", having as purpose the replacement of different taxes on manufacture and consumption enforced by the member states, which represented obstacles for the free circulation of goods, taking into account two main reasons: advantages of VAT related to other indirect taxes and, especially, related to the tax on cascade circuit; transparency of the operations regarding the taxation of imports and taxation exemption of exports performed between member states.
2. As it represents the most significant indirect tax in GDP, the European Union has established an obligation for the member states compelling them to contribute with a VAT share to the EU budget. Thus, the following stage has been implemented, respectively the harmonization of the taxation basis for VAT, which means it would be enforced for the same economic transactions in all member states (Directive 77/388/CEE). Such directive has established a harmonization system for VAT and has allowed, at the same time, the settlement of a *Working program intended to fulfill the goal of removing the fiscal borders*, by attempting to harmonize the VAT levels. However, the harmonization has not meant the levels' standardization, but their approach enough to not disturb competition.
3. In order to adjust VAT to the requirements of a Sole Market with no borders (01.01.1993), *the 6th VAT Directive has been amended.* Thus, Directive 91/111/CEE, passed in 1991 and 1992 stipulated:

- *a transitory regime*, which would be completed by unifying the levels;

- *a definite taxation system* for exchanges between member states, which would replace the transitory regime and would be grounded on the taxation in the member state of origin of the goods delivered and services rendered;

The transitory VAT system, in force since January, 1, 1993, has removed fiscal checks on the borders within the Community both for end-consumers and economic agents. By means of the transitory system, the notion of import has been replaced with the notion of inter-community purchase, and the notion of export with the notion of inter-community delivery. This system is characterized by:

- *preservation of the principle of destination* (the passing to the principle of origin is not abandoned and it remains a long term objective of the fiscal harmonization);
- *renouncement to the border fiscal control between member states*;
- *continuation of the efforts to harmonize the VAT levels*;

To such end, the European Community has made repeated proposals to use only two classes of levels, a standard one, ranging between 15% and 25% and a reduced one. The Council of ministers, finances and economy has agreed to keep the minimal standard VAT level to 15% and the member states to take all steps not to exceed such minimum more than 10 percent points when they establish their own standard VAT levels. If in terms of taxation basis, some uniformity has been reached, in terms of VAT levels, there are noticeable differences; thus, the lowest VAT level (15%) is registered in Luxembourg and Cyprus and the highest (25%) in Denmark and Sweden.

Despite the efforts sustained to harmonize VAT, its regime remains terribly complex for economic agents and it maintains a certain "stiffness" of the domestic market. Keeping different taxation rules, non-uniform enforcement of the community legislation and the insufficient convergence of the VAT levels, has led to a certain malfunction of the system. In this respect, in July 1996, the Commission presented a *Working program* to *speed the passing from the VAT transitory regime to a common definite system*. The Program intended, in an ambitious way, to approach general principles regarding VAT (taxation level, the notion of excisable person, exemptions, place for VAT levying – the principle of levying at the source).

4. Although the passing to a definite VAT system was planned for the end of 1996, the European Union still operates as a transitory VAT system, the "levying at the source" system not being completely accomplished. The European Union has made progress for VAT's harmonization, but its management, however, remains complicated, requiring plenty of procedures which need time and money to be completed while fiscal frauds are increasing.

The renouncement to the fiscal control at the member states' borders, given the principle of VAT payment at the source, does not lead to the removal of the notion of "fiscal borders" in terms of goods and services' circulation among member states. The goods and services which are transported from a member state to another member state must be "marked" somehow, bearing a different VAT system than the one related to national goods and services. This means significant costs for the enforcement of the fiscal procedures.

B. VAT characteristics in the European Union

The main characteristics of the value added tax in the European Union are as follows[297]:

- The European system regarding the value added tax has been established and is amended based on the EU directives;
- It had been planed that until 1970 all the states - members at that date to implement the value added tax in their national fiscal systems;
- It has been acted to the standardization of the taxation basis and levels since 1977;
- Some member states have negotiated to obtain VAT exemptions or differential taxation levels for certain regions or territories. Thus, areas such as the Canary Islands, Ceuta and Melilla of Spain, Gibraltar of Great Britain and the Aland Islands of Finland are not under the jurisdiction of the VAT European system and, also, adjustable levying levels have been accepted in Madeira of Portugal;

[297] "EUROCONSULTANȚĂ – ghidul firmei" Magazine , no. 3/ March 2007

- The standard taxation level is established to a minimum level of 15%, the member states having the possibility to increase such level, but not more than 10 percent points.
- Reduced taxation levels, over-reduced levels (below 5%) and zero level are admitted for certain classes of goods and services. The case of the zero level is a characteristic of the 6th Directive, its goal being to establish a minimal taxation level, namely 5%. However, in some member states and, especially in the Great Britain, there has been accepted the preservation of the zero level by means of waiver, without the possibility to widen the action range of such level to other goods and services.
- The use of different VAT levels in the member states has started from the idea that goods and services could be classified in several classes, taking into account the need for them. Accordingly, the luxury class endorses higher taxation levels and the class of essential goods – lower levels. Although states such as France and Great Britain have supported such theory, practice has proved that it does not have the same validity any longer (for instance, in Great Britain, children apparel falls into the zero level while adults' apparel falls into the 17.5% level).
- The rules regarding the implementation of the value added tax on prices, addresses in EU the sale accomplishment. Thus, if the highest part of the sales addresses the end-consumer, prices must include VAT and if deliveries endorse another company, prices must not include VAT.
- The value added tax is due as percent and, thus, it is visible in every stage where commercial transaction occurs, becoming a neutral tax related to the number of commercial transactions;
- All the EU member states enforce the principle of destination in terms of VAT, namely the deliveries of goods and services from a member state to another member state are VAT free in their origin country and subject to VAT payment in the destination country;
- According to the perusals regarding the effects of the value added tax, the following conclusions have been drawn: this tax is advantageous for legal entities because they deduct the VAT afferent to purchases, unlike end-consumers who bear the tax by means of the price paid for the purchased good or service; the rich pay less compared with the poor, the tax acting as a regressive tax; the perusal of how supply and demand act must be performed by taking into account both the tax existence and inexistence, to become, on one hand a fiscal duty for the tax-payer and, on the other hand, a firm source for obtaining public financial results.

C. Considerations regarding the VAT levels enforced by the EU member states

The European fiscal policy may not endorse and must not enforce standardization upon the levels of the member states' fiscal systems. The action of the European fiscal policy occurs in the attunement of the national fiscal systems for the member states and those which candidate to accession, based on the common goals established under the concluded treaties.

Taxes on expenses and consumption represent the class of indirect taxes, a significant resource of income for the central administration budget. Passed initially in France in 1954, upon the initiative of M. Lauré, the value added tax, due to its characteristics, has allowed the action of the European fiscal policy, meaning the harmonization of the taxation basis and of the taxation levels.

The significant moments regarding the harmonization of the value added tax (the implementation of this tax in the fiscal systems of all the member states, the harmonization of the taxation basis and of the taxation levels, the VAT transitory system, and the simplification of the VAT system) are grounded on the provisions of the EEC Directives, respectively: Directive 7, 77/388/EEC (Art. 2, 4, 5, 6, 7 regarding the application range and levied persons; Art. 11, taxation basis; Art. 12, VAT levels; Art. 13, 14, 15, VAT-free operations; Art. 17-20, discounts; Art. 24, 25, 26, special regimes, exceptions); Directive 86/560/EEC regarding VAT reimbursement; Commission Resolution no. 98/527/EEC regarding the prevention of the VAT frauds.

The VAT standard levels, reduced levels and over-reduced levels enforced by the EU member states in 2005 were those listed in the table below:

EU member states	Standard levels	Reduced levels	Over-reduced levels
Austria	20	10	-
Belgium	21	6	-
Denmark	25	-	-
Finland	22	8/17	-
France	19,6	5,5	2,1
Germany	16	7	-
Greece	19	9	4,5
Ireland	21	13,5	4,4
Italy	20	10	4
Luxembourg	15	6	3
Great Britain	17,5	5	-
Holland	19	6	-
Portugal	21	5/12	-
Sweden	25	6/12	-
Spain	16	7	4
UE 15	19,81	8,53	3,67
Czech Republic	19	5	-
Cyprus	15	5	-
Estonia	18	5	-
Latvia	18	5	-
Lithuania	18	5/9	-
Malta	18	5	-
Poland	22	7	3
Slovakia	19	-	-
Slovenia	20	8,5	-
Hungary	25	5/15	-
UE 10	19,2	6,77	3
UE 25	19,51	7,65	3,34

The perusal of the data presented above points out the compliance with the requirements stipulated by EU regarding the minimal and maximum limits as regards the standard level.

It is obvious that only Cyprus and Luxembourg enforce the standard VAT level according to the minimal value stipulated by EU (15%), the explanation for such practice being related to the classification of these states as being part of the area of fiscal paradises with low taxation.

In Germany, Great Britain, Spain, Czech Republic, Estonia, Greece, Lithuania, Latvia, Malta, Holland and Slovakia, the standard VAT level is below the average registered upon EU level while in Austria, Belgium, Denmark, Finland, France, Ireland, Italy, Portugal, Sweden, Poland, Slovenia and Hungary, the standard VAT level exceeds the average registered upon EU level.

Although the fiscal harmonization in terms of VAT has been accomplished regarding the taxation basis and the standard taxation level, it can be noticed that only two states – Denmark and Slovakia – do not use reduced VAT levels while states such as France, Greece, Ireland, Italy, Luxembourg, Spain, and Poland enforce both the reduced level and the over-reduced level.

The enforcement of the reduced VAT levels, both in older and new member states endorses the following products and services: essential food, water supply, medicines, medical equipment for disabled persons, person transportation, books, newspapers, magazines, services of composers and writers, social housing, agricultural products, hotel services, sports events, use of sports facilities, social services, services rendered by crematories, medical and dentistry services, waste collection, street cleaning.

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ANALYSE DES PRATIQUES DE COMMUNICATION FINANCIÈRE UTILISÉES PAR LES ENTREPRISES ROUMAINES COTÉ A BVB (LES RAPPORTS ANNUELS PUBLIÉ SUR SITE INTERNET)

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RÉSUMÉ : Pour la plupart des entreprises roumaines réste une grande probleme de realisé la publication d' informations financières obligatoires dans les états financières. Il y a beaucoup des informations obligatoires qui ne sont pas obligatoires selon les normes roumaines . L'objectif de cette recherche est de réaliser une analyse des facteurs de contingence sur la publication d'informations financières volontaires et de tirér quelques conclusions pour les entreprises roumaines. Méthodologie de recherche :-revue de la littérature concernant le concept d'information volontaire, les contingences des informations volontaires ; -analyse des pratiques de communication financière utillisées par les entreprises roumaines coté à BVB (les rapports annuels publié sur site internet) et la compairaison avec les bonnes pratiques des entreprises cotées sur les grandes marchés financiers de L'UE ;

MOTS CLÉFS informations volontaires, contingence, bonnes pratiques de communication

1.Introduction

La thème est d'actualité par sa durée: il traverse les changements de normes. Il est essentiel au regard des problèmes qu'il soulève : l'utilisation de données financières par les acteurs (investisseurs notamment) et la présomption latente de manipulation des informations diffusées. Il est important par l'immensité du champ d'investigation qu'il représente : les données volontaires sont excessivement variées et contingentes. L'ambiguité même du sujet et le manque de définition claire nécessitent que l'on se penche plus en détail sur les contours de ces informations ; très largement répandues ; mais mal circonscrites peu interprétables .

2.L'information volontaire : un concept flou

On peut distinguer deux catégories de travaux selon leur approche :

1)Ceux qui rest allusifs ou qui ne la définissent pas : les études de prévision de resultats (Lev&Penman, 1990 ; Kasznik, 1999) ; les travaux sur l'utilisation d'internet (Wong&Zhang, 2003) ;

2)Ceux qui la situent par rapport à une norme établie, supposant que ce qui n'est pas normé, ou obligatoire, est donc volontaire : ces travaux traitent souvent des informations sectorielles (Botosan&Harris, 2000), le choix volontaire du référentiel IASB contre un référentiel local (Dumontier&Raffournier, 1998), l'impact du renforcement des règles sur les informations volontaires (Hope, 2003) etc.

En somme, la définition même des information volontaires manque d'homogénéité. Elle est au mieux définie comme un écart à la norme et souvent apprèhendéé de maniére très parcellaire. En délimitant ce qui est obligatoire nous soulignerons ce qui est, par défaut "volontaire". Les obligations de diffusion d'information comptables et financières se caractérisent par les éléments suivantes :

- Un émetteur : la société
- Un (des) destinataire(s) : actionnaires, administrations diverses,…
- Un référentiel : IFRS etc
- Un contenu, combinant : un format (compte de résultat par nature ou par destination, …) ; un objet de la communication (résultat économique,…), une densité (présentation simplifiée ou normale)
- Une occurrence : périodique (publications annuelles ; trimestrielles, …) ou ocasionalle
- Un vecteur (support papier ou sites Internet pour les rapports annueles, …)

Une dimension importante de l'information volontaire est la temporalité et la pérenité des cadres conceptuels qui nous servent de référence. Une information non normée peut devenir obligatoire après son homologation.

Par comparaison aux information dites "obligatoires" les éléments "volontaires" peuvent être identifiés selon la séquence suivante qui reprend les critères énonces ci-dessus :

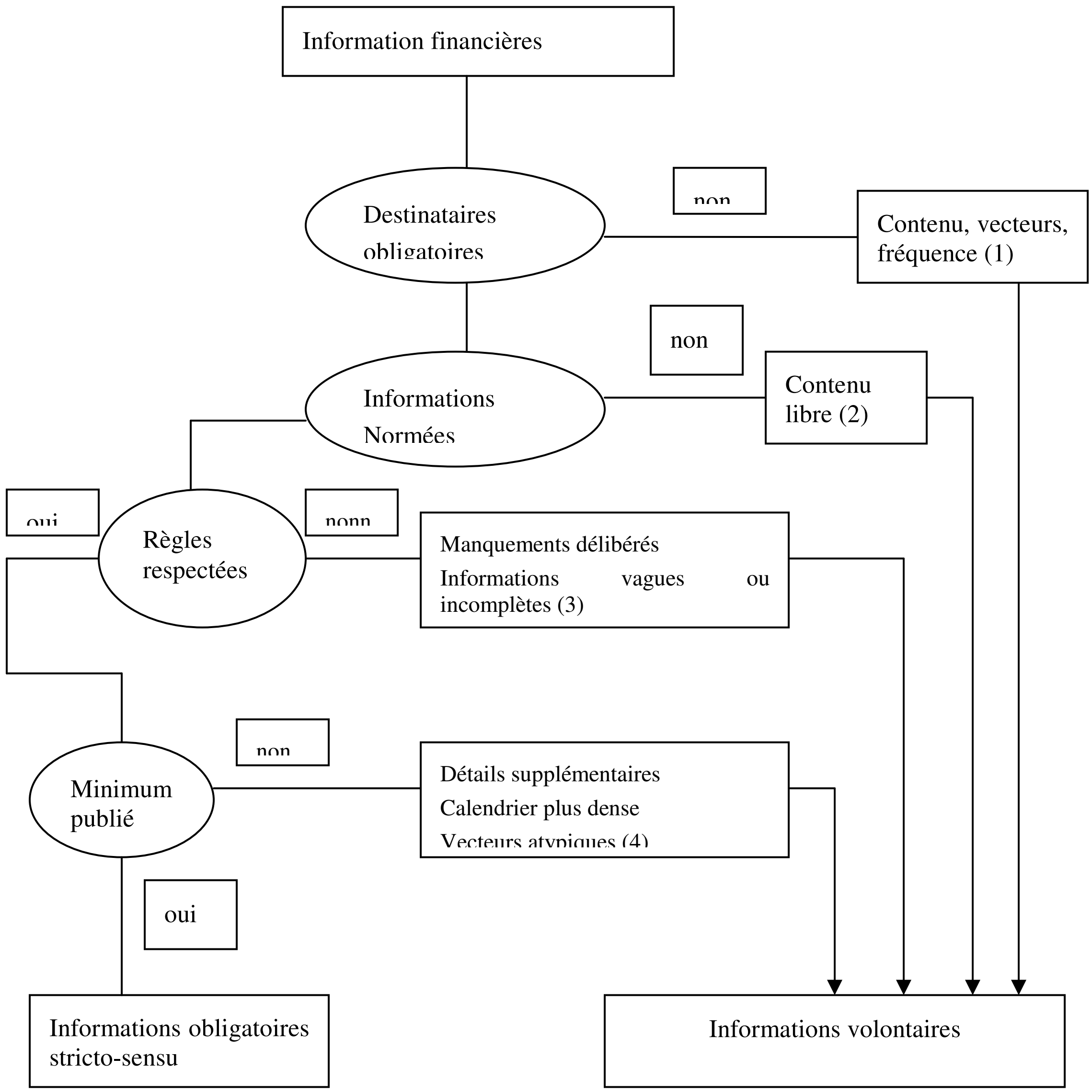

Figure 1 : Informations obligatoires versus Informations volontaires

Lorsque la "cible" de la diffusion n'est pas un destinataire obligatoire, comme les actionnaires ou l'administration fiscale, l'information est totalement volontaire (catégorie 1 de la figure 1), quels que soient le contenu, les vecteurs, etc. Il en aussi des publications diffusées dans la press financière ou sur les sites Internet touchant un public très large.

Lorsque le contenu publié pour des destinataires "obligatoires" n'est pas normé, il relève aussi d'une publication volontaire (catégorié 2 de la figure 1). Dans ce sens, on peut citer la diffusion assez large des "résultats opérationneles" ou celle, plus occasionnelle, des résultats "proforma" par les grands groupes cotés.

Nous considérons aussi comme "volontaires" les absences d'informations (catégorié 3 de la figure 1) : c'est l'absence qui devient un acte volontaire comme la diffusion discrétionnaire peut l'être. Par exemple, l'absence des informations sectorielles est assez courante (Pourtier, 1995), alors que les groupes concernés connaissent tout de même une diversification d'activités. D'une manière plus générale il est difficile d'admettre que des informations obligatoires sont absentes par simple "étourderie".

Enfin, si les informations respectent les contraintes légales (destinataires, vecteurs, délais , contenu) mais sont plus détaillées que le minimum requis (catégorié 4 de la figure 1), elles sont clairement volontaires. Dans ce sens, on trouve les prévisions de résultats, toute information plus détaillée que la norme (données sectorielles par exemple dans certains cas).

3.Contingence des informations volontaires

a) une demande palliative

Les demandeurs d'informations comptables se tournent d'abord vers les informations normées et obligatoires. Celles-ci comportent cependant des limites : rigidité des règles, limites induites par certains principes et une doctrine parfois orientée par les groupes de pression. Pour dépasser le modèle comptable légal, les acteurs seraient alors à la recherche de compléments utiles : Pour faire connaître des informations privées qui ne transparaissent pas aux travers du modèle comptable obligatoire, les dirigeants sont tenté de diffuser volontairement l'information qu'ils détiennent. L'information comptable standard est insuffisante pour apprécier les perspectives de la firme et la désagrégation des données (par segments) est utile (Hayes&Lundholn, 1996).

Les prévisions de résultats doivent servir à réduire l'asymétrie informationnelle (Mai&Tchemeni, 1993). Dans ce sens, la politique de communication volontaire permet de changer la perception de la firme par les actionnaires (Lev, 1992).Mais cette vision de l'utilité a priori des informations volontaires reste une vision normative : elle ne préjuge pas des motivations des dirigeants, conscients de l'utilisation qui peut être faite de leurs communication : Elle suppose que le coût de telles diffusions suffit à garantir leur crédibilité.

b) stratégies des dirigeants et opportunités de diffusion

La nature favorable des informations publiées est le premièr moteur invoqué pour justifier les publications volontaires. En présence de coûts, seules les informations favorables sont diffusées (Verrechia, 1983). Cette approche repose directement sur les hypothèses de la théorie des signaux (Ross, 1978). La propension à diffuser de l'information (concernant le court comme le long terme) augmente avec l'amélioration des résultats (Miller, 2002). Cette politique continue aussi après le tassement des performances mais avec une réticence à diffuser sur le long terme. Les publications de prévisions (plutôt favorables) précédent des opérations de financement .

Nombre de sociétes communiquent de mauvaises nouvelles (notamment en devançant leurs publications).Ainsi, au-delà d'une première analyse naïve des motifs de publication, les travaux ont identifié un comportement plus complexe où le facteur "image et réputation" intervient.

Comme les prévision sont faites à l'initiative des dirigeants (publications volontaires), elles engagent implicitement leur responsabilité et leur crédibilité. Aussi, pour ne pas être taxés de myopie et d'incompétence, ils diffusent les mauvaises nouvelles par anticipation (Skinner, 1994). Plus largement, ils publient des mauvaises nocivelles tout simplement pour montrer leur intégrité de dirigeants, donc leur fiabilité. Dans ce sens, les dirigeants essayent aussi d'assurer la convergence entre leurs prévision (volontaires) et les résultats publiables en utilisant les accrualls (Kasnik , 1999) . La présence d'informations pro forma s'observe chez les firmes dont les résultats sont revus à la baisse (Lougee&Manquardt, 2002).

Valoriser la firme est aussi un objectif implicite des dirigeants. Il les conduit à gérer la nature de leur segmentation sectorielle pour assurer une homogénéité apparente des secteurs et la régularité des résultats par segments (Hayes&Lunoholm, 1996).

4.Catalyseurs et freins aux informations volontaires

Classiquement, la diffusion d'informations volontaires a d'abord été vue comme un arbitrage entre "coût induit" et "contenu favorable". Le coût être lié au poids social, au coût des precès est aussi un facteur dissuasif important.

Le cas des données sectorielles est particulier. Il est directement lié à la position stratégique (diversification, rentabilité des secteurs) des sociétés. Les groupes définissent les segments publiés en évitant d'identifier séparement les secteurs les plus sensibles. Par ailleurs, beaucoup de dirigeants prennent pour prétexte le désavantage concurrentiel pour éviter de diffuser des données sectorielles (acte volontaire).

Internationalisation des activités élargit l'environnement des entreprises. Elles sont confrontées à des acteurs exigeant des informations conforme à certains standards de qualité. Elles sont alors tentées de diffuser plus d'informations, voire d'adopter volontairement les normes comptables internationales.

La propension à diffuser des informations volontaires est aussi liée à la taille des firmes (Dumontier&Raffournier, 1998). La taille est supposée inversement corrélée avec le coût de production de telles informations. Les grandes firmes optent largement pour le vecteur Internet (Laszwad&Fischer, 2003).

Enfin, la culture d'un pays, les usages établis sur certaines places financières dessinent un environnement qui favorise la diffusion des informations (Debreceny&al, 2002).

Les résultats pro forma des sociétés nord américaines (comprendre ici "retraités" de manière discrétionnaire et non-conformes aux normes) sont supposés avoir un pouvoir prédictif supérieur aux résultats classiques respectant les US GAAP (Brown&Sivakumar, 2001). Botosan et Plumlee (2002) montrent que le niveau informatif des rapports annuels abaisse le coût du capital.

5.Analyse des pratiques de communication financière utilisées par les entreprises roumaines coté à BVB (les rapports annuels publié sur site internet) et la compairaison avec les bonnes pratiques des entreprises cottés sur les grandes marchés financiers de L'UE

La revue de la littérature, consacré à l'examen des pratiques de diffusion d'information financière sur Internet, nous permet de distinguer trois types d'études. Une première catégorie regroupe les études descriptives traitant l'évolution des pratiques des entreprises d'un pays sur une période (par exemple, Petravick, 1999 ; Hussey et al., 1999 ; Gowthorpe et Amat, 1999). Ce type de recherche permet de connaître la proportion d'entreprise du pays qui diffusent des informations financières via le Web, le volume et le type d'information présentée en ligne et l'utilisation qui est faite au sein du site des moyens multimédia offerts par la technologie Internet.

Une deuxième' catégorie d'études compare les pratiques de diffusion d'information sur les sites Web des entreprises de deux ou plusieurs pays. Ces études internationales qui ont examiné la publication volontaire des informations financières sur les sites Web sont, toutefois, moins nombreuses (Deller et al., 1999; Lymer et al., 1999) .

La troisième catégorie d'études essaient de mettre en évidence les déterminants de la présentation en ligne d'information via les sites Web des entreprises (Craven et Marston, 1999 ; Debreceny et al., 2002 ; Xiao et al., 2004 ; Marston et Polei, 2004). Ces études ont traité cette question en se basant sur les variables identifiées dans les études antérieures examinant l'offre volontaire des informations supplémentaires dans les autres supports de communication utilisés auparavant par les entreprises (la publication de certaines informations non requises dans les rapports annuels, les conférences téléphoniques….).

A travers leur étude, Debreceny et al. (2002) ont essayé d'expliquer les pratiques de diffusion d'information de 660 firmes de 22 pays. Les auteurs ont testé la relation entre le format de la présentation, le contenu du site Web et la taille de la firme, mesurée par la capitalisation boursière. Pour évaluer les pratiques de diffusion d'information à travers le Web, Debreceny et al. (2002) recourent à une analyse de contenu basée sur la grille originale de l'IASB/IASC. Les résultats de modèles de régression logistique ordinale démontrent que le contenu et la présentation de l'information financière sont positivement et statistiquement associés à la taille de la firme.

Marston et Polei (2004) ont recensé les sites Web de 50 firmes allemandes faisant partie de l'indice DAX 100 entre Juillet 2000 et juin 2003 afin d'étudier l'évolution des pratiques de diffusion d'information via le

Web. L'analyse descriptive démontre que le volume d'information communiquée et la forme de sa présentation ont considérablement été améliorés par rapport au premier recensement qui a été effectué en juillet 2000. Le résultat de l'analyse multivariée décrit une association positive et statistiquement significative entre le niveau de la communication financière via le Web et la taille de la firme.

Nous avons éxaminé les pratiques de diffusion d'information sur les sites Web pour toutes les entreprises cotées au BVB (Bourse des Valeurs Bucarest) pour les exercices 2006 et 2007. Il s'agis de 21 societées cotées à la Catégorie 1 et 36 sociétées cotées à la Catégorie 2.

Pour chaque société nous avons cherché les informations suivantes:

- l'existence de rapport annuel ;
- la consistence de rapport annuel (numeros des pages);
- le référentiel comptable utilisé (les Directives ou IFRS);
- l'importance de l'auditeur ;
- qui sont les actionnaires (le poids des actionnaires étrangers) ;
- la consistence des informations naratifs ;
- la frequence de diffusion ;
- l'existence des informations nonfinancières;
- autres sources des informations.

Les conclusion pour les sociétées cotées à la Catégorie 1:

1. seulement 4 sociétées ont la pratique de realiser le raport annuel (Antibiotice Iaşi, Transelectrica, Impact Developer&Constructor, Petrom). Toutes les autres présente les états financièrs el le raport des dirigeants qui est reçu par une obligation légale de Commision National des Valeurs Mobiliérs.
2. la dimension moyene d'un rapport annuel est de 40 pages (les plus consitentes sont les raports de Antibiotice Iaşi et Petrom qui dépase 100 pages);

- -les poids des informations naratifs sont 10-30% et il s'agis des informations financièrs strictement ;

3. 90% sont auditées par Big Four ;
4. une seule entreprise présente des information concernant la remmuneration de l'auditeur (Alro Slatina) ;
5. une seule entreprise presente le code etique de la companie (Transelectrica);
6. seulement 4 entreprises presente les états financièrs conformement aux IFRS (en Roumanie, pour l'exercice 2007, ont l'obligation d'apliquer les IFRS les gropes cotées pour les etats financièrs consolidées); toutes les autres dréssent les états financièrs selon les Directives Européene (L'Ordre de Ministre des Finances Publiques 1752/2005)
7. une seule entreprise possede une code de gouvernance (Petrom);
8. pour les entreprises qui apliquent les IFRS la pluspart des actionnaires sont étrangers ;
9. deux entreprises seulement présentent des informations sectoriells detaliés (Petrom et Antibiotice Iaşi);
10. deux entreprises seulement présentent le raport écologique;
11. il manque pour toutes des entreprises cotées le bilan social;
12. une seule entreprise présentent le compte de résultats avec la classification des charges selon les fonctions des enreprise (Alro Slatina);
13. 90% des entreprises utilisent la méthode indirécte dans le tableau des flux de trésorerie ;
14. une seule entreprise présente volontairement les soldes intérmédiaires de gestion (Antibiotice Iaşi).
15. une seule entreprise présente des informations concernant les transactions avec les parties liées (Alro Slatina) ;
16. une seule entreprise présente des informations prévisionnelles détaliés (Banca Transilvania).

Les conclusion pour les sociétées cotées à la Catégorie 2:

1. pour la pluspart des entreprises on peut trouvé sur le site Internet le bilan comptale et le raport des dirigeants reçu par CNVM;
2. aucune des entreprises cotées à la deuxieme catégorie aplique IFRS;
3. 14% des entreprises sont auditées par Big Four ;
4. la majorité des entreprises ne present par des informations concernant les politiques comptables utilisées;
5. le contenu faible des notes aux états financières ;
6. la majorité des investisseurs sont roumains ;
7. il manque les informations nonfinanciers ;

Pour identifiér les bonnes pratiques des communication financière des sociétées de l'Union Éuropéene nous avons utilisé la base de données Forbes 2000 qui pérmét l'acces aux raports annuels des premiéres 200 sociétées cotées. Les résultats sont evidement jénantes pour les entreprises roumaines. La dimension moyéne d'un raport annuel est de 200 pages. Il y a des companies avec un raport annuel de 500 pages.

En partant des observations faites sur les grandes companies éuropéene cotées nous avons procéde à identifier les éléments qui peuvent assurer les bonnes pratiques de communication:

- vérification de l'exactitude et de l'exhaustivité de l'information communiquée au public ;
- principes de communication de l'information importante;
- maintien de la confidentialité;
- communiqués de presse;
- rumeurs;
- conférénces téléphonique et webdiffusion;
- rencontres individuells et en groupe avec les analystes, les investiseurs et les medias;
- examen des projets de rapports et des modèles des analystes;
- distribution des rapports d'analystes;
- information prospective;
- périodes de silence;
- résponsabilité relative aux communications éléctroniques;
- recours à des experts externes etc.

6.Conclusion

Les résultats de la recherche amènent vers la conclusion que la définition des information volontaires manque d'homogéneité. L'opportunisme des dirigeants et la contingence des diffusions remettent en cause la validité des valeurs volontairement communiquées. Pour la plupart des entreprises roumaines analysées il manque les principes d'une bonne pratique de communication financière. Les entreprises cotées et auditées par Big Four sont plus transparentes et présentent beaucoup d'information. Pour la plupart les dirigeants des entreprises non cotées les états financières ont un régime de confidentialité (on peut trouver souvent que le bilan comptable ou les états financières simplifiés). Les bonne pratiques de communication financières sont imposées par les sociétés méres étrangères. Malleureussement elles ne fait pas l'objet d'étude approfondit dans les univérsités.

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ACCOUNTING TREATMENT OF DEFERRED INCOME TAXES ACCORDING TO THE REQUIREMENTS OF THE ROMANIAN ACCOUNTING REGULATIONS

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Abstract: Known as a debatable topic, the relationship between accounting and taxation still represents a field of convergence and divergence, of tolerance and intolerance. Therefore, the Romanian accountant is in permanent pursuit of quality accounting information and its impact on taxation. Currently, a great importance is granted to accounting judgements, and this is magnified by the fact that most fiscal contributions are based on accounting information. Deferred income taxes reconcile accounting profits with income taxes pursuant to the impact of temporary differences between the book value and tax value of assets and liabilities disclosed in the financial statements.

Key words: deferred income taxes, reserves, provisions, accounting.

The adoption of Order of the Minister of Public Finance no. 94/2001 for the harmonization of Romanian financial reporting with the requirements of the 4th Directive of the European Union and of the International Accounting Standards[298] (OMFP 94) accelerated the reorganization of Romanian accounting, based on the International Accounting Standards (subsequently, International Financial Reporting Standards – IFRS).

International Accounting Standard IAS 12 – Income Taxes (*IAS 12*) is known as a difficult regulation in respect to the practical application of its provisions in Romania, especially regarding the recognition of deferred income taxes. Therefore, it is still subject to many actual accounting debates. *OMFP 94* does not explicitly refer to income taxes[299]. Practically, it accepts *in integrum* the application of *IAS 12 – Income Taxes*. We should highlight here the efforts of the Romanian accounting legislators to approve „solutions"[300] regarding the application of legal provisions referring to deferred income taxes, and to grant some current practices the rank of accounting law source, but also the efforts of professional bodies, respectively the Body of Romanian Chartered and Certified Accountants.

Deferred income taxes reconcile accounting profits with income taxes pursuant to the impact of temporary differences between the book value and tax value of assets and liabilities disclosed in the financial statements. Based on the previous assertions we can conclude the following:

The *assessment* of deferred income taxes is based on balance sheet information (known as the „balance sheet method" or the method of variable carry forwards) and not on the income statement. When the book value of assets is smaller than the tax basis, respectively the book value of liabilities is higher than the tax basis we obtain a *deductible temporary difference,* which generally generates receivables for deferred income taxes. When the book value of assets is higher than the tax basis, respectively when the book value of liabilities is smaller than the tax basis we obtain a *taxable temporary difference*, which generally generates payables for deferred income taxes. Although not from the beginning, *OMFP 94* has created the conditions for the appropriate application of the requirements of *IAS 12,* by introducing in the chart the

[298] Romania's Official Gazette, Part I, no. 85/ 20 February 2001

[299] Bunget Ovidiu Constantin – *Contabilitatea românească: între reformă şi convergenţă*, Economica Printing House, Bucharest, 2005, p. 295

[300] Decision of the Minister of Public Finance no. 9/2003 for approval of certain solutions regarding the application of legal provisions regarding income taxes, together with the accounting regulations harmonised with the European Directives and with the International Accounting Standards, Romania's Official Gazette no. 171 bis/2003

following accounts regarding deferred income taxes: *6912 - Expenses with deferred income taxes*, *791 - Revenues from deferred income taxes*, *4412 - Deferred income tax*.

Temporary differences represent the essential element of the variable carry forwards method (the previous version of *IAS 12* allowed the recognition of deferred income taxes based on two methods: fixed carry forwards and variable carry forwards; however, they were based on the income statement and are currently prohibited).

Deductible temporary differences means that the company will have to affect its current results with amounts representing recoverable income tax for current balance sheet items, due to the fact that, up to now, it paid more income taxes, and in the future, for

4412 Deferred income taxes = *791 Revenues from deferred income taxes*

the same balance sheet items, it will pay less (current) income taxes and the income tax receivables will be reversed.

6912 Expenses with deferred income taxes = *4412 Deferred income tax*

Active deferred taxes should be recognised under special precautions. In fact, they represent a future tax deduction and the expressed supposition is valid only if the company achieves sufficient future taxable profits in order to allow the ascertained deduction. We mention below the following situations:

- the company holds sufficient passive deferred taxes vis-à-vis the tax authority;
- the company expects to hold sufficient future profits vis-à-vis the tax authority, from other sources than those from passive deferred taxes;
- the company's fiscal facilities allow the procurement of sufficient future taxable profits necessary for recovering/cancelling active deferred taxes;

Taxable temporary differences means that, in the future, when it will obtain economic benefits (when the value of assets or liabilities is recovered), the company will have to pay amounts, which once represented current income taxes. Therefore, out of prudence reasons, the company should initially recognise the liabilities with deferred income taxes,

6912 Expenses with deferred income taxes = *4412 Deferred income tax*

and at that future date, it should reverse the liabilities with deferred income taxes, because it should have had realised taxable profits for which it will pay current income taxes.

4412 Deferred income taxes = *791 Revenues from deferred income taxes*

We would like to highlight, that income taxes are generated *only* by temporary differences and not by final differences (permanent)[301]. The latest are subject to fiscal and accounting judgements within a definite financial year. They are not „carried forward" to future periods (i.e. protocol expenses, outages, fines and penalties, daily allowance, etc.).

On the other hand, due to accounting and fiscal treatments applied in different ways and in different financial years, there are also situations resulting in temporary differences for other items included in the yearly financial statements, such as:

- expenses with interests and unfavourable exchange rate differences related to the financial year, which do not comply with the requirements regarding full deductibility of that financial year, and which are fiscally carried forward to the next financial years;
- fixed assets disclosed in the balance sheet, which did not benefit of the additional fiscal amortization of 20% or of other amortization regimes not recognised by the tax legislation;
- capitalization of provisions for restoration of damaged land or for environment rehabilitation, which are deductible expenses under the tax law; from the accounting point of view, these provisions are capitalised, and therefore they will be expensed in tranches, by means of amortization;

[301] Mihai Ristea (coordinator) – *Contabilitatea finciară a întreprinderii*, Universitara Printing House, Bucharest, 2004, p. 480

- revenues and expenses related to hire purchases are taxable, respectively deductible during the duration of the contract, and accounting entries are recognised when delivered;
- tangible and intangible assets with a different working life than the normal technical working lives are fiscally recognised (Law no. 15/1994 regarding amortization of capital included in tangible and intangible assets, republished, with subsequent amendments);
- costs recognised as expenses in accounting, which fiscally are considered assets; they will be recognised as deductible expenses in tranches, according to law;

The assessment of deferred income taxes coincides with the assessment of the yearly financial statements. The deferred income tax is calculated by weighing the temporary difference with the valid income tax rate or with the income tax rate to be in force at the date when the asset will be realised or the debt will be paid, based on the legislation in force at the date of the preparation of the financial statements or on the legislation to be in force, but for which exists a reasonable level of certainty at the date of the financial statements (the transition from 25% to 16% starting with 2005 is a good example in this respect).

In the yearly financial statements, the balance of account *4412 Deferred income tax* reflects the nature of the deferred income tax (payable or recoverable) in the future, for the items presented in the financial statements and which have allocated temporary differences.

Recognition of deferred income taxes according to the requirements of *OMFP 94* (and *IAS 12*, by default) assumes consideration of the two moments involved [302], respectively:

- application for the first time of accounting regulations harmonised with the 4th Directive of the European Union and with the International Accounting Standards (known in practice as „restatement”); this assumes transition from the previous accounting regulations (Government Decision no. 704/1993 regarding approval of the regulation for the application of Accounting Law or Order of the Finance Minister no. 306/2002 for the approval of simplified accounting regulations, harmonised with the European Directives) to *OMFP 94*;
- actual application of accounting regulations harmonised with the 4th Directive of the European Union and with the International Accounting Standards;

While the second step, theoretically, does not raise any particular problems for accountants, on the other hand, restatement presumes also some reconsiderations of certain accounting problems treated or not treated based on the previous regulations. It is also the case of temporary differences generated both by application of art. 11 (5) of Law no. 414/2002 regarding income tax[303] (valid until 31 December 2003), and by application of art. 24 (12) of Law no. 571/2003 regarding Fiscal Code[304] (after 1 January 2004, until 30 April 2005). The mentioned tax regulations specified that, under certain conditions, companies can benefit from the fiscal facility of recognising an „additional” amortization of 20% out of the fixed assets’ input value, at the put in function date. Companies, which used this „facility” and reported according to *OMFP 306,* were allowed to recognise this “additional” amortization also from the accounting point of view (connection accounting-taxation!). However, at the end of the financial year, the realised „income tax savings” should have been „allocated to reserves, by means of account *129 Profit distribution = 1068 Other reserves* / separate analytic”[305]. Subsequent to approval of Law no. 571/2003 regarding Fiscal Code and introduction of the fiscal evidence register for income taxes, the facility of 20% could no longer generate an „additional” accounting amortization expense. However, for profit distribution the legislation maintained the restriction regarding allocation to reserves of realised income tax „savings”. We hope that the example below contributes to the understanding of the different approaches and recognitions generated by the application of different accounting regulations.

In October 2003 a company purchased an equipment of 480,000 currency units. The company uses the straight-line method of depreciation over a period of 4 years, according to the provisions of Law no. 15/1994 regarding amortization of capital included in tangible and intangible assets, republished, with

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[302] Emilia Iordache (coordinator) – *Ghid practic de reconciliere contabilitate-fiscalitate*, C.N. Imprimeria Națională S.A. Printing House, Bucharest, 2005, p. 14
[303] Romania’s Official Gazette, Part I, no. 456/27 June 2002
[304] Romania’s Official Gazette, Part I, no. 927/23 December 2003
[305] Order of the Minister of Public Finance no. 1784/2002 regarding approval of certain measures referring to the closure of the 2002 financial year for juridical persons, which have to prepare yearly financial statements according to Accounting Law no. 82/1991, republished in Romania’s Official Gazette, Part I, no. 21/2003, in Appendix at pt. 30

subsequent amendments, and Government Decision no. 964 regarding approval of classification and normal working lives of fixed assets (currently cancelled by Government Decision no. 2139/2004 regarding approval of the Catalogue for classification and normal working lives of fixed assets). The company decided for the additional deduction of 20% out of the input value at the acquisition date, according to art. 11 (5) of Law no. 414/2002 regarding income taxes.

The accounting amortization is of 10,000 currency units/months (480,000 currency units/4 years x 12 months). The fiscal facility consists in an „additional" amortization of 20% out of the input value. At the equipment's put in function date, the facility amounts to 96,000 currency units (480,000 currency units x 20%). Thus, the value of assets to which the monthly fiscal amortization is calculated amounts to 384,000 currency units (480,000 currency units – 96,000 currency units), and the monthly fiscal amortization is of 8,000 currency units (284,000 currency units/48 months).

Considering that the equipment is used during the entire estimated working life, deferred income tax will be calculated as following:

Year	2002	2003	2004	2005	2006
Net book value at year end (accounting basis)	460.000*	340.000	220.000	100.000	-
Fiscal basis (taxable)	368.000**	272.000	176.000	80.000	-
Taxable temporary difference	92.000	68.000	44.000	20.000	-
Total liabilities regarding deferred income taxes	23.000	17.000	7.040	3.200	-
Initial liabilities regarding deferred income taxes	-	23.000	17.000	7.040	-
Adjustment of initial liabilities for deferred income taxes resulted from the decrease of tax rates (25%-16%=9%)	-	-	(6.120)	-	-
Expenses/(revenues) with deferred income taxes from recognition of temporary differences	23.000	(6.000)	(3.840)	(3.840)	(3.200)

* 480.000 – 2 x 10.000 =460.000

* *480.000 – 60.000 – 16.000 = 368.000*

As one can observe, in 2002, when the equipment is put in function, there is a taxable temporary difference, which results in the recognition of a deferred income tax liability in amount of 23,000 currency units.

23.000 6912 Expenses with deferred income taxes = 4412 Deferred income tax 23.000

This amount decreased by resuming it in revenues related to next periods, when the value of the asset (equipment) is gradually recovered by means of amortization, for instance in 2003.

6.000 4412 Deferred income tax = 791 Revenues from deferred income taxes 6.000

At the end of 2004, the changes in the tax provisions generated an adjustment of liabilities regarding deferred income taxes, due to the change of tax rates from 25% to 16%. The total effect was of 9,960 currency units, which we can divide in the effect of the changes in the taxable temporary differences, of 3,840 currency units (68,000 currency units – 44,000 currency units = 22,000 currency units x 16% = 3,840 currency units) and the effect exclusively owed to the change of tax rates, of 68,000 (25%-16%) = 6,120 currency units.

9.960 4412 Deferred income tax = 791 Revenues from deferred income tax 9.960

Assuming that the company switched to OMFP 94 in 2003, it should have restated the financial statements for the financial year ended as of 31 December 2002, when it reported according to OMFP 306, and when the „income tax savings" were recognised as other reserves (# 1068 Other reserves). Practically, this should have affected own capitals by transferring the „income tax savings" from reserves to liabilities regarding deferred income taxes (an amount of 23,000 currency units).

23.000 1068 Other reserves / separate analytic = 4412 Deferred income tax 23.000

The accounting regulation applicable from 1 January 2006, respectively Order of the Minister of Public Finance no. 1752/2005 regarding approval of accounting regulations harmonised with the European Directives[306] (*OMFP 1752*), gives up the idea of „deferred income tax" and introduces the idea of „provisions for taxes" (*1516 Provisions for taxes*). This account takes over the liabilities regarding deferred income tax. However, *OMFP 1752* proved to be very prudent in respect to receivables for deferred income tax. It no longer contains provisions regarding this economic category, and when the balances of accounts in the trial balance as of 31 December 2005 were transferred to the new chart of accounts, the debit balance of account *4412 Deferred income tax* was allocated to account *1176 Retained earnings resulted from transition to accounting regulations harmonised with the 4th Directive of the European Union*.

The aspects presented above show a fairly interesting development of the approach of passive deferred income tax in Romania. This means that liabilities (the company's current liabilities, resulting from past events; through their settlement the company expects a resources outflow with economic benefits), respectively provisions (debts due or with an uncertain value) are transferred to own capitals (residual interest of shareholders in the company's assets after deducting its liabilities), according to the applied accounting regulation, respectively Order of the Minister of Finance no. 306/2002 regarding approval of simplified accounting regulations harmonised with the European Directives, Order of the Minister of Public Finance no. 94/2001 regarding harmonisation of Romanian accounting regulations with the requirements of the 4th Directive of the European Union and of the International Accounting Standards or Order of the Minister of Public Finance no. 1752/2005 regarding approval of accounting regulations harmonised the European Directives.

Although the 4th Directive of the European Union no. 78/660/EEC regarding yearly accounts of certain types of companies was amended in order to comply with the International Financial Reporting Standards, there are still many problems to be discussed. However, in the near future, the Romanian accounting regulations will „dance" in the spirit of the European regulation, with its performances and imperfections.

In respect to *IAS 12 – Income taxes*, although its application would improve the accurate reporting of expenses/revenues regarding income taxes (i.e. expenses with income taxes are better „correlated" with accounting profits), technically speaking, the functioning mechanism of deferred income tax liabilities is similar to that of provisions for risks and expenses, and, therefore, there should be no significant perception difficulties. However, we recommend granting an increased attention to the economic-financial analysis of financial statements.

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THE SYSTEM OF COSTS BOOK-KEEPING AND CALCULATION ON PRODUCTION COMMANDS

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The costs are registred in an accounting system in order to help managers in process of taking the various decisions. The costs objects (products and sections) illustrate two goals of internal book-keeping administration, thus: informations supply for plann and control and compute of products cost. In the system of costs book-keeping and calculation on production commands, the object cost is illustrated by one or many various units from a product or a service, named production command. In order to compute costs on production commands is used the effective costs method, which use effectives quotations for alloting the indirect costs and normal costs method, which used budgeting quotations in order to allot the indirect costs; the direct cost are assigned to the commands in the same manner. The costs calculation on commnands is useful in some services companies, such as expert book-keeping and consulting firms, advertising firms, car fixing workshops or hospitals.

Keywords: costs objects, indirect costs, direct cost, effectives quotations, budgeting quotations

The calculation on production commands

In order to compute costs on production commands is used the effective costs method and normal costs method.

The effective costs method is a calculation method based on production commands which use the effective costs in order to establish the cost of various commands. Acordingly to this method, the direct costs are alloting to cost object by multiply the unit effective quotations of direct cost with effective quantities of production factors having direct cost and indirect cost are allotted to cost object based on the effective quotations of allocation for indirect costs, multiply with effective quantities of allocation cost's bases.

The computation of assigned costs alloted to a production, trade or specific services command, follows these phases:

- Identify the command which represents the choosen cost object(for example an equipment manufacture);
- Identify the direct costs of command (for example: the cost of direct raw substances and direct production work);
- Choosing of allot bases for indirect costs on the command (for example: the effective quantity of direct labour hours, hours-machine);
- Identify the indirect costs affiliated to every allocate base, named total/general production expenses(for example: the electric power costs, heating costs, repairs costs, surveillance costs);
- Calculation of unit alloting quotation of indirect costs on command(of choosen alloting base unit qoutation), thus:

$$\textit{The effectiv quotation for allocate the indirect costs} = \frac{\textit{The effective total } \mathrm{costs} \textit{ from indirect } \mathrm{costs} \textit{ plot}}{\textit{The effective total quantities from allocate } \mathrm{costs} \textit{ base}}$$

- Calculation of indirect costs allocated to command:

The indirect cost of command =

= The effective allocate quotation of indirect costs x The effective quantities of costs allocated bases

- Total command cost calculation by adding all the direct and indirect cost allocated and distributed to command.

Based on the achieved result, the calculation system of effective costs illustrates an abolute gross margin and a percentage gross margin, in order to compare the efficiency of various production commnands, to determine why some commands have a low efficiency degree and to proceed to future improvements.

The normal costs mehod is a calculation costs method in which the direct costs are assigned to cost object by multiply the unit effective quotations of direct costs with effective quantities of product factors with direct cost and indirect costs are allocated on cost object, based on budget quotations of indirect costs, multiply by effective quantities of alloting costs bases.

If we use the previous phases, could illustrate the normal costs method in this manner:

- Identify the command which represents the choosen cost object (for example an equipment manufacture);
- Identifify the direct costs of command (for example: the cost of direct raw substances and labour of production);
- The choosing process of allocation bases for indirect costs of command (for example:the budget quantity of direct labour hours, machine-hours);
- Identify the indirect costs associated to every distribution base, named general production expenses (for example: the electric power costs, heating costs, repairs costs, surveillance costs);
- Calculation of unit alloting quotation of indirect costs on command(of choosen alloting base unit qoutation), thus:

:

$$\text{\textit{The budget quotation for allocate the indirect costs}} = \frac{\textit{The budget total } \cos\textit{ts from indirect } \cos\textit{ts plot}}{\textit{The budget total quantities from allocate } \cos\textit{ts base}}$$

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- Calculation of indirect costs allocated to command:

The indirect cost of command =

= The budget allocate quotation of indirect costs x The effective quantities of costs allocated bases

- Total command cost calculation by adding all the direct and indirect cost allocated and distributed to command.

By comparison the two methods it cab be noticed that, the production cost of command depends on the allocated base used and the value of distribution quotations of indirect costs.

Managers and book-keeping persons collect the information which follow to be registred in evidence and calculation costs system through the *justificatory documents*. In calculation system costs based on production commands are used the following justificatory documents:

- *cost centralizing on production command, named also the calculation costs command memorandum slip*, in which are noticed and gathered all the alloted costs, distributed to a specific command, from the moment of starting production;
- *consumption raw materials bill*, which contains informations related to consumption of direct raw materials by proceeding a specific production command in a specific unit. By adding the cost derived from consumption raw materials bill it is obtaining the effective total cost of raw materials, writen in command production costs centralizing;
- work time evidence bill, which contains informations related to work time consumption in order to execute a specific production command from a specific section.

As a habit, the information gathered from commands costs centralizing are finding again in an analytic record/register. Syntetic account „Goods in progress” from the General Ledger reflects the bounded totals by all unfinish commands, taken from these centralizings or analytic on various commands account bills.

The analytic bills in order to evidence the commands costs and the syntetic account „Goods in progress" registered all the commands costs from starting moment until to completion moment.

The companies pay a lot of attention to justificatory documents corectness, thank to the fact that d commands costs calculation bills fiability depends on informations related to the production factors used.

In many evidence and costs calculations systems doesn't extant anything else except the justificatory documents on computers. The code bars and other methods to information recording in real time decrease the human intervention and make easier the process to obtain a high degree of exactness for dates related to raw materials consumption and work on production commands. The modern informative technologies supply fast and exact information to managers, regarding the products costs, making easier the adminstration and production commands control.

The indirect budget costs regularized at the exercise's end

Using the method of normal costs presents the advantage that we are able to distribute to indirect costs to individually method in a continous mannerand to right time, not only to the end of accounting exercise,when we know the effective level of costs.The method's disadvantage is given by the inexact budget quotation, due the fact that is based on estimations made since 12 months before proceeding of effective expences made; to year's end, we can appreciate that the indirect costs sum disitributed is different by the effective indirect costs sustained by the company.

The underneath-distributed indirect costs appear when the indirect distributed costs sum for an accounting exercise is lower then the effective abide costs sum. *The super-distributed indirect costs* apear when the indirect distributed costs sum in the frame of an accounting exercise is higher then the effective abide/support costs sum.

The underneath-distributed indirect costs (super-distributed) =

Indirect effective costs – Indirect distributed costs

Accounting regularize from exercise's end are recorded accordingly to the following accounting major methods: the adjust distribution quotation method, the proportional repeat distribution method and the method to transfer entirely on expenses in the inventory account „Sold goods cost".

The adjust distribution quotation method computes again all the accounting articles related to general expenses recorded in the General Ledger and in analytic evidences, using the effective quotations of costs distribution replacing the budget quotations.To year's end are made the following phases:

- is calculate the effective distribution indirect costs quotation;
- is calculate again the indirect costs distributed to every command during the year, by using the effective distribution quotation (replacing the budgetone);
- is registred the accounting articles of exercise closing;

As result, each analytic evidence command costs bill and the cost registred on the finish goods, also the final account balances of syntetic inventory accounts „Goods in process", „Finished goods" and „Sold goods cost", illustrates exactly the indirect costs abide by the company. The general adopt of accounting systems on computer decreased the cost related to using the method of distribution quotation adjust.

The proportional revised distribution divides the general expenses sum of underneath-distributed or super-distributed between the final account balance of inventory accounts „Goods in process", „Finished goods"", and „Sold goods cost". Due the fact that to raw materials stocks are not allot production general expenses, this inventory account is not included in proportional repeat distribution.

By using this method are obtained the same final accounting balances of inventory accounts from the General Ledger such as the account balances obtained through the adjust distribution quotation method only in case that the ratio of general production expenses in total costs is teh same for all three accounts.

The proportional revised distribution based on final inventory balance accounts is often used esed, beeing a method less complex which approximate the results achieved by using the shares of internal distribution costs.

The method to transfer entirely on expenses in the inventory account „Sold goods cost". In this case, the total sum of underneath-distributed or super-distributed general expenses is recorded in balance account of the inventory account „Sold good costs" from the year in progress. This method is the easiest manner to regularize the general production expenses underneath-distributed or super-distributed.

Acoordingly to the manner to use the resulted informations, the managers choose the right method, thus:

- if they intent to realize the most elaborated accounting evidences of costs for every command, then is recommended the adjust distribution quotation method;
- if the managers goal is limiting just to present the exact dates regarding the stocks and sold goods costs in financial situations, then is recommended to use proportional revised distribution based on general production expenses distributed from final accounting balances method, due the fact that this method adjusts the accounting balances to the level that would have been registred if it had been used the effective costs method.

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ACCOUNTANCY BETWEEN TRADITIONALISM AND MODERNISM

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Abstract: The character of social science, acquired by accountancy, correlated with the major mutations that were produced in the plane of the normalization and the assure of the convergence in the field, make from what we call now the accounting practice more than a simple application of a specific methodology. Modern accountancy represents not only an instrument through which it is assured the realization of the function of information and assistance of the decisional process, but also, in the actual context, having in mind the products that it provides, and the shape that it takes today, must be regarded as an important factor of influence of the economical-social environment.

Key words: accountancy, science, informatization, professional reasoning, evolution.

Introduction

Accountancy, in its evolutional way, had to answer to the bigger and more diversified demands of the economical activity that imposed to it shapes the more developed as its application field became vaster. “Scrittura doppia” evolved from the simple, clear and precise norms, respected by the merchants in Venice, to the classical shape of the accountancy in double entry, as echo to the necessities of the practical life. Accountancy existed and was constantly perfectioned in all social orders so that it many answer to the informational necessities of the economical lives. Like other scientifically disciplines, accountancy has know various development stages, and the research and the knowledge and the through study of the fundamental concepts.

References concerning the evolution of the accountancy’s role

From high degree practical activity, the knowledge’s of which were empirically acquired, through the successive elimination of the error, accountancy became a scientifically discipline because the increase of its decisional role imposed the systematization of the knowledge’s applied in practice. Besides, this really the reason why it was necessary that the accounting practices be fundamented on an accounting theory and on a conceptual basis, the research starting to play a determinant role in this sense.

The accreditation of accountancy as scientifically discipline is far from being finalized because the opinions referring to this subject are very diverse, starting from the total rejection of accountancy as science, passing then through the stage of science in the “adolescence” phase, so that other authors consider it a “scientifically mature discipline”.

The essay of establishing the status of accountancy is hurting, firstly, to the diversity of the approaches connected to this problem. The definitions, given to accountancy, differ very much both in time and in space, so that at present we don’t identify any consensus in what concerns this subject, that’s why, for the characterization of this discipline, there are proposed a multiplicity of variants, from which we remember the most important: art, technique, informational system, language, social game, science.

Without proposing to make an analysis of the kind of contradictory character of these terms, we will try to make a characterization of accountancy through the angle of the role that it has in sustaining the process of adopting decisions within an economical entity.

Having in mind the emphasized facets of accountancy in the specialty literature (6), and also the evolution in time of the solutions proposed for its definition, it could be realized an order of the explicative models in three main categories:

- accountancy as measurement instrument;

- accountancy as informing instrument;
- accountancy as instrument of social brokerage.

As measurement instrument, accountancy is approached as an activity that has as purpose the reflecting of the economical activity of the enterprise. Viewed in this context, accountancy is especially assimilated to an art of registering or to a technique of administration, points of view that, in our opinion, have a limited character, because reduce is role only to accounting registering.

The approach of accountancy **as informing instrument** coincided to its definition as informational system, represented by "an ensemble of elements (human and material resources) that allow to collection, the processing, the warehousing and the communication of information, in view of talking decisions" (3).

As it is observed, accountancy is no more regarded exclusively as an instrument of monetary quantification of the economical reality, but as a system that has as purpose the providing of information for taking decisions, the representation of reality not being a purpose in itself, but being subordinated to a new concept that aims for the satisfaction for the informational needs. Accountancy continues to accomplish its measurement function, but is subordinated to a purpose, fact that emphasizes new dimensions, through the taking into consideration of the users of information that it produces and also of their needs.

The informational activities, specific to the accounting field, are those that concern the production and the use of the accounting information and they refer to actions that aim the creation, the collection, the warehousing, the processing of data and then the broadcasting of the information. These activities suppose the making of some operations of registering and calculating, and also of actions of analysis, interpretation, grouping, synthesis and use of information for taking decisions.

The perspective on accountancy being extended, through the taking into consideration of the users of the information offered by it, it was emphasized its **function of communication**, because the providing of information to the different categories of users in view of taking decisions is not, in substance, but a communication activity.

In the case of accountancy, we can speak of an accounting or financial communication, within which the connection is established between the enter prize, as transmitter (producer) of information and all those interested in their use, as beneficiaries or receivers of information. The main way of transmitting the accountancy's product is represented by the annual financial situations, the issued information being obtained following the representation of the economical reality of the enterprise through the use of a specialized language, of some specific rules and principles.

So, the accounting information is built using a specific language, certain rules that allow the codification and the decodification of the represented data, all these assuring the ordered and intelligible representation of the economical reality. The usefulness of the accounting information within the financial communication is proven in the conditions in which the receivers use it to understand the economical reality and to take decisions.

Thus it appeared the idea of defining accountancy as a "formalized language", being generically named a "language of businesses", characterized through three dimensions (2):

- the accounting syntax, represented by the ensemble of rules and procedures that must be followed for the registering of transactions and the creating of accounting synthesis documents, starting from the symbols that form the accounting vocabulary – in this case the emphasis put on the function of representing the economical reality;
- the semantics of the accounting language that treats the significance of the signals transmitted by accountancy – with emphasis on the informing function;
- the pragmatic aspect that refers to the communication of accounting information and the way of using it by different users – again the emphasis is put on the informing function.

The description of accountancy in this shape is characteristic to the accounting present thinking, this change of perspective affecting both the external accounting report – the normalization through the conceptual accounting frame defines the purpose of the financial situations as being the providing of information for taking decisions, and the internal one – from an accounting of costs becoming a managerial one, the emphasis being put again on its role of providing information to the manager for adopting decisions.

Accountancy approached as informing instrument, although it surpasses, as explicative value, the technical vision on accountancy, still has certain flaws, because it doesn't succeed in offering a complete image, not taking into consideration a series of important factors. In these conditions, there appeared the necessity of enlarging the perspective on accountancy to be also emphasized other facets of it, appearing the idea according to which accountancy is **an instrument of social brokerage**.

In this point of view, the measurement and the informing functions are passed in a second plan, and in the first plan are emphasized the consequences that the accounting information has on the social environment. In practice, there is made conscious the fact that the choice and the application of a certain accounting politics have especially important consequences on the redistribution of wealth and the risks between the different participants to the economical life. In our opinion, the social role of accountancy must be considered of priority, because it offers the possibility of establishing criteria according to which it is realized the reflection of reality and the informing of different categories of users, with the purpose of obtaining the desired economical-social effects.

The obtaining of the accounting information takes place as following the data processing and interpreting, through the use of some specific concepts and principles, being applied more methods and politics in view of reflecting the economical reality of and entity and the offering of the necessary information to those who take decisions or are interested in the respective entity.

The concept of modernism in an accounting sense

During its evolution, accountancy had to find solutions and to adapt itself to economical reality, fact that led to the use of some notions and accounting terminology, as to the appearance and the application of rules and conventions in view of obtaining information. Thus, accountancy has become today a complex technique of registering and reflecting the economical-financial reality of an entity, an informing system adapted to the users' needs, and instrument of administration and communication that assures the integration and the dialogue of the enterprise with its external environment (4).

The modern enterprise and its accounting informational system constitutes subjects that are intensely debated in the specialty literature, because there are distinguished two opposite directions of action that aim, on the one hand, at the desire of the enterprise to rally to the current of informational globalization and, on the other hand, to the restrictive demands imposed by the science and the practice in the field.

At a first view, it may be thought that many of the charges and the functions of classical accountancy were transferred to the informational system, arriving, at an end, to a so-called modern informational accounting system. Still, we consider as being relevant the opinion according to which barely now there can be made a clear distinction between the part of accounting technique and the one of accounting science, because now there can be let to the computer all aspects that make from accountancy a technique, through the development of some informational programmes that comprise all rules, procedures, methodologies and techniques necessary to the obtaining of the financial situations and implicitly to the information about an economical entity, so the human factor may occupy himself to its scientifically side (5).

In the situation in which we assist, at the present moment, to an emphasized information of accountancy, there appears, inevitably, the question in what measure the accountant is still given the chance to reason or, in other words, how much from the work made by the accountant is technical, imposed by the application of some algorithms specific to the used informational applications and how much represents the professional reasoning. In our opinion, the actual software products used in the financial-accounting field, through the way in which they are conceived, although they induce a certain degree of automatism in making the specific works, doesn't put aside what we call professional reasoning.

Besides, we think that the approach of the concept of modernism in accountancy doesn't have to be realized only through the report to the aspects that concern the information of this science, as following the use of the modern equipments of gathering and data processing, and also of the specialized informational applications. This is the reason why we consider that the actual tendencies, manifested at international level in the field of accountancy, under the impulse of the globalization phenomenon, are the expression of some profound changes in tight correlation with the economical and political evolutions that we notice regional and planetary level. So, we think that between the information of accountancy and the necessity of using a common language in this field, at word level, through the appeal to specialized standards for accountancy, there is a direct connection. Modern accountancy is also characterized through the fact that the politics applied in this field tend to become more and more complex, which imposes that, on the one hand, the appeal to the professional reasoning become an all-important condition and, on the other hand, the use of modern equipments and irreplaceable specialized soft wares.

In mustn't be omitted the fact that the development of accountancy, from all points of view, was determined and accompanied the ample process of development of the human society. In evolution of the informing needs, imposed by the evolution of the natural, economical and social systems, determined the development of the informational system and, implicitly, of its accounting component. In these conditions, the demand of accounting information has continuously changed its angle of interest, at present this aiming, more and more, for the spectrum of the events and phenomena about to manifest themselves and their predictable evolution, the user's urgent needs rather finding their answer in the future cash flows than in the accounting profit of this period.

In our opinion, the study of the concept of modernism in the field of accountancy, in the actual moment, imposes the analysis of an accumulation of elements, of which we consider that the most significant refer to the implementation of the informational technology in the context of the development of a complex process of reglementation in the financial-accounting field, the assurance of monitoring/convergence of accountancy at world level, the re-consideration of the role and the importance of the accounting profession, and also the influence exercised by accountancy on the social environment.

We consider that the process of financial communication and the tendencies manifested in this field at international level, under the impulse of the globalization phenomenon, represent dominant characteristics of modern accountancy. In the year 1973, there were put the bases of the International Commission of Accounting Norms – IASC (the actual IASB), without anyone could, at that date, to estimate the particular impact of this organism and of the norms that it created on what we call now financial communication through a common accounting language. The evolutions that took place in the plan of the international accounting normalization can be consider the more remarkable if we take into consideration the conceptual arguments that existed in the field of financial communication at international level (through the system of norms IAS – IFRS) and, respectively, at the level of the European Community (through directives), arguments that at present we can say that, in a certain measure, attenuated as following the process of re-consideration that the European accounting directions pass through. We have in mind the fact that the states members of the European Union have decided the implementation of the International Standards of Financial Reporting, according to the stipulations of the Regulation (CE) no. 1606/2002 of the European Parliament and of the Council from the 19th of July 2002 concerning the application of the international accounting standard. According to this regulation, the states members apply IFRS in the consolidated financial situations, précising that certain states in the Union allowed the application of the international norms also in the annual financial situations (individual) of certain types of entities but, most countries have chosen the maintaining of national accounting standards in view of creating the annual financial situations the information of which are used for taxation necessities.

In the context of the expressed ideas, we formulate few questions that, in our opinion, can constitute the basis of a discussion having as theme the concept of modernism in the field of accountancy:

- Could be considered this state of fact the beginning of the end in the case of some tight delimitation between the two big accounting orientations?
- For how long we would be able to speak of the accounting model of the continental Europe and the Anglo-Saxon model, in the conditions in which, today, the word of order is "globalization"?

In a futuristic vision and in the context of what we presented so far we think that the approach of the idea of modernism in the field of accountancy will reveal, in a not so far future, the breaking of the informational barriers manifested at present through the existence of most of accounting references.

Conclusions

Having in mind the role of social brokerage instrument that accountancy fulfills, it can be said that this influences, in its turn, the evolution of society. Accountancy does more than facilitating the application of the economical analysis. The aspects connected to measurement can bring into discussion the credibility of the data developed by accountancy, thus emphasizing the relation between the micro-economical process and the instrument that allows its functioning.

The character of social science, acquired by accountancy, correlated to the major mutations that were produced in the normalization and the convergence in the field what we now call, the accounting practice more than a simple application of a specific methodology. Modern accountancy represents not only an instrument through which there is assured the realization of the informing and assisting function of the decisional process but, in the actual context, having in mind the products that it provides, also the form that these take today, it must be viewed as in important factor of influence of the economical-social environment.

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THE JUST EVALUATION OF NON-CURRENT INTANGIBLE ASSETS FOR FINANCIAL REPORTING

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ABSTRACT: Enterprises frequently expend resources, or incur liabilities, on the acquisition, development, maintenance or enhancement of intangible resources such as, scientific or technical knowledge, design and implementation of new processes or systems, licences, intellectual property, market knowledge and trade-works (including brand names and publishing titles). Examples of items encompassed software, patents, copyrights motion picture films, customer lists, fishing licence import quotas franchises customer or supplier relationship, customer loyalty market shore and marketing rights.

Keywords: financial reporting, intangible assets, just value

Introduction

For financial reporting at the just value of the non-current intangible assets and not only, an important role is held by the economic information which is essential for the decision making of the users of financial information (managers, investors, creditors etc.) . It can be said that the market for accounting information has an increasingly international quality because its users are more and more pretentious, and for the accounting profession this is a challenge.

The just value is a highly debated concept, being a consequence of a principle: true and fair value. No one has interpreted the just value as the faithful value, being translated into different languages as: just (juste) in French; real (reele) in Dutch; the value attributable (beizulengender zeitmert) in German; fair value without any translation in Italian.

According to the International Standards of Financial Reporting the just value is defined as being "the sum at which an asset can be transacted or a liability can be discounted,

willingly, between parts acquainted with the subject, in a transaction where the price is determined objectively" [1].

The just value contains the market value and is prone to cover all the values born out of the estimations based on economic calculations. It is opposed to the principle of prudence and of evaluation at the historic cost. The just value presents a series of qualities such as: comparability, restricted complexity and neutrality.

When there is not sufficient market information at the evaluation data as a result of the nonexistence of an active market, instead of the market value, for the assets outside exploitation a net replacement cost will be determined (NRC). For the estimation of the just value we consider we will be needing the aid of some informational sources such as:

a) IAS 38 – current intangible assets (Active necorporale);
b) IFRS 3 – entities' combination (Combinări de întreprinderi);
c) IAS 36 – depreciation of assets (Deprecierea activelor);
d) European Directives – in what measure the just value is accounted for;

e) IVS (International Valuation Standards) treatments recommended for the evaluation destined for financial reporting, especially GN 4-Evaluation of intangible assets.

The accounting treatment and the manner in which the financial information regarding non

current intangible assets is presented are included in IAS 38 „Intangible assets". A non-current intangible asset is defined as a non-monetary non-current asset without material substance.

According to IAS "Intangible assets", a non-current asset fulfills the criteria of identification from the definition of a non-current intangible asset when „it is separated, that is it can be separated or divided by the entity and sold, transferred, authorized, rented or exchanged, either individually or together with a contract , an asset or a correspondent liability; or it comes from contractual rights or of any other legal provenience, no matter if those rights are transferable or separable from the entity or from other rights or obligations"[1].

Evaluation of intangible assets

Economic entities frequently invest in resources or attract liabilities for the acquisition, development , maintenance or extinction of intangible resources such as scientific or technical knowledge, designing and implementing new technologies, licenses, intellectual property, software, patents, copyright, trademarks. But not all the elements previously enumerated satisfy the definition of a non-current intangible asset, respectively the recognizable qualities, the control over a resource and the existence of future benefits. If an element from an applicability area of this standard does not comply to the definition of the non-current intangible asset, then the expense for obtaining or internally generating it is recognised as cost in the moment of its occurence. If that certain element is obtained through a combination of entities, it represents a part of the commercial fund recognised at the date of the acquisition.

As about the recognition of the current intangible assets - it is made only when certain recognition criteria are fulfilled:

- they are likely to generate future economic benefit
- the cost of the current asset can be credibly evaluated.

Starting with the second financial exercise, current intangible assets can be evaluated separately in order to be recognised in financial situations presenting a series of particularities such as:

1. Determining the total value of the current intangible assets – residual extent
2. Determining the report between the value of the invested capital (VIC) and that of the invested net cash-flow (INCF)
3. The order of the evaluation of separate current intangible assets
4. The addition of the fiscal benefit resulting from the amortisation of separate current intangible assets
5. Other particularities
6. Recognised methods of evaluation

The fixing of the current intangible assets' residual extent's total value, typical of the acquisitions of entities, is made through the following series of calculus:

To the price paid for the acquisition of all current assets plus the overtaken short-term debts, we add the overtaken long-term loans and thus obtain the corrected acquisition price. Out of this price we substract the just value of all current assets found in the balance (except for that of current intangible assets), thus obtaining the total value of current intangible assets.

The evaluation of separate current intangible assets is made in a certain order, and the main criterium is the credibility degree of the evaluation hypothesis:

1. Computer programmes
2. Internally applied intervention patents
3. Products' marks
4. Instructed labour force
5. Licenses

6. Unpatented technology
7. Unfinished research-development projects
8. Commercial fund

The evaluation of current intangible assets is made at their just value which, according to IFRS 2007, is a concept similar with that of market value. An intangible element, reported as a current expenditure, cannot be later on recognised as a part of a current intangible asset's cost. Following expenditures, performed with a current intangible asset, will increase the cost of that current intangible asset only when those expenditures allow the current intangible asset to generate future economic benefits that surpass the initially predicted performance and if they can be credibly evaluated. We must mention that set-up costs, professional development costs, publicity and promotion costs, moving or activity reorganising costs and internally generated commercial funds are not admitted as separate current intangible assets.

IFRS insists that, in case of entity combination, the owner should recognise as many separate current intangible assets as possible so as to ensure a more precise reflection of the entities' patrimony. Experts should especially pay attention to the current intangible asset called **"instructed labour force"** which cannot be admitted as a separate current intangible asset yet it is separately evaluated so as to ensure the accuracy of the evaluation techniques of the other separate current intangible assets. The explanation is that, due to the entities' incapacity of controlling the benefits brought about by such a current intangible asset, the value of the instructed labour force is included in the commercial fund when transposed in the accounting balance.

Identifiable current intangible assets, bought as a part of entities' combination, is registered at the just value of the acquisition date provided it fulfills the recognition criteria. The most credible estimation of a current intangible asset's just value is the acquisition price of other similar or identical current intangible assets from an active market. IAS 38 also mentions the possibility of estimating the current intangible assets' just value , current intangible assets that were obtained as a result of entities' combination, through indirect estimation techniques, which consist of

a) either some multiplying coefficients used on some forms of income
b) either the use of net due economic actualisation method
c) either the actualisation of the following net cash-flow that might be generated by a current intangible asset.

As about the evaluation methods used for the current intangible assets, they present a series of particularities, such as:

- In case the current intangible asset is evaluated with respect to its costs (for instance a computer programme), we must take into account the amount we save when the profit tax is levied (fiscal benefit)
- When two or three landings to value are used, the result is that obtained from the most credible landing, without making the arithmetical mean.
- If two procedures of the same evaluation method are used and we obtain two different but close values, we may suggest as a final value the arithmetical mean of the two results
- The result that relies on information collected directly from the market is always the most credible one.

The landings in the evaluation of current intangible assets are:

a) Landing through sales' comparison
b) Landing through income
c) Landing through cost.

Landing through sales' comparison

The determination of a current intangible asset's just / market value through this approach refers to:

- transaction prices of identical or similar current intangible assets, or
- through "evaluation multiples" implied in the transaction price of identical or similar current intangible assets.

An “evaluation multiple” is a multiplying coefficient computed as a report between the transaction price of a current intangible asset and a financial indicator such as the business figure generated by the current intangible asset, the profit generated by the current intangible asset after the deduction of the expenditures related to the use of the current intangible asset. These indicators may be from this year, the previous or the following one. The evaluation multiple is then applied to the financial indicator of the evaluated current intangible asset.

The market current intangible assets are transacted on may be:

1. **an** extremely small **active market** [2]**;** in IAS 38, fishing and cab licenses are called non-current intangible assets. In this particular case, when current intangible assets are identical, their transaction prices may be adjusted only so as to reflect the type of transaction and the shifting of prices between the moment of the identical current intangible assets’ transaction and that of the evaluation of the current intangible assets.

2. **an inactive market** on which similar current intangible assets are transacted. In this case either transaction price or evaluation multiples’ adjustments are required.

As a result of the reduced number of transactions with current intangible assets on an inactive market, the adjustments of the similar current intangible assets’ prices or multiples is extremely hard to justify and as a result the setting of the just/market values through this landing is quite rare. We notice the IAR 38’s firm position, stating that the current intangible assets’ reevaluation is only allowed for those which appear on an active market.

Landing through income

The value of a current intangible asset using this landing equals the updated value of the profit, of the cash-flow or of the savings that could be obtained by the participants in the market, owners of these current intangible assets. The income flow that may be attributed to a current intangible asset could come from several sources, from all the owner of the entity’s activity areas.

There are three methods used for the landing through income of a current intangible asset:

a) Economy method / due exemption method – primary method used for the evaluation of products’ marks, invention patents, franchises, licenses and technical documentations. Its credibility degree is high as it relies on due rates found on the market for similar current intangible assets.

b) Supplementary profit method (economic profit) – consists of the estimation and update or capitalization of the profit or of the supplementary cash-flow that may be obtained by the participants in the market that use a current intangible asset, besides those obtainable without the use of that current intangible asset.

c) Net profit method / exceeding periodical net cash-flow method is constructed on the prevision of the net cash-flow from that entity’s exploitation who uses a current intangible asset, out of which we substract the cash-flow allocated to ensuring the profitableness demanded by the other current assets that contribute to generating the entity’s net total cash-flow.

Landing through replacement cost

The essence of this landing consists of determining the cost of an identical or potentially similar current intangible asset: either by identifying the replacement price of an identical or similar current intangible asset, or by determining the internal generation cost of a similar or identical current asset. The evaluated current intangible asset needs to be transactionable at a price that is equal with its replacement cost in order for the result of this method to reflect the just/market value. The landing through net replacement cost is the only method registered through landing through cost just as the International Standard of Evaluation GH8 demands (the net replacement cost for financial reporting).

Landing through cost has greatest relevance for the evaluation of:

- instructed labour force
- computer programmes
- distribution system

However, several prestigious authors also sustain the possibility of applying the cost landing for the evaluation of other current intangible assets such as marks, invention patents, technological documents.

In order to highlight the relevance of this approach we propose a case study regarding a separately acquired invention patent.

Case study

An economical entity has bought from a foreign invention patent owner a patent for a procedure, for 200,000 Euro. The seller made a discount of 5% of the selling price of the invention patent. Customs duties rise to 20,000 Euro. You are asked to determine the cost at which the patent will be accounted in the initial accounting balance.

Solution: the cost of the patent = 200,000 – (5%*200,000) + 20,000 + 5,000 = 165,000 Euro, and this value will be initially written in the balance.

The values determined from the just evaluation are economical values found through expertise and diagnostic by professionals in the field.

The dependency between the stock exchange and the reevaluation reserves has been proven to take place by studies performed in the domain of evaluation through tests baring statistical significance on efficient markets. This dependency appears as a result of the use of the just value for the reevaluation of non-current assets.

The quality of the accounting information depends on the way the just value is estimated through the credibility and neutrality criteria. Professional experts have a significant role in the process of estimation of the just value, when evaluating the current assets. One of the requirements of some useful services is the proper knowledge and interpretation of the International Evaluation Standards (IVS), and of those of accounting (IFRS), as well as national accounting norms.

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1. [1] IAS 38 – "Non-current Intangible Assets", (Imobilizări necorporale), CECCAR Printing House, Bucharest, 2001; IFRS , CECCAR Printing House, Bucharest, 2007
2. [2] An active market is a market that fulfills three conditions:

a) homogonous transaction elements

b) the permanent existence on the market of a considerable number of interested buyers and sellers

c) the availability of prices to the public.

ASPECTS REGARDING THE APPLICATION OF DIRECT-COSTING IN TAKING THE MANAGERIAL DECISIONS

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Abstract: Direct-costing represents a method of calculation which, although can not be used in financial reporting, represents a very strong instrument of analysis within reach of enterprise's management. The method direct-costing requires the delimitation between the variable and fixed costs and including in the cost of production of the variable costs, the fixed costs being considered costs of the period. Another important aspect is the difference between the methods of absorbent costs and the method direct costing. The making of rational decisions that can permit the obtaining of optimum results can be made only if it is taken into account the correlation between the fixed costs, the variable costs, the volume of activity and the price of selling of the products, correlation given by the specific indicators of the method direct-costing.

Key-words: direct-costing, variable cost, fixed cost, cost of sub activity

Direct-costing represents a method of calculation which, although can not be used in financial reporting, represents a very strong instrument of analysis within reach of enterprise's management, because "the model direct-costing" is oriented to future; it permits the elaboration of some forecasts and simulations that emphasize the main factor of benefit or of lose of the enterprise: the volume of activity or the volume of sales (Nadia Albu, Catalin Albu, 2003).

Elaborated and applied by Jonathan N. Harris in the economic practice in U.S.A. in 1934 and later by G. Carter Harrison in 1935, the method direct costing was preluata and applied by a series of European countries, like Germany, France, England, Italy and others.

In the opinion of Robert W. Lentilhon, the method direct-costing determines a decrease of the value of the stock because the fixed costs are not taken into account at the calculation of the unitary cost of the product (Robert W. Lentilhon, 1964). The fixed costs are considered expenditures of the period. In the same time, R. Lee Brumet considers that the method direct-costing requires at first a study of the trends of cost and a separation of the fixed and variables elements (R. Lee Brumet, 1955). This study can be of incommensurable help in knowing the cost at all the levels of responsibility and in appreciating the complicated problems of planning and controlling the cost. Robert E. Seiler considers that direct-costing attributes to products only the variable costs and treats all fixed costs as costs of period (Robert E. Seiler, 1959). The variable costs will include only those that the enterprise considers that are occasioned by making the planned production.

Direct-costing can offer the manager of the enterprise information that has a special importance in taking decisions regarding the future activities. This method will offer a basis for the forecasts of the cost, for the study of the effects of planned changes in the volume of production, determined by the change of the economic conditions or some open actions of the management, such as price changes, the increase or decrease of costs, or special promoting activities.

The moment of sell is the most favorable for recognizing the revenue. In the case that sells are constant, the fixed total costs and the unitary variable costs will not change, and the volume of production will vary (James Don Edwards, 1958). If the price of selling is constant, in periods with small sells, the enterprise can obtain bigger profits, because when the level of activity increases, the unitary cost of production decreases, because the same value of fixed costs is apportioned to a bigger number of products obtained. This situation can appear if there is production on stock. In the periods with high sells, the enterprise obtains lower profits, because when the level of activity decreases, the unitary cost of production increases, because the same value of fixed costs is apportioned to a smaller number of products obtained. Thus, the total value of fixed costs imputed to a unit of product is inverse proportional to the quantities obtained. For eliminating the influence of the absorption of fixed costs by the complete costs and for an easier supervising of other causes of debates, it was elaborated the method of rational elaboration of fixed costs.

In order to establish the level of activity there can be taken into account the volume of production, the hours of functioning of equipments or the degree of using the capacities of production. There can be two types of activities, respectively capacities of production: the normal capacity of production and the real capacity of production.

The normal capacity of production represents the production estimated to be obtained in medium, over a certain number of periods, in normal conditions, taking into account the loss of capacity resulted out of the planned maintenance of the equipment.

The real level of the activity is represented by the production obtained and the normal level of activity is represented by the normal capacity of production.

If the level of the activity decreases comparatively to the normal level, the cost of production obtained will be more decreased than the real activities of the enterprise. Thus, it will appear a surplus of fixed costs that will remain unapportioned and that represent a “cost of sub activity”. In the oppose situation, there will appear costs apportioned in plus, named “prima of supra activity” or “gain of supra activity”. The cost of sub activity can be determined by the relation: Csact = Fixed costs x (1 – Real capacity/Normal capacity).

The method direct costing puts the accent on the promoting of sales. The difference between the price of sale of the product and the variable cost represents a margin of commercialization for recovering the fixed costs. The analysis will show the limit at which these costs can be covered from selling the products.

In essence, this method requires the net separation of the production costs and selling costs depending on their behavior towards the variation of the physic volume of production and sale in variable and fixed costs and taking into account at the calculation of the unitary cost of product only the variable costs. The fixed costs are deducted from the gross financial result of the enterprise.

An important aspect is the difference between the using of the method of absorbent costs and of the method direct-costing. At conceptual level, the justifying of using one of the two methods is based on the conception over the notion of asset. Thus, an asset represents a resource controlled b the enterprise, that comes from passed events and that is bearer of future economic advantages that must be benefice to the enterprise. This concept of future advantages is on the basis of the delimitation between the two methods of calculation of cost: the problem is the accuracy of capitalizing a part of the fixed production costs supported by the enterprise, under the form of recording in the assets (at stocks) the products made and not sold. The sustainers of using the method of absorbent costs consider that there is not anything wrong in delaying the recognition of a part of fixed costs by capitalization, because the stocks that had attached these costs are bearer of economic advantages benefic to the enterprise by obtaining some revenues; in plus, it would be as impossible the obtaining of production without employing the fixed production costs, as it was in the absence of supporting the variable costs, being necessary the affixation of the two categories of costs to the cost of stocks.

The sustainers of the method direct costing consider that a cost is bearer of future economic advantages only if it succeeds, by the employing in the current period, in avoiding the future supporting. There is 1judged the character of being benefic through the prism of future avoidance: any cost whose supporting in the current period does not keep down its supporting in the future periods can not be bearer of future advantages for the enterprise and it can not be capitalized (under the form of an asset). The supporting of some fixed production costs in the current exercise does not prevents the supporting of the same costs in the future periods; these costs do not accomplish the criterion of future avoidance of the cost and can not be recorded in the balance sheet. If the supporting of the cost will not influence in any way the ulterior supporting of the same cost, it is regarded as not having relevance through the prism of future events. This cost can not generate in any way a future advantage.

The so-called fixed costs of production do not accomplish the criterion of avoidance: the employment of such costs in a certain period will not eliminate its employment in the next exercise. Because of this fact, the fixed costs of a period can not be considered as significant for the future events, and will not bring further benefits or services. The sustainers of the method direct costing consider that any portion of the fixed production costs should not be reported in the balance sheet under the form of including in the value of the stocks.

Thus, the method of absorbent costs requires the calculation of cost of production as a sum of all the costs implied by this process and the appliance of the method direct-costing requires the imputation in the cost of those expenditures that vary direct proportional to the volume of production.

The arguments for this differential behavior applied to the variable and fixed costs are related to the consequences of using the method of absorbent costs over the determination of result, many authors proving, by practical examples, the difficulties of using this method. The most significant difficulty is that of anticipating the future profits by capitalizing a part of the fixed costs in the value of stocks, so the delaying of their recognition until the moment of selling. In the logic of direct costing, the fixed costs do not represent capitalized costs because they do not represent the consequence of unfolding the activity of production, being supported for maintaining the enterprise in a functional state. The delaying of recognizing these costs until the moment of recognizing the revenues obtained by selling the products (resulted from the worry of observing the principle of connecting the costs to the revenues) seem to falsify the result obtained, this being influenced more by the volume of production than the level of sales.

1The difference between the calculations of costs in the two methods can be exemplified as shown below:

There are known the following information:

Explanations	Bread of rye 500 g	Bread multicereals 500 g
Quantity (pieces)	14.000	13.000
Price of sale (lei/piece)	2,4	2,8
Direct materials (lei/piece)	1,4	1,6
Direct manpower (lei/piece)	0,3	0,4
Unitary variable cost (lei/piece)	1,7	2,0
Direct costs of capacity (variable) (lei)	6.000	8.500

Table 1. Initial information.

The fixed indirect costs are of 3.000 lei, the general costs of administration are of 500 lei and the costs of selling are of 300 lei.

During the period of administration there are sold 13.500 pieces of bread of rye and 12.600 pieces of bread multicereal. The work in progress at the end of the period of administration is of 500 pieces of bread of rye and 400 pieces of bread multicereals.

The basis of apportioning for the indirect costs is the direct manpower and for the costs of selling is the cost of production.

The calculation of the complete commercial cost can be showed as follows:

The method of absorbent costs	Bread of rye 500 g	Bread multicereals 500 g	Total
Sales	32.400	35.280	67.680
Direct materials	19.600	20.800	40.400
Direct manpower	4.200	5.200	9.400
Variable costs	23.800	26.000	49.800
Direct costs of capacity (variable)	6.000	8.500	14.500
Indirect costs of capacity (fixed)	1.344	1.656	3.000
Total costs	31.144	36.156	67.300
The work in progress at the end of period	1.110	1.112	2.222
Cost of production	30.034	35.044	65.078
General costs of administration	240,27	259,73	500
Costs of selling	150,17	149,83	300
Complete commercial cost	30.424,44	35.453,56	65.878
Gross result	1.975,56	- 173,56	1.802

Table 2. Calculation of costs in the method of absorbent costs. - lei -

The cost of work in progress at the end of period can be determined as follows:

- for Bread of rye: 500 pieces x (31.144 lei / 14.000 pieces) = 500 x 2,22 = 1.110 lei
- for Bread multicereals: 400 pieces x (36.156 lei / 13.000 pieces) = 400 x 2,78 = 1.112 lei

Advanced direct-costing	Bread of rye 500 g	Bread multicereals 500 g	Total
Sales	32.400	35.280	67.680
Direct materials	19.600	20.800	40.400
Direct manpower	4.200	5.200	9.400
Variable costs	23.800	26.000	49.800
Margin regarding the variable costs	8.600	9.280	17.880
Direct costs of capacity (variable)	6.000	8.500	14.500
The work in progress at the end of period	1.065	1.060	2.125
Cost of production	28.735	33.440	62.175
Contribution of covering	3.665	1.840	5.505
Indirect costs of capacity (fixed)	1.344	1.656	3.000
General costs of administration	229,88	270,12	500
Costs of selling	143,68	156,32	300
Complete commercial cost	30.452,56	35.522,44	65.975
Gross result	1.947,44	- 242,44	1.705

Table 3. Calculation of costs in the method direct-costing. - lei -

The contribution of covering is determined as a difference between the total sells and the cost of production.

The cost of the work in progress at the end of period can be determined as follows:

- for Bread of rye: 500 pieces x (29.800 lei / 14.000 pieces) = 500 x 2,13 = 1.065 lei
- for Bread multicereals: 400 pieces x (34.500 lei / 13.000 pieces) = 400 x 2,65 = 1.060 lei

We can see that in the two cases the gross result differs depending on the way of including the fixed costs in the cost of production and on the evaluation of the work in progress at the end of the period.

In order to eliminate the influence of fixed costs depending on the variation of the volume of activity, it can be used a "coefficient of rational imputation" (K_R). For a normal production of 28.500 pieces, the coefficient of rational imputation can be determined as follows:

$$K_R = \frac{Qr}{Qn} = \frac{26.100}{28.500} = 0{,}92$$

where: Qr = the real level of activity;

Qn = the normal level of activity.

The fixed costs that are taken into account are given by the relationship:

$Chf_i = Chf_r$ x K_R = 3.000 x 0,92 = 2.760 lei

where: Chf_i = fixed costs imputed;

Chf_r = real fixed costs.

It is calculated the difference to be imputed $D_{IR} = Chf - Chf_i$ = 3.000 – 2.760 = 240 lei.

In this case, there appears a cost of sub activity of 240 lei that can not be included in the cost of products, but it has to be reflected in the profit and loss account.

Based on these relationships, it can be determined the Cost of normal activity (C_{An}) or the rational cost:

a) The method of absorbent costs: $C_{An} = Chv + Chf_i$ = 62.878 + 2.760 = 65.638 lei
b) Direct-costing: $C_{An} = Chv + Chf_i$ = 62.975 + 2.760 = 65.735 lei

The making of rational decisions that can permit the obtaining of optimum results can be made only if it is taken into account the correlation between the fixed costs, the variable costs, the volume of activity and the price of selling of the products (Sorin Briciu, 2006). This correlation in the method direct-costing is expressed by using the following indicators:

1. The point of equilibrium (Pe) - is the point where the revenues cashed from the production sold cover all the variable costs of the production and the fixed costs of the period, so that the enterprise do not obtain any profit or losses. Any increase of the level of the production sold brings more revenue to the enterprise and any decrease of the volume of sales brings losses to the enterprise.

In the e1xample forementioned, when the enterprise obtains more products and is based on a certain structure of production, the point of equilibrium is calculated by taking as a base the medium gross contribution that is calculated as follows:

$$P_e = \frac{ChF}{\overline{c}_a} = \frac{3.000}{0{,}21} = 14.285{,}71 \text{ pieces}$$

$$\overline{c}_a = \frac{C_a}{\sum_{i=1}^{n} q_i} = \frac{5.505}{26.100} = 0{,}21$$

where: Ch F – fixed costs;

C_A – the total contribution of covering;

q_i – the quantity made and sold of each product.

The weight of Bread of rye in the total production obtained and sold: $\frac{13.500}{26.100} = 52\%$

The weight of Bread multicereals in the total production obtained and sold: $\frac{12.600}{26.100}$ = 48%

The point of equilibrium: - Bread of rye: 14.285,71 x 52% = 7.428,57 pieces

- Bread multicereals: 14.285,71 x 48% = 6.857,14 pieces

The point of equilibrium represents the quantity of product that the enterprise must make and sell for the purpose that the cashed revenue to cover the variable costs and the total fixed costs so that the profit or loss to be equal to zero.

2. *The factor of covering* (F_A) – is calculated by reporting the gross contribution to the volume of sales at price of selling, as follows:

$$F_A = \frac{C_a}{D} \times 100 = \frac{5.505}{67.680} = 8{,}13\%$$

where: F_A – factor of covering;

C_A – total contribution of covering;

D – volume of total sales at price of selling.

For Bread of rye: $F_A = \frac{3.665}{32.400} \times 100 = 11{,}31\%$

For Bread multicereals: $F_A = \frac{1.840}{35.280} \times 100 = 5{,}22\%$

This indicator shows how many percents of the volume of sales are necessary for covering the fixed costs and obtaining profit. The enterprises must orient their policy of fabrication and sell to the products with the highest factor of covering.

Knowing the factor of covering, it can be determined the volume of sale at the level of the point of equilibrium:

$$d = \frac{ChF}{F_A} = \frac{3.000}{0{,}0813} = 36.900 \text{ lei}$$

3. *The dynamic coefficient of safe* (Ks) – is calculated by reporting the difference between the total sales and the sales at the level of the point of equilibrium to the volume of the total sales and multiplying with 100:

$$K_S = \frac{D - d}{D} \times 100 = \frac{67.680 - 36.900}{67.680} = \frac{30.780}{67.680} = 45{,}48\%$$

This indicator shows how much can decrease the sales relatively for the enterprise to reach the point of equilibrium. Any decrease under this coefficient makes the enterprise to enter the area of losses.

4. *The interval of safe* (Is) – known under the name of distance or road of safe. This indicator is calculated in absolute figures as a difference between the volume of total sales and the volume of sales at the point of equilibrium:

I_S = D – d = 67.680 – 36.900 = 30.780 lei

This indicator shows how much can decrease the sales absolutely so that the enterprise will not enter the area of losses.

The appliance of the method direct costing has some limits, such as:

- the relativity of dividing the costs in variable and fixed because some costs are not strictly variable or strictly fixed, but they are oscillatory from a period to another and the economic financial result can not be established with accuracy;
- the margin of covering has a complex character including the fixed costs and regarding the gross financial result it must be shown that not always the production with the biggest contribution of covering has the biggest profit.

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THE EFFECTS OF THE EU ACCESSION ON THE REGULATION OF THE ROMANIA CAPITAL MARKET

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The positioning of the Romanian capital market within the national, international and European context was and currently is a continuous challenge for public and professional institutions in this field.

The legislation regarding the Romanian capital market was developed in a couple of stages, its benchmarks being the privatization law, the stock exchange law, the set up of the National Commission for Marketable Securities (CNVM) and the start-up of authorizing and controlling the capital market.

The aim of our study is to present a picture of the Romanian capital market in compliance with the EU Directives adopted between 2004 and 2006, but also in 2007. This article shall ascertain the impact of Romania's accession to the European Union on the national capital market, by means of integral harmonization with the European Aquis.

Keywords: capital market, EU accession, accounting regulation

1. Introduction

The capital market aims to transform a state's economy into a progressive one. The Romanian capital market can and has to undertake the role of financial accelerant and engine of economic development. But, therefore it should offer financial products of interest for companies in the viable economic sectors, which would use them for obtaining the financing necessary for development and creation of added value.

All efforts should aim to develop the capital market, to identify the disturbing agents and the solutions for vitalizing the Romanian capital market, and the legislative aspects governing its activity. The general organization and presentation framework for financial products should represent the mentioned accelerator for attracting sources in production and investments, and the means for harmonization with the western requirements in the context of Romania's accession to the European Union.

An efficient legal regulatory framework is a necessity for a stable climate, favourable for the activity of all participants in the economic life, able to attract investments in economy's real sectors. The institutional and regulatory efforts before and after accession were and still are oriented towards the connection to the European exigencies. Here we can mention the following: outsourcing of post-transaction services, set up of the central depository (authorised by CNVM and previously by NBR), set up of the investors' compensation fund, set up of the corporate governing institute and of the compensation fund for operations with derivatives at BVB.

The reform of the capital market legislation and the adjustments for its actual needs and for the compliance with the European Economic Communities standards are a must. Romania's accession to the EU brings some elements, which naturally will improve the forecasts related to the economic future and will bring a significant increase in transactions on the capital market.

2. The European Directives from the point of view of the law regarding the Romanian capital market

The adoption of Law no. 297/2004 regarding capital markets represented a critical moment for the future of the Romanian capital market from the point of view of Romania's accession to the European Union.

Law no. 297/2004 aimed to consolidate the existent legislation regarding capital markets and to adapt it to the provisions of the union's legislation. Law no. 297/2004 ensures the development of the legislative framework necessary for the creation of new institutions, the access of mediators on the Romanian capital market to the unique European market, as well as the set up of a viable capital market, which would allow the transaction of modern financial instruments.

We would like to highlight here the activity of the National Commission for Marketable Securities for lining up the national regulations with the European Directives, achieved by enacting the Regulation for Amending the C.N.V.M. Provisions (December 2006), in order to implement certain provisions of the following European Directives:

1. Directive no. 49/2004/EC regarding appropriateness of the capital of investment companies and lending institutions;
2. Directive no. 109/2004/EC regarding harmonization of the transparency requirements related to information on entities whose marketable securities are admitted for transactions on a regulated market, which amends Directive no. 34/2001/EC;
3. Directive no. 25/2004/EC regarding public takeover bids;
4. Directive no. 72/2004/EC regarding implementation of Directive no. 6/2003/EC related to the accepted market policies, definition of privileged information regarding financial derivatives for merchandise, preparation of the list with the persons who detain privileged information, notification of the transactions made by the management and notification of the suspect transactions;
5. Directive no. 39/2004/EC regarding markets in financial instruments;
6. Directive no. 71/2003/EC regarding the booklets published when marketable securities are made public or when they are admitted for transactions; it amends Directive no. 34/2001/EC;
7. Directive nr. 97/9/EEC regarding the investors' compensation schemes;
8. Directive no. 85/611/EEC regarding the legal, regulatory and administrative provisions related to certain investment trust companies for marketable securities (OPCVM).

The Regulation for amending the CNVM provisions in order to implement certain stipulations of the European Directives brings a series of novelties like the following:

- detailed provisions regarding cross-border operations included in the CNVM Regulation no. 1/2006; it is expressly stipulated that for issuers of marketable securities for which Romania is the origin member state, CNVM will approve the booklets for public takeover bids or for the acceptance to be transacted on a regulated market;
- reports of the issuers whose marketable securities are accepted to be transacted on a regulated market, prepared according to the provisions of Law no. 297/2004 and of CNVM; these reports will also be sent to an official archiving system (set up at national level);
- provisions regarding reporting duties for all issuers whose marketable securities are accepted to be transacted on a regulated market (not only for trading companies issuing shares and bonds);
- annulment of certain articles included in the CNVM Regulation no. 1/2006, which referred to some provisions of the European Commission Regulations no. 809/2004 and no. 2.273/2003, because starting with 1 January 2007 they became directly applicable in the national legislation.

3. Compliance of national regulations with the European directives and regulations

The law of capital markets enacted in 2004 marked the foundation of a regulation package, which should ensure a unitary approach in this field from the view of obtaining the European passport after Romania's accession to the European Union. The national legislation undertook a series of directives related to capital markets, issued by the European Union before 2004, during 1985-2004.

In 2004 CNVM started to prepare a series of regulations based on the law regarding capital markets and on the European Directives.

In October 2004 CNVM approved and enacted two regulations of special importance for the Romanian capital market: Regulation no. 8/2004 regarding the authorisation and functioning of the Investors' Compensation Fund and Regulation no. 9/2004 regarding the appropriateness of the capital of financial investment companies.

The Regulation regarding the authorisation and functioning of the Investors' Compensation Fund (20 October 2004) established the conditions and principles for the set up, authorisation, organisation and functioning of "S.C. Fondul de compensare a investitorilor S.A". The new entity aims to compensate the investors when the Fund's members are incapable to reimburse the money and/or financial instruments owed to or belonging to the investors.

According to the Regulation, the mediators authorised to provide financial investment services on behalf of the clients and the investment companies administrating individual investment portfolios, which develop activities in Romania, are pledged to participate in the set up of the Fund's financial resources.

The Regulation undertakes elements from Directive no. 97/9/EEC regarding the investors' compensation schemes and, according to CNVM's fundamental objectives, it aims to promote the investors' trust and interests in the regulated markets, in the investments in financial instruments, as well as to ensure their protection against unfair and abusive practices or fraud.

The Regulation regarding the appropriateness of the capital of financial investment companies (22 October 2004) reflects the provisions of Directive no. 93/6/EEC regarding the appropriateness of the capital of investment companies and lending institutions. This regulation introduces new reporting requirements for financial investment companies. They must correlate the undertaken risks with the level of own funds to be hold. Thus, the regulation describes the assessment of the position risk, settlement risk, counterpart risk, credit risk, exchange rate risk, concentration risk, merchandise risk and the calculation of initial capital and own funds to be hold by each financial investment company.

In December 2004 CNVM approved some regulations with particular implications on the activities of entities active on the capital market. They came into force on 01.07.2005. These regulations changed the legal framework valid until 2004 and adjusted it to the provisions of Law no. 297/2004 and of the European Directives.

We refer below to the most relevant changes:

1. The Regulation regarding financial investment services (no. 12/2004) undertook some provisions from Directive no. 39/2004/CE regarding the financial instruments markets, as following:

a) the procedures necessary for developing cross-border operations;

b) the minimum content of the mediators' internal procedures;

c) the guidance principles, which should be respected by mediators in their relationships with the clients;

d) the rules regarding fulfilling orders;

e) the eligible counterparts;

f) the requirements regarding transparency and integrity of transactions with financial instruments;

g) the mediators acting as domestic operators;

h) the distance contracts and the internet transactions;

i) the margin transactions;

j) CNVM's co-operation with qualified authorities in member states and third states.

2. The Regulation regarding the appropriateness of the capital of financial investment companies (no. 9/2004) reflects Directive no. 93/6/EEC regarding the appropriateness of the capital of investment companies and lending institutions. This regulation introduces new reporting requirements for financial investment companies. They must correlate the level of undertaken risks with the level of own funds to be hold. The regulation presents the assessment of the position risk, settlement risk, counterpart risk, credit risk, exchange rate risk, concentration risk, merchandise risk and the calculation of initial capital and own funds to be hold by each financial investment company.

3. The Regulation regarding issuers of and transactions with marketable securities (no. 13/29.12.2004) includes in a complex and unitary framework legal provisions related to various topics previously approached in different regulations: the public takeover bid, the public offer for subscription, the continuous and periodical informing through the issuers of marketable securities, etc.
4. The Regulation regarding regulated markets and alternative transacting systems (no. 14/2004) establishes the legal framework applicable to market and system operators, to markets regulated by financial instruments and to alternative transacting systems. The drafting of this regulation considered the new provisions of Directive no. 39/2004/EC regarding markets in financial instruments, as following:

- integrity requirements for the shareholders of the market operator, which organises and administrates the regulated markets; considering the necessity of insuring a prudent administration of the regulated markets, CNVM can deny the shareholder quality if it estimates that the respective persons could affect the good functioning of the regulated markets or their supervision;
- qualification and professional experience conditions to be fulfilled by the administrators and managers of the market operator;
- proper technical endowment of the market operator for managing the risks to which the regulated market is exposed;
- requirements regarding the mediators' access to the regulated market;
- acceptance, suspension or withdrawal of instruments for/from being transacted on the regulated market;
- requirements regarding pre- and post-transaction transparency on the regulated markets and on the alternative transaction systems;
- compliance with the rules of the regulated market and of the alternative transaction systems.

5. The Regulation regarding authorization and functioning of investment management companies, investment trust companies and depositories (no. 15/2004) reflects Directive 85/611/EEC regarding the legal, regulatory and administrative provisions related to certain investment trust companies for marketable securities. The regulation contains provisions for investment trust companies in marketable securities, for other investment trust companies (AOPC) registered with CNVM, as well as for financial investment companies (SIF). The regulation contains provisions related to the following:

- authorization procedures for investment management companies (SAI), for open-end investment trusts and for investment companies;
- conditions to be fulfilled by the shareholders of an investment management company, rules for calculating the net assets;
- transparency and advertising rules for investment trust companies in marketable securities, development of the activities regarding management of individual investment portfolios on a discretionary basis;
- conditions and procedures for registration with CNVM, rules regarding the minimum content of the by-laws of a financial investment company, rules regarding the administrators of a financial investment company; and
- authorization procedure for depositories of assets hold by investment trust companies;

The Regulation regarding the authorization and functioning of the central depository, of the compensation body and of the central counterparty (no. 13) came into effect in 2005. Subsequently it was amended through Regulation no. 17).

According to the Regulation, the central depository performs all depositing operations for marketable securities and any other operations in this respect, as well as the compensation operations, respectively settlement of the transactions with marketable securities. The compensation body performs all compensation operations and settlement of transactions with derivative financial instruments and any other operations in this respect and calculates the net positions of the mediators, of a possible central counterparty and/or of a possible settlement agent. The compensation body acts as central counterparty.

The central counterparty is the interface between the mediators in the system and acts as exclusive counterparty in respect to their transfer orders. The same entity can be authorised to act as central counterparty both for derivative financial instruments and for other financial instruments.

A new Regulation regarding financial investment services (no. 15/Dec. 2005) was elaborated. The previous one was annulled (Regulation no. 12). The new regulation contains authorization conditions, organisation and functioning conditions for investment companies, but also authorization and authorization withdrawal conditions for financial investment agents, traders and consultants from third countries.

Year 2006 – the year before accession – marked a new stage in restructuring the regulations, which complete the legislative framework of the financial market and, by default, of the capital market. This stage resulted in regulations' annulments, changes and amendments, determined by the Union's rules.

The Regulation regarding financial investment services (no. 15) was amended by Regulation no. 6 (28 Dec. 2006) and by Regulation no. 31 (applicable since 4 Jan. 2007), which refer to the authorization, organization and functioning of financial investment companies, of financial services agents, traders and consultants in the member states.

We should underline that Regulation no. 31/2007 amends the Regulation regarding the issuers of and the operations with marketable securities, thus reflecting the directive, which shows the current European trend in the field of issuers of and operations with marketable securities, as following:

- booklets published when marketable securities are offered to the public or accepted for transactions (Directive 7/2003);
- harmonization of the transparency requirements regarding information related to issuers whose marketable securities are accepted for transactions on a regulated market (Directive 109/2004);
- public takeover bid (Directive 25/2004);
- form and content of the bid booklets, inclusion of the most important information, as well as their publication (Regulation no. 809/2004, issued for the application of Directive 7/2003/EC);
- distribution of advertising materials (Directive 6/2003), definition and publication of confidential information, definition of market manipulation (Directive 124/2003);
- accurate presentation of investment recommendations and disclosure of the conflicts of interest (Directive 125/2003), exceptions regarding the buy-back programmes and stabilization of the financial instruments (Regulation 2.273/2003);
- accepted market practices, definition of confidential information, preparation of the list of persons holding confidential information, notification of the transactions made by administrators, as well as of the suspect transactions (Directive 72/2004).

The amendments brought to the regulation tried to consider the community's regulations and to adjust them (more or less) according to the specific and dynamics of the Romanian capital market, respectively to the complex field of issuers and transactions with their marketable securities. The regulation also introduced and developed new or updated concepts, approached in Law no. 297/2004, as following: acceptance for being transacted on a regulated market or on an alternative transaction system, public takeover bid, qualified investors, and exceptions from the issuance of offer documents, procedure for the shareholders' retirement / withdrawal from a trading company.

There were changes in the Regulation regarding the authorization and functioning of the central depository, the compensation bodies and the central counterparts (Regulation no. 2 applicable as of April 2007). Its elaboration was necessary in order to gather all changes for compliance with the new content of company law (Law no. 31 applicable as of the end of 2006), with some European Directives regarding authorization, organization, functioning and equity of entities on capital markets (appropriateness of the equity size until 2008).

The Regulation regarding regulated markets and alternative transaction systems (14/2004) was annulled and replaced by Regulation no. 2 in March 2006. The latest was also amended (through Regulation no. 14/Aug. 2006 and Regulation no. 32/Feb. 2007 regarding financial services) in order to comply with the content of some European regulations, like Directive no. 39/2004/EC and the latest EC regulation regarding transactions with marketable securities (1.287/2006/EC), voting rights of the market operators and lining up of the equities of the Bucharest Stock Exchange and the Sibiu Commodity and Derivative Instruments Exchange, during the period 2007–2008.

We do not claim to have presented all the events in the evolution of the regulations regarding capital markets in the context of Romania's accession to the European Union. However, we tried to point out some of them, which we considered representative and with impact on the development of the Romanian financial and capital market.

6. Year 2007 and Romania's major objectives for the next period regarding the financial instruments market and, by default, the capital market

New regulations, with new contents, in compliance with the Union's framework, came into effect in 2007. The first CESR Guide (Committee of European Bodies for Marketable Securities) regarding the unitary implementation of the Directive regarding market abuses was also drafted in 2007. Starting from this guide and considering also the comments, proposals and suggestions gathered during the debate period (up to 20.04.2007), CNVM will implement the directive.

In the context of Romania's accession to the European Union (1 January 2007), the latest Regulation regarding the authorization and functioning of the Investors' Compensation Fund was annulled, replaced and amended in order to comply with the European Directives. The new Regulation (no. 10) reflects the provisions of Directive no. 97/9/EC regarding investors' compensation schemes and it implemented some incident provisions to the European Directives through Regulation no. 31/2006 (applicable since Jan. 2007), as following: appropriateness of the capital of investment companies and lending institutions (Directive no. 2006/49/EC); harmonization of the transparency requirements regarding information related to the issuers whose marketable securities are accepted to be transacted on a regulated market (Directive no. 2004/109/EC, amending Directive no. 2001/34/EC); public takeover bids (Directive no. 2004/25/EC); accepted market practices, definition of privileged information regarding derivative financial instruments for merchandise, preparation of the list of persons holding privileged information, notification of transactions made by the management and of suspect transactions (Directive no. 2004/72/EC regarding implementation of Directive no. 2003/6/EC); markets in financial instruments (Directive no. 39/2004); booklets published when marketable securities are offered to the public or accepted for transactions (Directive no. 2003/71/EC, amending Directive no. 2001/34/EC).

2007 started with the expiration of Romania's deadline for complying with the Directive regarding the financial instruments market. Among the 27 EU member states, only three, inclusive Romania (together with Great Britain and Bulgaria), accomplished this as of 1 January 2007.

From the historical point of view, in the last 15 years, the financial services in the EU did undergo a complex continuous adjustment process. A first programme, introduced in 1992 through the Directive for financial services, was subsequently adapted and amended. It came into effect in 2005. In 1999 EURO was introduced as account currency and in 2002 as physical currency. In 2005 new accounting standards emerged. The new Directive for markets in financial instruments, short - MiFID (Market in Financial Instruments Directive), started to be applied on 1 November 2007.

MiFID aims to liberalize the services circulation, to create a unique capital market in the EU, to increase the competitiveness of financial companies: stock exchanges, investment banks, brokerage companies, assets administrators and other providers of financial services.

Its objectives are the following:

- increase of competition between and inside the European financial markets;
- annulment of the concentration rule (which limits the transactions with securities on the stock exchange of a country) and of the principle regarding the best execution of orders (stipulating that investment companies should take all measures for obtaining the best possible execution results, considering not only the price, but also a complex of other agents); subsequently, this principle will depend on the client's order; should the client not have any specific instructions, the operator will chose „the best possible execution";
- option for a high harmonization level, with precise provisions regarding contract execution, transaction transparency, clients' eligibility, conflict of interest and internationalization of transactions with shares, bonds and derivatives;

- introducing of the so-called unique passport, which authorizes financial companies to operate in the whole European Union based on the consent of the competent authorities in their home countries;
- creation of the conditions for negotiating shares and bonds within a couple of structures, regardless of stock exchanges or investment companies;

The costs for applying the directive are of EUR 4 – 20 thousands for an operator on the financial market (and for a large operator they can reach even EUR 106 thousands). These costs arise from the fact that the financial companies will have to change their computer systems and control procedures. However, financial services in the EU still remain competitive, meaning that benefits exceed costs. High costs lead to a greater concentration. Large companies absorb the smaller ones, as we can notice in Romania too.

As an impact on the markets, MiFID could announce the end of the Balkan capital markets, being the greatest challenge for the financial services field in Europe in the last years.

Expectations are related to changes of negotiation procedures for shares, bonds and derivatives in the European Union, by means of market liberalization. MiFID will have an immaterial immediate impact on traditional markets, but a long-term impact. Instead, investment companies will be the first affected.

The effects are related to competition increase on the value titles market, which will change the business environment. The transactions volume will continue to increase as a result of a greater market transparency. On the other hand, as the European capital markets integrate, the companies' nationality becomes more and more ambiguous and stock exchanges will compete predominantly on a unique market. It is expected that the increased transparency imposed upon investment companies will attract more investors on the bonds market.

The beneficiaries of the application of the directive will be the operators with available adapting resources and with sufficient financial capacities for bearing the costs, but provided that they act as soon as possible. Also it will be a benefit for stock exchanges, which prepared for MiFID in due time, and for future administrators of pension funds, which are in a continuous growth. Less flexible and offhand companies will lose and suffer.

The professionals, who analysed the directive, highlighted the existence of certain ambiguities related to the following:

- voidance of a clear definition of „best conditions" in executing express orders for clients; accordingly, there are interpretations;
- no accurate method for estimating the transaction costs;
- evasive wording and stuffed text, creating confusions (e.g. financial investment companies are wrongly assimilated sometimes with stock exchange operators);
- despite the presented critical matters, MiFID has material consequences on the Romanian developing financial instruments market, related to:
- facilitation of the Romanian operators' intra-community activities, possibility of performing operations outside the stock exchange – which will increase competition and reduce transaction costs; and
- investors' protection by means of imposing upon the Romanian institutions on the market to adopt structures and practices for a better protection, a better information and the possibility the make transactions anywhere in the EU, based on the same regulations; the Romanian investors benefit of the same type of services, for the same price, for the Romanian shares and bonds, as for the foreign ones; internet transactions will be facilitated;

We have to highlight Romania's headmost position in complying with MiFID, marked by dynamic structures and transposition discipline, which brings a fresh breath on the financial instruments market. Unfortunately, its unitary application in all member states is not possible. Up to 1 January 2007, out of the 27 member states, only 3 accomplished the transposition (Great Britain, Bulgaria and Romania).

For Romania, 2007 represented the beginning of the "cohabitation in a new house", with a new dimension, with new and many obligations in various fields. The adoption and implementation of the EU directives regarding the financial instruments market is a priority in the current ascension and development stage of the Romanian financial market.

The architecture of the "new European house" is far from being finalized. Thus, at EU level, the perpetual ideas collation regarding the European construction would benefit if, within the administrative-institutional structure, the fifth market dimension would be more noticeable. The fifth market dimension is the financial instruments market, with the same primary objectives than the first four: barrier elimination, norms simplification, fighting the national preferences and discrimination, penalization of unfair competition practices and especially, harmonization of rules and functioning of national regulatory bodies, in a unitary cogitation flow, as a result of the European Union's multinational polychromic and abundance.

Gathered into a unique reservoir, the European economic thinking could feed the other four dimensions of the domestic market with a medium and long-term business vision. The European Union marks out through its unique formula for harmonizing the countries' interests, despite the polychromic cultures and even the political nuances. The European Union's force in the world consists in the suasion force of its ideas.

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DIRECTIONS DANS LA NORMALISATION COMPTABLE EN ROUMANIE

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Au niveau international, le processus de la normalisation comptable peut être plutôt déductif, matérialisé par l'utilisation des cadres comptables conceptuels, ou plutôt inductif, matérialisé par l'utilisation du plan général des comptes. La préférence pour l'un ou l'autre des algorithmes de normalisation dépend des facteurs de l'environnement, mais également des ceux économiques et politiques qui agissent dans un système comptable à un moment donné. C'est connu le fait que dans le milieu comptable continental on retrouve la tendance d'une normalisation comptable surtout inductive, tandis que dans le milieu anglo-saxon, on préfère une normalisation comptable ayant à la base les cadres comptables conceptuels. Pour l'esquisse d'un trend de la future normalisation comptable en Roumanie, notre projet est structuré sur deux dimensions: la mise en évidence de quelques repères historiques de la normalisation comptable en Roumanie et l'analyse du contexte international.

Des mots clés: *la normalisation comptable, le plan général des comptes, le cadre comptable conceptuel*

1. Des repères historiques de la normalisation comptable en Roumanie dans des différents contextes économiques et politiques

Le problème de la réglementation de la comptabilité en Roumanie a résulté à la suite des besoins pratiques. Ainsi, à la fin des années '30, les préoccupations pour la normalisation ont commencé à se concrétiser sur la forme des publications sur ce thème-ci. Les idées principales étaient centrées sur l'adoption d'un plan comptable et d'un cadre comptable. Apres le début des démarches de normalisation comptable, on saisit des exposés des sujets traités, comme le projet antérieur sur la normalisation comptable. A cette époque-là, on avait deux points de vue différents sur la normalisation comptable – Calu (2005):

La normalisation de la comptabilité – points de vue:	
Juridiques (patrimonial) – Sp. Iacobescu	**Economique – I. N. Evian**
• *Le cadre général* sur des grandes groupes des comptes pour *toutes les entreprises;* • Au niveau de *branche* ou *domaine: des plans des comptes propres;* • *Les documents de synthèse* (le bilan et le compte de profit et perte) uniformisés au niveau de la branche (l'industrie, le commerce, les banques et les assurances); • Ce sont des positions juridiques prévues, comme les comptes d'*ordre* et d'*évidence;* • *Il n'implique pas des problèmes des calcules des coûts et d'évaluation.*	• *Le plan unitaire des comptes* (pour tous les types d'organisations); • *Des formulaires types* pour *les documents de synthèse* (le bilan et le compte de profit et perte) pour *toutes les catégories d'entreprises;* • Il est *« contre » les comptes d'ordre et d'évidence;* • Dans le cadre du plan des comptes projeté, *le calcul des coûts était inclus.*

Des points de vue sur la normalisation de la comptabilité dans la période d'entre les deux guerres, en Roumanie

Même si les discutions sur la normalisation comptable reflétaient les tendances internationales, au moment de l'apparition de l'économie de type socialiste, ces problèmes ont étaient abandonnés ; suite à ce-là, les essaies de normalisation comptable par les propositions des doctrinaires roumains ont continué sur une autre forme: la normativité de la comptabilité. Conformément à l'opinion de Leonte (1948), la normativité représente « *l'établissement de la norme unitaire pour les enregistrements comptables* [s.n.] des entreprises provenant d'une branche d'activité », les objectifs suivis étant les suivants : l'unification de la terminologie comptable (par la précision du contenu de chaque compte) et la systématisation de la comptabilité. Celle-ci a débute au moment de la constitution d'un *Conseil Permanent de la normativité comptable*, en 1947. Les membres du conseil ont élaboré, pour chaque secteur représentatif d'activité, un cadre général (une matrice qui était à la base de la systématisation et représentation symbolique du plan des comptes), ayant à la base le système décimal – Dewey. Ainsi, on a élaboré 5 cadres générales, pour les domaines suivantes : l'*industrie, le commerce, les assurances, bancaire et des offices industrielles.*

La période 1960-1966 est caractérisée par Rusu (1977) comme étant marquée des « efforts pour approfondir le processus de généralisation théorique ». En ce sens, une question a surgi : est-ce que l'harmonisation des plans des comptes déjà existants est préférable à l'adoption d'un cadre général des comptes pour l'ensemble de l'économie ou non ? Comme dans le cas de toute dilemme, on a eu des supporteurs des deux côtés. Ainsi, Mărculescu & Puchiță (1965) soutenait « l'approfondissement et le perfectionnement de l'harmonisation des plans des comptes en vigueur », prenant comme repère le modèle des plans des comptes de l'industrie, tandis que Demetrescu & Nişulescu (1967) ont soutenu l'institution « d'un schéma unique de classification et d'ordonner les comptes, un cadre général des comptes pour l'ensemble de l'économie – la base des plans des comptes uniques sur chaque branche ». Le deuxième avis, suivant la même longueur d'onde avec le trend de la normativité de la comptabilité dans les pays socialistes, a connu une forme concrète et pratique débutant en 1971[307]. Le passage à un cadre unique des comptes dans les années '70 a été précédé par des modifications similaires qui ont eu lieu dans le cadre des pays de l'ancien « bloc communiste »[308], des modifications qui, que ce soit ou non une coïncidence, ont eu lieu sur une scène politique spéciale[309].

C'est intéressant à mettre en évidence l'élaboration en 1984 d'un matériel qui visait la réglementation potentielle de la comptabilité en Roumanie. C'était le résultat d'une collaboration entre l'Institut de Finances, Monnaie et Prix et le professeur M. Ristea, d'un côté, et la doctrine comptable française, d'un autre côté. Même si seulement au niveau théorique, dans le cadre de ce projet-là, on fait une présentation de l'architecture du système comptable français et des éléments conceptuels de ce cadre.

Après 1990, la normalisation comptable en Roumanie a connu plusieurs étapes : a débute avec l'adoption d'un système comptable inspiré de celui français (1993) et a continué avec l'élaboration d'une réglementation ayant comme but de le rendre compatible avec les Standards Internationales de Rapport Financier (IFRS) et avec les Directives comptables européennes (1999). Quand la Roumanie a adhéré à l'Union Européenne, les IFRS ont devenu obligatoires pour la consolidation des comptes de group des sociétés cotées, pour les autres situations en appliquant les normes comptables nationales.

Au niveau conceptuel, on a aussi les premières représentations comparatives des types de normalisation comptable. Ainsi, Feleagă (1995, 1996, 1997, etc.) présente d'une façon tantôt explicative, tantôt interprétative, le cadre théorique global de la comptabilité financière dans les domaines divers référentiels comptables ; il présente aussi « l'architecture » du système français de comptabilité, offrant des repères importants sur la situation existante au niveau international. Parallèlement, M. Ristea (1995, 1997, etc.) pose le problème de la normalisation comptable au niveau international, tout en présentant ses points de

[307] Le signal de commencer a été donné par l'URSS, où, « a partir de 1960, on applique un plan des comptes unique pour les entreprises industrielles, de construction et montage, agricoles et des services » – RC (1971/4).

[308] En URSS il y avait eu lieu ce genre d'unification il y a un décennie, un trend qui avait était suivi aussi par la R. P. Bulgarie (1968), R.S. Tchécoslovaquie şi R.S.F. Yugoslavie. Il y avait quand même des pays dans lesquels on utilisait des plans des comptes élaborés pour chaque branche d'activité, qui avait à la base le système décimal des symboles (R. P. Pologne, R. P. Hongroise) - RC (1971/1: 30-38).

[309] Les années '60 ont représenté une période de relaxation suite à des mouvements sociales dans certains pays communistes (les événements de Hongrie et Pologne en 1956, Le Printemps de Prague, 1968).

vue sur l'avenir de la normalisation comptable en Roumanie. Après les premières publications dans cette direction, le problème de la normalisation comptable a été largement abordé, la majorité des auteurs qui ont publie des ouvrages sur la comptabilité financière, traitant plus ou moins ce problème.

2. Directions de la normalisation comptable existante au niveau internationale

Au niveau international, le processus de la normalisation comptable peut être plutôt déductif, matérialisé par l'utilisation des cadres comptables conceptuels ou plutôt inductif, matérialisé par l'utilisation du plan général des comptes (Ionaşcu, 1997). La préférence pour l'un ou l'autre des algorithmes de normalisation dépend des facteurs de l'environnement, mais également des ceux économiques et politiques qui agissent sur un système comptable à un moment donné. C'est connu le fait que le milieu comptable continental on retrouve la tendance d'une normalisation comptable surtout inductive, tandis que dans le milieu anglo-saxon, on préfère une normalisation comptable ayant a la base les cadres comptables conceptuels. Le mode de normalisation comptable surtout déductif se retrouve aussi au niveau international, dans le cadre IASB.

Les différences existantes au niveau international en ce qui concerne le processus de normalisation comptable représentent les points de départ de l'homogénéisation des informations fournies par la comptabilité. Jusqu'en 2000, il n'y avait pas une unité en ce qui concerne les voies d'atténuer les dissensions informationnelles générées par des pratiques comptables différentes. Les principaux organismes impliqués dans ce processus ont été un organisme supranational et un autre non gouvernemental. Ainsi, d'un coté on a essayé l'harmonisation au niveau de la Communauté Economique Européenne (CEE)[310] par le biais des directives comptables européennes, et de l'autre côté, on a émis les Standards Internationales de Comptabilité (IAS) par International Accounting Standards Committee (IASC) – le Comité des Standards Internationales de Comptabilité[311]. Mais, il y avait encore le problème des divergences existantes entre le point de référence de la comptabilité internationale et de FASB (Financial Accounting Standards Board – Le Conseil des Standards de Rapport Financier), exigé sur le marché boursier des Etats Unies. Dans ce sens, entre les représentants IASB et ceux FASB on a signé en 2002 un Accord de convergence. Dans le cadre de cet accord-ci, les deux parties « ont pris l'engagement de déposer tous les efforts pour : (a) agir de façon que les standards de rapport financier déjà existantes soient compatibles le plus vite possible et (b) coordonner leurs programmes de travail futures, pour que la compatibilité, une fois obtenue, soit maintenue » – www.fasb.org. Cet accord sur la convergence des situations financières a été reçu d'une façon favorable par la Commission Européenne, qui, un an plus tard, a adoptée les Réglementations d'approbation des standards internationaux de comptabilité.

Tandis que pour les entreprises cotées, l'application des réglementations internationales est obligatoire, pour les petites et moyennes entreprises des divers pays on appliques les normes nationales. Dans ce sens, au niveau des divers pays, les préoccupations portant sur la normalisation comptable nationale sont devenue une priorité.

Ding, Jeanjean & Stolowy (2005) étudient le rôle des valeurs culturelles et du système juridique en ce qui concerne les différences existantes entre les réglementations nationales des divers pays et les standards internationales de comptabilité de l'année 2001. Ceux-ci identifient deux directions en ce qui concerne les différences existantes entre les différents normalisations, internationaux et nationaux : (I) la divergence (tous les deux types de normalisation comptables couvrent les mêmes thématiques, mais les traitements comptables prescrits sont différents) et (II) l'absence (les standards nationaux ne couvrent pas certaines situations réglementées par IASB).

Un premier exemple dans ce sens c'est la France, qui, dans le cas des petites et moyennes entreprises, a des réglementations comptables propres. C'est intéressant a remarquer le fait que, dans leur cadre, on essaie d'harmoniser le spécifique national avec les tendances internationales. On rappelle la redéfinition récente

[310] Après ce moment-la, la dénomination de CEE a été changé en Union Européenne (UE)

[311] A présent, l'organisme a change sa dénomination en IASB ; les réglementations émises par celui-ci sont appelées des IFRS.

des actifs, intégrée dans le Plan Comptable Général Français (http://www.plancomptable.com/titre-II/titre-II_chapitre-I_section-1.htm). Un autre pays latin qui a fait des démarches récents dans la direction de l'élaboration d'un Plan Comptable National c'est l'Espagne. Les recherches ont eu comme résultat un projet sur un nouveau plan comptable national "un nuevo Plan General de Contabilidad (primer Borrador)"- (http://www.icac.meh.es/BPGC.pdf).

Toujours sur la ligne des nouvelles tendances de normalisation, le Japon a élaboré un cadre conceptuel propre. Dans le cadre de ce document, le normalisateur Japonais présente sa propre position en ce qui concerne le processus d'amortissement comptable ; également, on présente des éléments originales, spécifiques au milieu économique, politique et culturel. Street (http://www.iasplus.com/resource/gaap2002.pdf, 2002) a étudié les tendances d'adoption des IFRS en plusieurs pays. A la suite de cette investigation, il a constaté que trois pays (le Japon, l'Arabie Saoudite et Islande) n'envisage pas renoncer aux standards nationaux pour les IFRS.

Ces préoccupations pourraient être dû au phénomène de cosmopolitisme, qui, sur le plan économique et politique, a la tendance, conformément a certains spécialistes (Yegenoglu, 2006), de prendre la place au phénomène de globalisation. La conséquence, pour la comptabilité, serait de faire basculer l'accent d'homogénéisation des pratiques vers la préservation de l'identité culturelle.

3. La normalisation comptable en Roumanie : Quo vadis?

La présentation antérieure a eu le rôle de mettre en évidence, d'un coté, les plus récentes tendances au niveau national en matière de normalisation comptable en quelques pays, et, de l'autre côté, les préoccupations antérieurs dans le domaine, pour l'identification des certaines particularités existantes au longue du temps et d'une corrélation entre le processus de normalisation comptable et le milieu économique et politique. Suite à la courte rétrospective, on a pu voir le fait que l'apparition d'un milieu économique et politique restrictif (l'économie de type socialiste, dans le contexte d'une gouvernance communiste) a eu comme conséquence l'application des « modèles » prédéfinies sur la normalisation comptable, dans le sens que la réglementation de la comptabilité avait à la base un modèle soviétique.

La chute du régime communiste en Roumanie en 1989 a mené à la diversification des préoccupations sur la ligne de la normalisation comptable. Ainsi, on a vu le fait que, dans une première étape, en Roumanie, on a choisi un conseil sur la filière française en ce qui concerne la reforme comptable en Roumanie, fait justifié dans une certaine mesure par la collaboration antérieure dans cette direction. En utilisant comme source d'inspiration l'expérience française dans le domaine, on a réalisé aussi une adoption implicite des directions proposées par les Directives Européennes. En plus, on peut constater que la Roumanie a été réceptive aux tendances manifestées sur le plan international. Dans ce sens, on remarque le début du Programme de développement de la comptabilité en Roumanie en 1997, par lequel on introduit des éléments des standards de rapport financier.

Faisant l'analyse de la dimension historique de la normalisation comptable en Roumanie, on peut observer le fait que, dans les moments de scission historique, on a eu des modifications radicales de la vision sur le processus de réglementation comptable, l'approche étant différent. Les prédictions pour l'avenir de la normalisation comptable en Roumanie se basent sur le trend existant au niveau international. Si pour les entreprises cotées sur les marches des capitaux, l'avenir semble d'être relativement sur du point de vue des réglementations comptables à cause des exigences internationales, au niveau des petites et moyennes entreprises, on note la nécessité du développement des réglementations comptables autochtones, qui tiennent comptes des particularités nationales, comme en France et Espagne. Dans ce sens, il faut créer soit un plan des comptes national, soit un cadre conceptuel propre.

Faisant la synthèse des éléments présentés, le « panoptique » de la normalisation comptable en Roumanie peut être vu de la façon suivante :

LA NORMALISATION EN ROUMANIE:

<table>
<tr>
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LA NORMALISATON INDUCTIVE

(PLAN GENERAL DES COMPTES)

(étude de début: 1941-1947)

(1990 – présent): on n'a pas eu une forme « classique » qui puisse inclure le plan des comptes, des réglementations spécifiques, des principes et un mixe de définitions, mais une forme « adaptée »

- OMFP 1752/2005[312]

LA NORMATIVITE (1947-1989):

- *L'unification de la terminologie comptable*
- *La systématisation de la comptabilité*

</td>
<td>

LA NORMALISATION DEDUCTIVE

(CADRE CONCEPTUEL)

(1999 – 2005)

La traduction du cadre conceptuel IASB a été incluse dans les suivantes réglementations comptables:

- OMF 403/1999
- OMF 94/2001
- OMF 306/2002

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<td colspan="2">

PERSPECTIVES DE LA NORMALISATION COMPTABLE EN ROUMANIE:

- Pour les entreprises cotée : l'application des IFRS;
- Pour les petites et moyennes entreprises: l'élaboration d'un cadre conceptuel propre ou d'un plan comptable général.

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La normalisation comptable en Roumanie

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18. OMF 403/1999 pentru aprobarea Reglementărilor contabile armonizate cu Directiva a IV-a a CEE şi cu Standardele Internaţionale de Contabilitate
19. OMF 94/2001 pentru aprobarea Reglementărilor contabile armonizate cu Directiva a IV-a a CEE şi cu Standardele Internaţionale de Contabilitate

[312] Dans le cadre de cette réglémentation comptable on a renonçé à la présentation explicite du cadre conceptuel

20. OMF 306/2002 pentru aprobarea Reglementărilor contabile simplificate armonizate cu Directivele Europene
21. OMFP 1752/2005 pentru aprobarea Reglementărilor contabile conforme cu Directivele Europene

THE INFLUENCE OF ENTERPRISE ARCHITECTURE ON THE INTERNAL AUDIT

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Abstract: Information technology (IT) has a pervasive influence and it is a critical factor in many organizations. As such, it's often one of the most valuable assets an organization owns and uses as a cost-effective tool to attain their goals. But IT can also be a failure factor if the strategy used in designing, deploying and maintaining the IT architecture doesn't meet or converge with the overall strategy of the organization and it's continuous need for information. Enterprise architecture incorporates the main enablers an entity needs to achieve this convergence. From the internal audit's function perspective this can raise a wide range of challenges due to business strategy amendments that has an influence on the information system and the supporting technical architecture. The aim of this article is to set off the way an enterprise's architecture influences the work of the internal auditor in performing an IT audit.

Keywords: internal audit, IT audit, enterprise architecture

Introduction

In a dynamic business environment with harsh competition an organization cannot secure it's survival without a constant adaptation to the requirements such a market poses. External factors has to be "internalized" by the managers who have to rethink the organization's strategy which is supported by the business processes and operations and guided by information and decisions. An effective enterprise architecture is needed that must facilitate the flow of information regarding the initial state and position of the organization and also the desired or achieved status in comparison with the objectives predefined. Also, such an enterprise architecture must be adaptable, dynamic in order to cope with the future changes in cost-efficient and reliable manner.

Having this in mind we have to consider any organization as being a system which is „ ...a set of different elements so connected or related as to perform a unique function not performable by the elements alone" (Rechtin Eb., 1991, pg.7). Indeed an organization consists of several different elements such as departments, compartments, functional structure, that connected and related to each other by a formal or informal communication networks that permits the flow of data, information and decisions among them, but none of these elements or communication networks cannot assume and accomplish the function the organization does as a whole.

The influence of management reaction to change on the enterprise architecture

„Defining an enterprise architecture is complex, because it encompasses the systems within the context of the whole enterprise. To simplify this, an enterprise architecture is typically structured by considering a business or system as a series of components (or services) with inter-relationships, without having to consider the detailed design within the individual components." (Macaulay A., 2004, pg. 2)

Zachman J.A. (1987, pg. 276-277) attempted for the first time to define what system architecture is. But he came to the conclusion that at the time being there was „little consistency in concepts or in specifications of <architecture>". Also he notes that there was little chance that various definition would emerge. Still there are several definition of the term architecture generally accepted in the existing literature. One of them is stated in the ANSI/IEEE Standard 1471-2000 as: 'the fundamental organization of a system, embodied in its components, their relationships to each other and the environment , and the principles governing its design and evolution'. (Macaulay A., 2004, pg. 1)

Enterprise architecture allows organizations to build foundations they need to survive and adapt to present and future business challenges. Sound enterprise architecture supports the ability to stay agile, provides for increased return on investment, and creates a framework for making future technology decisions. It identifies the main components of an organization and how components in the organization's nervous system function together to achieve defined business objectives. These components include personnel, business processes, technology, financial information and other resources. If decisions about components and their interrelationships are uncoordinated, minimally effort and resources will be duplicated, performance and management problems will arise.

Enterprise architecture has also a role in the ability of the organization to align and coordinate its business strategy reflected by the business architecture and the corresponding an supporting information systems reflected by the technical architecture. Existing literature supports to a great extend this particularization. Wagter R. et. all (2005, pg. 39) considers that the various architectural domains can be grouped in: business architecture, information architecture and technical architecture. We considered above information architecture and technical architecture as a whole. Somehow in the same direction we can note the areas identified by Morgan T. (2002): business architecture, technical architecture and component architecture. Here to we can conclude that technical architecture and component architecture can be converged if we approach the architecture perspective of the enterprise from a more general perspective. Macaulay A.(2004, pg. 2) considers only these two components: business architecture and technical architecture.

Wagter R. *et. all* (2005, pg. 39) considers that „business architecture sketches the contours of the way in which an organization can be structured to effectively pursue its business objectives. Business architecture consists of three domains: the products and services offered, the processes responsible for producing these products and services and the organizational structure required to carry out these processes." Morgan T. (2002, pg. 40) states that "business architecture is a way of describing businesses and what they do or intend to do in the future"

„Technical architecture sketches the design contours for the provision of information within an organization. It consists of two domains: the data that is important for the correct functioning of the organization and the applications that ensure that this information is correctly distributed within the organization." (Wagter R. et. all, 2005, pg. 39). Morgan T., (2002, pg. 40) considers that "technical defines the technology that can be used to create specific information systems"

In a constantly changing environment strategic decisions regarding the organization have to be made more and more frequently. These decision made in the present time are based on information provided mainly by the organization's information system. In order to be reliable the business architecture must be aligned and coordinated with technical architecture. Present time decision have an influence on the organization's structure and behavior in the future which changes the entire enterprise architecture. In order to cope with these rapid changes enterprise architectures must be agile but still coherent.

A report issued by GAO (2003, pg. 1) recognizes that „the importance of developing, implementing, and maintaining an enterprise architecture is a basic tenet of both organizational transformation and IT management. Managed properly, an enterprise architecture can clarify and help optimize the interdependencies and relationships among an organization's business operations and the underlying IT infrastructure and applications that support these operations." (GAO 2003)

The role of the internal audit function in a changing organization

A modern and competitive organization, as a system, is inconceivable without using the advantages and benefits information technology has to offer in processing data, communicating information and decisions, interconnecting heterogeneous processes and departments in a reliable, flexible and time-efficient way. But we cannot omit the fact that information technology beside the benefits it brings it can be subject to risks the organization faces if it doesn't uses IT in proper way.

In order to assure that the use of information technology doesn't exposes the organization to undesired risk, there is a need for a fully capacitated internal audit function that can perform information technology audits as part of it's mission. The Institute of Internal Auditor's Definition of Internal Auditing states: " Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." (IIA, 2008).

The scope of internal auditing covers all of an organization’s activities, without regard for internal boundaries or geographical restrictions. Their work is based on the risk assessment and encompasses the adequacy and effectiveness of governance, risk management and internal control processes in identifying and responding to the risks facing the organization. A professional internal audit activity will be able to support risk management in two ways. Firstly, it will provide objective assurance to the board and to management that the risk management framework as a whole is operating effectively and that specific risks are being managed to the expected level. Secondly, it will invest its time and effort in consulting activities, which contribute to the establishment of sound risk management processes across the organization.

Therefore, we can say that the role of the internal audit is to report internal control issues to the audit committee and senior management. The real value comes when issues are addressed and problems are solved. In other words, reporting the issues is a means to an end. In this context, the end is to improve the state of internal controls at the company. Reporting them provides a mechanism by which the issues are brought to light and therefore receive the resources and attention needed to fix them. Therefore, the real mission of the internal audit department is to help improve the state of internal controls at the organization. Admittedly, this is accomplished by performing audits and reporting the results, but one must remember that these acts provide no value in and of themselves. They only provide value when the internal control issues are resolved.

An effective internal audit department considers the audit to be a partnership with the rest of the organization and not a policing function. An effective audit department is involved year round with key functions and does not just swoop in and out when performing audits. The audit should be just an occasional event in an ongoing relationship.

In a constantly changing environment the internal audit function faces a series of challenges it must cope with in order to prevent the materialization of risks emerging from changes an organization faces. „Without adequate control and visibility, an organization can spend money and effort on unneeded or low-priority changes while neglecting more important initiatives. Poorly designed or ill-considered changes can cause disruptions that must be addressed after the fact, or the changes must be “backed out.” IT changes to one component can disrupt the operation of other components.” (IIA GTAG 2, 2005, pg. 4)

The IIA’s GTAG no.2 (2005, pg.5) Change and Patch Management Controls: Critical for Organizational Success stresses that internal audit can assist management and the board of directors in their change management by: understanding the objectives of the organization regarding, confidentiality, integrity and availability of IT processing, identifying risks that could arise from changes and determine whether such risks are consistent with the organization’s risk tolerance, looking for and foster a culture of disciplined change management, including promoting the benefits of good change management.

Auditors are aware of the tight relationship between change and risk. IT assets seem to be in a state of constant change. According to Davis C. (2007, pg. 20) the technical areas in which an IT auditor might have constant preoccupations are:

- *„Entity-level controls.* The controls that are pervasive across the organization and provide the basic foundation for the control environment at the company. Examples of standard entity-level controls are company policies and mechanisms for complying with regulations such as Sarbanes-Oxley.
- *Physical facility.* The physical building and data center housing the computer equipment on which the system in question resides.
- *Networking and communications infrastructure.* They allow other systems and users to communicate with the system in question when they do not have physical access to it. This layer includes basic networking devices such as firewalls, switches, and routers.
- *Operating system.* They provides the basic operating environment on which the higher-level application runs. Examples are Unix, Linux, and Windows.
- *Middleware.* This is software that provides additional integration between two separate "programs" that were not originally designed to communicate with each other (e.g., between a database system and a web server or between an application and a database that it was not originally designed to access).

– *Database.* This is the tool that organizes and provides access to the data being run by the end application.
– *Application.* This is the end application, which actually is seen and accessed by the end user. This could be an *enterprise resource planning* (ERP) application providing basic business functions, an e-mail application, or a system that allows conference rooms to be scheduled."

This is not intended to be an exhaustive list of potential subject areas and technologies that could be reviewed by an IT auditor. It is instead intended to illustrate some of the more common layers that might be reviewed during an audit. The stack of potential auditing subject areas could be made significantly more complex and granular if desired, spiking out topics such as storage and web servers. "

Conclusions

During this article we stressed that the environment in which an organization operates has a pervasive influence on it. As a resultant of this influence the organization needs to assimilate the most effective and efficient technologies. But this leads to a reshape in the business architecture.

The increasing complexity of a business information systems that is the foundation of an enterprise architecture poses a wider range of threats and risks an organization is exposed to due to extensive usage of information technology capabilities. This leads to a need for a flexible and adaptable internal audit function and it's component the IT audit team.

IT auditors ensure that the core infrastructure supporting the company's systems has the proper security and controls. These audit teams generally consist of IT professionals who understand how to use application systems. In addition, the IT auditors might help to review some of the general application controls, such as change controls and overall system access administration.

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THE REFLECTION OF THE DUALITY IN THE PUBLIC ACCOUNTING OF THE BUDGETARY INCOMES AND EXPENSES

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The public institutions accounting remains a budgetary accounting, because the central axe in which she builds the accounting information is the budget. This is the legal document, which establishes also in nature and in measure of the mobilized incomes to the state as well as the way volume of the budgetary allocations, which will be lead by the state for the finance of different activities during a year. The paper „The reflection of the duality in the public accounting of the budgetary incomes and expenses" presents the real accounting way of the budgetary incomes and expenses at the level of the state treasury in it's quality of cash collector of the public sector, and also at the level of the public institutions through which are realized operations which are supposed by the budgetary execution.

Key words: Accounting, Treasury, Public Institutions, Incomes, Expenses.

The contextual frame for the public institutions accounting

The public institution represents that organizatory structure of public nature through which the state and the administrative territorial units produce the social utilities, administrative, for the justice, public order, national defense and others. Accidentally the subunits of the public institutions can realize and produce units and services of economic nature.

The public accounting can perceive that the total amount of the principles that must be followed in order to realize complete evidences on the staff of the operations regarding the patrimony elements from the frame of the public institutions.

It has the evidence of the goods and incomes from the entering to the way out from the public patrimony; the evidence of the works and services taken by the public authorities till the end of those; the control operation regarding the way in which is managed the public finances resources and their way of use.

The public institutions accounting makes a logical subsystem integrated and coherent which reflects in the valor expression the interdependences between the sources of feeding of the public funds and their way of assignment and which presents the necessary competences for the economic operation control exercise generated by the different economic, social and politic phenomena's.

At the level of the public institution we notice (with delay) the opening to international of the accounting, through the approving of some accounting regulations, which promotes the accounting "principle" of engagements and generates the accounting in double part.

The accounting dimension of the budgetary incomes and expenses at the level of the State Treasury

The public treasury has the hole resources that the state have the instrument through which this creates the possibility to establish and apply the incomes and expenses politic, organizing its financial activity both at central level and in the territory.

The financial execution of the public sector is unrolled through he public institutions and the public finances treasuries, of which accounting makes the base of the informational system from the first till the last level of the national economy.

The house execution principle which stays at the base of the organization of the state treasury accounting which assures the registers of en-cashed operations and payments in the accounts of the incomes and expenses open on budgets, credit nominators, and subdivisions of the budgetary classification established by the Ministry of Economy and Finances.

The incomes en-cashed by the treasury are followed and distinct pointed out on budgets: state budget, local budgets, the state social assurances budget and others. In the frame of each budget is assured the evidence of the incomes realization on the incomes resources- chapters and subchapters from the budgetary classification, and also on the payers: economic agents, public institutions, tax payers- physical person.

The way of the forming of the incomes accounts in the treasury accounting is represented in a scheme like this:

The codification of the incomes accounts in the Treasury accounting

The codification of the incomes accounts in the Treasury accounting

The code of the synthetic account of the income[313]

The code of the income chapter

The code of the budget

The code of the subchapter of the income

The fiscal code of the payer

The instrumental accounting of the incomes in the frame of the treasury is realized like this:

The Town hall A puts in the cash of the treasury, with paper of the payment – the receipt, of the sum 3.654 lei, representing the tax encash on the building by the juridical persons.

10	=	2107020102	3.654
„House"		„Tax buildings juridical persons"	

The account 2107020101 formed like this:

2.1. – the synthetic account of the incomes from the local budget from the account plan specific to the treasury

07.02 – the budgetary chapter *Taxes and land taxes (*02 represent the budgetary account for the local budget)

07.02.01 – the budgetary subchapter *Taxes on buildings*

07.02.01.02- the article *Taxes on buildings from the juridical persons*

✎ SC. SIM SRL, fiscal code 1656838, pays by the collecting point of the treasury the sum of 297 lei, representing the contribution of the employer to the unique national fund of the social health assurances.

10	**=**	**26**200503*1656838*	2.970
„House"		„Contributions of social health assurances due by the employers	

The account **26**200503*1656838* formed like this:

26 – the synthetic account of incomes to the budget of the unique national fund of the social health assurances from the account plan specific to the treasury

20.05 – the budgetary chapter *The employers contributions* (05 represents the budgetary code fro the unique national fund of the social health assurances)

20.05.03 –the budgetary subchapter *Contributions of social health assurances due by the employers*

1656838- the fiscal code of the payer

The credit authority of the "budgets" is authorized to employ, to liquidate and order the expenses during the budgetary exercise, in the limit of the approved budgetary credits.

The way of forming of the expenses accounts in the treasury accounting is represented in a schematic way like this:

The expenses accounts forming in the Treasury accounting

The codification of the

The code of the synthetic expense account[314]

[313] The codes of the synthetic accounts of the budgetary incomes in the accounting of the treasury are the next: 20 - state budget incomes; 21 – local budget incomes; 22 – social state assurances budget incomes; 26 – the incomes of the budget of the Unique national fund of social health assurances 28 – incomes of the budget for the unemployment assurances.

[314] The codes given tot he expenses in the treasury accounting are the next: 23 – expenses of the state budget; 24 – the expenses of the local budgets; 25 - social state assurances budget expenses; 27 - expenses of the budget of the Unique national fund of social health assurances; 29 - expenses of the budget for the unemployment assurances.

expenses accounts in the Treasury accounting

The code of the expense chapter

The budget code

The code of the expense title

The fiscal code of the public institutions

The accounting transpose of the operations that generates the expenses for the different budgets is realized like this:

with the purpose to discount the expenses on the pupils transport the Town hall of the village C takes based on the cheque the sum of 11.580 lei.

24650220*4562028*	=	**10**	11.580
„The expenses of the local budgets”		„House“	

The numeric component of the account **24**650220*4562028* is explained like this:

24 – the symbol of the synthetic account *Expenses of the local budget*

6502 – the code for the chapter of expenses *Education*

20 – the expenses title *Goods and services*

The district house of alimonies deposits by cash order the sum of 195.000 lei representing the lab our conscriptions of the alimonies due to the pensioners:

25680357*4562028*	=	61	195.000
„The expenses of the state social assurances budget”		„The correspondent account of the treasury”	

The account **25**680357*4562028* formed like this:

25 – the expenses of the state social assurances budget;

6803 – the chapter of the social assistance and assurances budget;

57 – the expenses title– *Social assistance*;

4562028 – the fiscal code of the alimony house

So in the decode of the resorts of the treasury accounting to the public institutions are essential the finance ways the budgetary source of the funds source, the typological knowing of the special funds and others.

Some accounting references from the level of the “public institutions[315]”

The incomes of the state budget, the local budgets, the state social assurances budgets the health social assurances budget, the unemployment assurances budget are made out of the taxes, contributions and other incomes approved from the economic agents and from the tax payers and also from the payment of the public institutions and other incomes approved by budgetary law by the Parliament.

The incomes are registered in the public institutions accounting on the documents which certifies the creation of the claim right (the fiscal declaration or the decision sent by the fiscal authority), expedition notification, bills and other legal papers made or in the effective moment of the encash in the situation in which there does not exist previous documents to the encase in order to register the claim.

The structure of the accounting account of incomes to the public institutions has the next elements: the symbol of the account from the accounts plan; the budget of which the income belongs: the chapter; subchapter and the budgetary article.

The forming of the incomes account to the public institutions

The codification of the incomes accounts in the accounting of the public institutions

The symbol of the account from the accounts plan

The income source

The budgetary chapter

The subchapter

[315] Less the State Treasury

The paragraph

The registration of the District House of Health Assurances of the contributions to the unique national fund of social health assurances due to the physical persons or juridical which employ persons:

4665.20.05.03.01 = **7453.**20.05.03.01 2.970

The claims of the unique national fund of social health assurances — The contributions of the employers for the social health assurances. Contributions from the juridical or physical persons, which employs persons

The signification of the numeric symbol of the incomes account is the next:

7453 - - the symbol of the synthetic account Contributions of the employers for the social health assurances

20.05 – the budgetary chapter entitled *The employers contributions*

20.05.03 – the budgetary subchapter *Contributions of social health assurances due by the employers*

20.05.03.01 – the paragraph Contributions from the juridical or physical persons that employs persons

at the Town hall is pointed out in the accounting the budgetary claim represented by the tax on the buildings due by the juridical persons:

464 = **734.**07.02.01.02 3.654

The claims of the local budget — Taxes on property. The tax on the building from the juridical persons

The numeric structure of the account **734.07.02.01.02** has the next signification:

734 - the symbol of the synthetic account Taxes on property

07.02 – the budgetary chapter Taxes on property

07.02.01 – the budgetary subchapter Tax on buildings

07.02.01.02 – the paragraph Tax on buildings from juridical persons

At the public institutions the expenses accounts are developed in analytic on budgetary classification structure.

The symbol of the analytic account is made like this:

The forming of the analytic account of expenses at the public institutions

The codification of the expenses accounts in the accounting of the public institutions

The symbol of the account from the accounts plan

The source of finance of the expenses

Subchapter

Title

Article

Paragraph

at the district house of alimonies is pointed out the obligation of payment to the pensioners in sum of 195.000 lei.

676.57.01.03 = 4221 195.000

Social assurances — Civil pensioners- debt alimonies

The codification 676.57.01.03 has the next signification:

676. – the symbol of the synthetic account Social Assurances

57 – the title of the expenses from the economic classification entitled Social Assurance

57.01 - the budgetary article Social assurances

03 – the code of the budget of the state social assurances

the Town hall of the village is taking the evidence of the expenses with the pupils transport in sum of 11.580 lei which it will be paid lately from the financed account:

624.20.01.07	=	401	11.580
Expenses with transport of goods and personnel		Suppliers	

The analytic accounting "of the budgetary incomes and expenses" is imposed by the juridical norms to assure units of content of the budgetary incomes and to facilitate the indicators obtain at the macroeconomic level. In this way the accounting is proving again the capacity tot produce inform nations which to respect the norms with the purpose to assure the qualities such as the relevance, credibility, clearness and comparing.

Conclusions

The objectives related to the devoted and opportune reflection of the way of realizing the incomes and the expenses and also to supply through the budget the information's regarding the realization of the incomes, level, structure and the expenses dynamic, justifies the role extremely important of the budgetary information in the frame of all the public institutions.

So as we notice the accounting dualism to which we refer in the tile of the paper regards the double manner, the dual accounting instrumentation of those categories of budgetary incomes and expenses by reporting them to the different public entities: the public institution which notices/encash the income or the expense and the state treasury with its role of cash collector of the public sector. For the reflection of the accounting in the Treasury of the budgetary incomes and expenses is used a plan of accounts different from the one used by the other public institutions. At the level of the public institutions is applied the engagement in order to recognize the budgetary incomes and expenses when in the treasury accounting is used the base accounting on cash in order to recognize the same elements that generates the result.

The budgetary classification assures the link between the two categories of entities reported to the budgetary execution with the meaning that both public entities symbol of the numeric accounts of expenses includes the code title specific in the economic classification. Also the code of the chapter of incomes is found also in the structure of the incomes of the public institutions and of the Treasury.

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CONSEQUENCES OF THE INFLATION OVER THE CONTINUITY OF ENTERPRISES` ACTIVITY

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In conditions of inflation, the historical costs accounting, related to a basic principle of accountancy, that is the caution principle, lead to the enterprises decapitalization, with serious consequences over the continuity of the activity in conditions of economic efficiency. Therefore, finding new alternatives which could lead to the removal of this deficiency in the traditional accounting model, in conditions of inflation, is an imperative. In this context, the major objective of the firms that carry on their activity in an inflationist environment is to maintain their capital, as well as to secure a profit which can ensure the maintenance of the capital, the continuity of the activity depending mainly of its fulfillment.

Key words: inflation, financial capital, physical capital

The inflation is a self sustained phenomenon of an overall price increase, which affects the economy of a state, having important implications not only at an economical level, but also to the social one. The inflation has as effect the corrosion in time of money value, as well as the sustained price growth in economy.

In most countries, the financial statements are produced on the basis of the historical costs, without taking into account the changes of the overall price level or the individual change of the owned assets prices, except for the fixed assets, that were reassessed. Thus, the assets elements, the capital accounts, the debts, the incomes and the expenses are expressed in accordance with the value existing at the date when these elements appeared. The impact of the inflation is consequently ignored.

The inflationist phenomenon distorts the accounting information presented through the financial statements in two ways:

- it diminishes the accounting information's capital accounts;
- it over valuates the results of the accounting period;

In conditions of inflation, the historical costs accounting, related to a basic principle of accountancy, that is the caution principle, lead to the enterprises decapitalization, with serious consequences over the continuity of the activity in conditions of economic efficiency. Therefore, finding new alternatives which could lead to the removal of this deficiency in the traditional accounting model, in conditions of inflation, is an imperative. In this context, the major objective of the firms that carry on their activity in an inflationist environment is to maintain their capital, as well as to secure a profit which can ensure the maintenance of the capital, the continuity of the activity depending mainly of its fulfillment.

The distinction between profit and capital is extremely important in inflationist conditions. As long as the source of obtaining the profit is the capital, this one can not be consumed without affecting the future profits. So, the capital must remain intact in order to be able to produce the same profit level.

"In general terms, an enterprise maintained its capital if at the end of the period, it has a capital that is equal tot the one from the beginning of the period. Any other supplementary value besides the needed one in order to maintain the level from the beginning of the period is considered to be profit."[316]

"*The concept of capital preservation decides the extent to which an enterprise can allot the accruals obtained during the year without prejudicing its future*[317]*"*.

Consequently, the profit is the maximum value that an enterprise can allot during the year, so that it can preserve intact the capital owned at the beginning of the period.

[316] General Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board, pct. 107, overtaken in OPFM no. 94/2001 (O.G. no. 85/20.02.2001)
[317] Lavinia Olimid, Măsurarea rezultatului contabil, Economic Publishing House, Bucharest, 1998, page 60

Within an economy which is not affected by inflation, the profit obtained at the end of the period represents the real profit, and it can be consumed entirely, without the fear of impoverishing the capital. The capital is expressed in the same monetary units as at the beginning of the period and remains intact during all this time.

But in an inflationist environment, taking into account the fact that the incomes are expressed in real monetary units (in terms of the value of money from the moment of their recognition), and the expenses which are to be connected to these incomes are expressed in nominal monetary units (in terms of the value of money from the moment of achieving the assets which generated the expense), in order to find the real profit and to compute an unitary result of the activity, the expenses must be expressed in real monetary units.

The overall expenses adjusted to inflation will represent the sum of the value of expenses expressed in nominal monetary unit, and the price variations between the real monetary unit the nominal one due to the assets which generated the respective expenses.

Therefore:

$Cr = Cn + v$ where:

Cr – expenses expressed in real monetary units,

Cn – expenses expressed in nominal monetary units;

v – price variations due to the assets.

The real profit will be:

$Pr = V – Cn - v$

The historical costs profit (Pci) will represent the sum of the real profit and this price variations, which is in fact the gain resulting from the owning of the assets that generated the expense.

$Pci = Pr + v$

This owning gain represents the sum that needs to be invested in the enterprise, so that the capital level stays the same. In other words, the existence of the owning gain determines the issue of the capital preservation concept.

The question is: *this owning gain must be regarded as a constitutive part of the profit which is to be distributed later on, or as an element of the capital account under the form of a resource?*

The answer to this question can be found depending on the means of capital measurement. From the point of view of the desired objective of the enterprise, there are two perspectives regarding the capital measurement:

- the owner's (shareholders)
- the enterprise's

1. The owner's capital (financial) and its maintain

The owner's capital is found in the specialty literature under the name of financial capital. The paragraph 102 from the Conceptual Framework IASB defines the financial capital: "the financial capital is synonym with the net assets or with the entity's capital account".

The concept of financial capital maintain is defined in the paragraph 104 from the Conceptual Framework IASC[318], where it is specified that "according to this concept, the profit is secured only if the financial value of the net assets at the end of the period is higher then the financial value of the net assets from the beginning of the period, after the exclusion of all distribution towards the owners and of any contributions of the owners during the analyzed period."

In other words, the increase of the assets value, which exceeds the overall price increase, is to be recognized as profit.

The preservation of the financial capital can be measured in nominal monetary units, by using the concept of nominal financial capital or stable value of money, through the real financial capital.

[318] General Framework for the Preparation and Presentation of Financial Statements issued by the IASC Board and adopted IASB, International Financial Reporting Standards, page 54, CECCAR Publishing House, Bucharest, 2005

When the prices are stable, we can talk about the preservation of the nominal financial capital. The sharable profit represents the difference between the capital accounts existing at the end of the period and those from the beginning of the period, taking into account the possible capital increases or decreases which appeared during the year due to the owners` contributions or withdrawals.

When the prices are variable, the term of real financial capital becomes operational. As the preservation of the nominal capital becomes insufficient, the capital accounts from the beginning of the accounting period are adjusted according to the variation of the overall price index in order to preserve the real capital.

The financial concept of the capital must be adopted if the users of the financial statements are concerned mainly with maintaining the invested nominal capital or maintaining the value of the invested capital.

According to this concept, the profit is recognized only after the value of the capital accounts is maintained. All the adjustments that need to be done to the financial statements, so that the enterprise's financial capital (capital account or the net assets) stay stable, are the objectives of the conversion based methods (methods based upon the current value of money). This methods aim to adjust the financial statements expressed in nominal unitary methods, with the purpose of expressing them in stable monetary units , and also the quantification of the result owned to the national currency depreciation.

In order to exemplify the above mentioned, let's take the following hypothetical example:

At the beginning of the N accounting period, an enterprise has a share capital of 300 m.u., representing a building with the value of 200 m.u., stocks in value of 80 m.u. (40 pieces * 2 m.u./piece) and money supply in value of 20 m.u. The building is subjected to a straight-line amortization for a remaining period of 20 years. At the end of the N accounting period, the enterprise sells 20 pieces of stock at the price of 3m.u./piece.

During the N period, the overall price increase was of 20%.

(Historical costs) Balance sheet at the 1st of January N

Table no. 1

Fixed assets Stocks (40 pieces*2 m.u./piece) Money supply	200 m.u. 80 m.u. 20 m.u.	Share capital	300 m.u.
Total assets	300 m.u.	Total liabilities	300 m.u.

Loss and gain account at the 31st of December N

Table no. 2

Elements	In historical costs	In historical costs modified depending on the evolution of the overall value of money
Sales incomes - the cost of the sold stocks - the building amortization Losses from owning monetary elements (money supply)	60 m.u. (20*3 m.u.) -40 m.u. (20*2 m.u.) -10m.u. (200*5%/year)	60 m.u. (20*3 m.u.) -48 m.u. (40*1,2) -12 m.u. (10*1,2) -4 m.u. (20*0,2)
Profit	10 m.u.	-4 m.u.

The balance sheet from the end of the N accounting period expressed in current value of money will be:

Balance sheet at the 31st of December N

Table no. 3

Gross fixed assets (200*1,2) - amortization Net fixed assets Stocks (40*1,2) Money supply (20 + 20*3 m.u)	240 m.u. -12 m.u 228 m.u. 48 m.u. 80 m.u.	Share capital (300*1,2) Profit/Loss	360 m.u. - 4 m.u.
Total assets	356 m.u.	Total liabilities	356 m.u.

The real profit computed as a difference between the capital accounts from the end of the accounting period and the capital accounts from the beginning of the accounting period adjusted with the overall price index is:

Pr = 356 m.u. – 300 m.u.*1,2

Pr = -4 m.u.

The monetary elements (cash assets and debts) stay recorded at their nominal value in the financial statements from the end of the accounting period. The difference between them will determine the gain/loss from owning monetary elements, which will appear as a different position in the loss and gain account.

In what concerns the non monetary elements, these will be recorded in the financial statement at their new value adjusted in counter trade with an element of expenses or incomes, from case to case, for the adjustments of the current year, and a resources account for the adjustments of the previous years.

In conclusion, the adjustment of the financial capital, with the purpose of its maintenance, will be done through the overall prices index. This perspective admits the effect of the inflation over the patrimonial monetary and non monetary elements as a component of the enterprise's result.

2. The enterprise's capital (physical) and its maintain

The general framework IASB defines in the paragraph 102 the concept of physical capital or "the exploitation capacity" as it follows: "*the capital represents the production capacity of the enterprise expressed, for instance, in production units per day"*.

The concept of maintaining the physical capital is defined in the paragraph 104 as it follows: "*according to this concept, the profit is secured only when the productive physical capacity (exploitation capacity) of the enterprise at the end of the period surpasses the productive physical capacity from the beginning of the period, after the exclusion of all distribution towards the owners and of any contributions of the owners during the analyzed period*."

The profit determined on the basis of the historical cost does not make the distinction between the profit resulting from exploitation and the profit resulting from owning goods whose current cost is higher than the cost to which they were achieved. These owning gains are not gains obtained during the maintenance of the goods in enterprise's possession, and when they are to be sold, they will be entirely recognized in the gains and losses account, even if they are due to more accounting periods.

The concept of maintaining the physical capital decides the extent to which these gains are included in the sharable profit. With the purpose of maintaining the productive capacity of the enterprise, the increase of the assets value, and the latent additional value, will be recorded in the resources category, in a distinct account "adjustment reserves". The maintenance of the enterprise's physical capital is possible only if these reserves are not sharable.

With the purpose of establishing the production capacity which needs to be maintained, the goods that are used within the production process (fixed assets and stocks) must be expressed in current values, and also in values into which they can exchange at a certain point using real basis.

Among the assessment bases which can be used in the assessment of the financial statements (historical cost, current cost, realizable value and present value), the current cost, the realizable value and the present value can be considered as forms of the current value.

As it is determined based on some objective values (book value, specific price index), the current cost is the assessment base used the most often in order to express the present value of the goods. *The current cost* is the delivered cost of an equivalent new good, to which a rectification for depreciation is applied. The current cost can also be determined by multiplying the book value of the good with a price index specific to that category of goods.

Starting from the previous numerical example and knowing that, at the end of the accounting period, the stocks replacing cost is of 2, 5 m.u./piece (it grew with 25% from the beginning of the period), and the replacing cost of the fixed assets is of 240 m.u. (it grew with 20% from the beginning of the period), the financial statements will be retreated with the purpose of maintaining the physical capital as it follows:

Loss and gain account at the 31st of December N

Table no. 4

Elements	In historical costs	***In current costs***
Sales incomes - the cost of the sold stocks - the building amortization	60 m.u. (20*3 u.m.) -40 m.u. (20*2 m.u.) -10 m.u. (200*5%/year)	60 m.u. (20*3 m.u.) -50 m.u. (20*2,5 m.u.) -12 m.u. (240*5%/year)
Profit	10 m.u	-2 m.u

Determining the capital gains

Table no. 5

Realized yield from the sold stocks owning (20*(2,5-2))	10 m.u.
Realized yield from the building owning – interest from yearly amortisation ((240-200)*5%/year)	2 m.u.
Unrealized yield from the unsold stocks owning (20*(2,5-2))	10 m.u.
Unrealized yield from building owning ((240-200)-2)	38 m.u.
Total owning income	60 m.u.

The balance sheet of the N period, expressed in current costs is:

Balance sheet at the 31st of December N

Table no. 6

Gross fixed assets -amortization (240*5%/year) Net fixed assets Stocks (20*2,5 m.u) Money supply (20+20*3m.u.)	240m.u. -12 m.u. 228 m.u. 50 m.u. 80 m.u.	Share capital Profit/Loss Reserves of capital maintaining	300 m.u. -2 m.u. 60 m.u.
Total assets	358 m.u.	Total liabilities	358 m.u.

The real profit, computed as the difference between the capital account from the end of the accounting period and the capital accounts from the beginning of the accounting period, adjusted with specific price index of the non monetary assets, is:

Pr = 358 m.u. – (200 m.u. * 1, 2 + 80 m.u. *1, 25 + 20)

Pr = -2 m.u.

The non monetary assets are presented in the balance sheet at present value, and the profit will be recognized by the enterprise only after its operational capacity was maintained.

The adjustments made to the financial statements with the purpose of maintaining the enterprise's production capacity, represent the objectives of the assessment based methods (current costs based methods). These methods are oriented towards the usage of the specific index for the value correction of different categories of goods, of the amortisements and of the sales cost.

In conclusion, the maintenance of the enterprise's physical capital is done through the specific price index of the non monetary assets, recognizing the profit only after the capital was maintained.

3. The maintenance of the owners' and enterprise's capital

As resulting from those mentioned above, the adjustments made in order to maintain the financial capital do not take into account the fact that most prices of certain goods can surpass the overall price changes, and this prejudices the maintenance of the physical capital.

Moreover, with the purpose of maintaining the physical capital the inflation impact is quantified only in the case of non monetary assets, without taking into consideration the influence that the inflation has over the monetary elements of the enterprise, and this way, the complete maintenance of the financial capital is not ensured.

In order to maintain the financial capital, as well as the physical capital, the profit must be corrected with the gain or with the loss from monetary elements owning and diminished with the gain owed to the value increase of the non monetary assets over an overall price increase.

In the balance sheet, the non monetary assets are to be presented to an adjusted value, adjustment made through the overall price index or through the specific price index, depending on which one id higher, and the non monetary liabilities are to be adjusted through the overall price index. The monetary elements will stay recorded in the balance sheet at their nominal value.

The gains resulting from the non monetary assets owning, whose specific price index surpasses the overall price index, will be recorded under the form of non sharable reserves, which will rise the enterprise's capital accounts.

With the purpose of preserving the financial and the physical capital, the capital accounts from the beginning of the accounting period are to be adjusted with the overall price index, except for the non monetary assets whose prices are higher than the overall prices increase, which are to be adjusted through the specific price index to the respective assets.

Starting from the same numerical example, the financial statements adjusted with the purpose of maintaining the financial capital, as well as the physical capital, are as it follows:

Loss and gain account at the 31st of December

Table no. 7

Elements	In historical costs	In historical costs adjusted with the purpose of maintaining the physical capital and the financial capital
Sales incomes	60 m.u. (20*3 m.u.)	60 m.u. (20*3 m.u.)
- the cost of the sold stocks	-40 m.u. (20*2 m.u.)	-50 m.u. (20*2,5m.u.)
- the building amortization	-10m.u. (200*5%/year)	-12 m.u. (10*1,2)
Losses from owning monetary elements (money supply)		-4 m.u. (20*0,2)
Profit	10 m.u.	-6 m.u.

Determining the capital gains

Realized yield from the sold stocks owning (20*2,5-40*1,2) Unrealized yield from the unsold stocks owning (20*2,5-20*2*1,2)	2 m.u. 2 m.u.
Total owning income	4 m.u.

Table no.8

Balance sheet at the 31st of December N

Table no. 9

Gross fixed assets	240m.u.		
-amortization (240*5%/year)	-12 m.u.	Share capital(300*1,2)	360 m.u.
Net fixed assets	228 m.u.	Profit/Loss	- 6 m.u.
Stocks (20*2,5 m.u)	50 m.u.	Reserves of capital maintaining	4 m.u.
Money supply (20+20*3m.u.)	80 m.u.		
Total assets	358 m.u.	Total liabilities	358 m.u.

Pr = 358 – (200*1,2+80*1,25+20*1,2)

Pr = -6 m.u.

The capital accounts from the end of the accounting period expressed in real monetary units are of 358 m.u, and those from the beginning of the accounting period, adjusted with the purpose of expressing them in real monetary units are of 364 m.u., the difference between them representing the real loss, of 6 m.u.

If we compare the historical costs accounting system with the three accounting systems which have as purpose the maintenance of the capital in inflation conditions, we can see that historical costs profit is of 10 m.u., which is equal to a 4 m.u. loss if the financial capital is maintained, a 2 m.u. loss if the objective was the maintenance of the enterprise's production capacity and a 6 m.u. loss if the objective was the maintenance of the owners` capital, as well as of the enterprise's capital.

The choice of one of the capital preservation concepts is motivated by the requirements of the accounting information users, as well as their interest in maintaining the financial power of the invested capital or the operational capacity of the enterprise.

The maintenance of the financial capital is mainly preferred by owners, as it leads to the attainment of a maximum profit and to the maintenance of the capital value.

The physical concept of capital preservation is more attractive for an enterprise' managers and employees, which can consider that the objective of an enterprise is to perpetuate its existence, by providing future goods and services similar to those in the present.

Even if the enterprise's main objective is to maintain the physical capital, as the prices increase, the physical capital needs a higher financial capital, and this capital can be achieved by reinvesting the profit from the previous years or it can be brought by shareholders.

We can conclude that the objective which should be followed is to maintain the owners` possession in an inflationist environment and to maximize it, and this objective is also in compliance with the employees` requirements (jobs availability, safe wages, etc). This thing is to be achieved by the implementation of the inflation adjustment procedures of the enterprise's financial statements items.

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LEASES IN THE FINANCIAL STATEMENTS OF LESSORS

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Abstract: *The objective of IAS17 Leases is the prescribed for lessees and lessors, the appropriate accountancy policies and disclosure to apply in relation to finance and operating leases.*

This Standard applies to agreements that transfer the right to use assets even though substantial services by the lessor may be called for no other brand, this Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Keywords: *leases, lessors, finance leases, operating leases*

CLASSIFICATION OF LEASES

The classification of leases adopted in this Standard is based on the extent to which risks and rewards incident to ownership of based assets to with the lessor or this lessee.

Risks include the possibilities of lessees from idle capacity or technological obsolescence and of variations in return due to changing economical conditions.

A lease is classified as finance lease if it transfers substantially all the risks and rewards incident to ownership. An operating lease is a lease other than a finance lease. A non-cancelable lease is a lease that is cancelable only:

a) upon the occurrence of some remote contingency;
b) with the permission of the lessor;
c) if the lessee enters into a new lease for the some or an equivalent assert with the some lessor;
d) upon payment by the lessee of an additional amount such that, at inception, continuation of the lease is reasonably certain" (1)

The inception of the lease is the earlier of the date of the lease agreement or of a commitment by the parties to the principal provisions of the lease.

The lease term is the non-cancellable period for witch the lease has controlled to lease the asset together with any further terms for witch the lesser has the option to continue to lease the assets with or without further payment, which option at the inception of he lease it is reasonably certain that the lessee will exercise.

Minimum lease payments are the payments over the lease term that the lessee is, or can be required, to make excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor.

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, within parties in an arm's length transaction.

FINANCE LEASES

LEASES IN THE FINANCIAL STATEMENTS OF LESSORS

Lessors should recognize assets held under a finance lease in their balance sheets and present as a receivable at an amount equal to the net reinvestment in the lease.

Under a finance lease substantially all the risks and rewards incident to legal ownership are transferred by the lesser, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services.

The recognition of finance income should be based on a pattern reflecting a constant periodic rate of return on the lessor's net investment outstanding in respect of the finance lease.

A lessor aims to allocate finance income over the lease term on a systematic rational basis. This income allocation in based on a pattern reflecting a constant periodic return on the lessor's net investment outstanding period, excluding costs for services, are applied against the gross investment in the lease to reduce both the principal and the unearned finance income. As asset about finance leases why is classification whereupon for sale in conformation with IFRS fixed assets whereupon for sale and worth interruption should be registering in conformation with IFRS. For registration in bookkeeping the type sell leases, is necessary as lessors to determined following elements:

1. gross investment
2. assets fair value
3. the cost

The entity should be count and sum's rest necessary bookkeeping:

The leases debt = Wholesale

Assets sale cost = Stocks

The financial income unfulfilled respectively:

2678	=	701
Other Assets debts		Income solve finish products
711	=	%
Stocks variety		345 Finish products
		472 The financial income unfulfilled

Manufacturers or dealers often offer to customers the choice of either buying or leasing an asset. A finance lease of an asset by a manufacturer or dealer lessor gives rise to two types of income:

- the profit or loss equivalent to the profit or loss resulting from an outright sale of the asset being leased, at normal selling prices, reflecting any applicable volume or trade discounts;
- the finance income over the lease term.

The cost of sale recognized at the commencement of the lease term is he cost, or carrying amount if different of the leased property less the present value of the non-guaranteed residual value. The difference between the sales revenue and the cost of sale is the selling profit which is recognized in accordance with the policy followed by the enterprise for sales.

Lessors should, in addition to the requirements in IFRS7 "Financial Instruments", make the following disclosures for finance leases (2):

a) a reconciliation between the total gross investment in the lease of the balance sheet date, and the present value of minimum lease payments receivable. At the balance sheet dates.

b) the entity should disclose the total gross investment in the lease and the present value of minimum lease payments receivable at the balanced sheet data, for each of the following periods:

1. not later than one year
2. later than one year and not later than five years

3. later than five years
4. unfulfilled finance income
5. the non-guaranteed residual values arriving to the benefit of the lessor
6. the accumulated allowance for uncollectible minimum lease payments receivable
7. contingent rents recognized in income
8. a general description of the lessor's significant leasing arrangements.

CONCLUSION

IAS17 Accounting for leases applies to agreements that transfer the right to use assets even thought substantial services by the lessor may be called for in conversion with the operation or maintenance of such assets.

This standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

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METHODS USED FOR TREATING THE UNDERGROUND ECONOMY IN ROMANIA

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Abstract: Starting with the first days of the year 1990, there were created groups of interests specialized in contraband operations, both for exportation and for importation, in operations of speculation with scarce products, in performing some services of transport-taxi, public alimentation, etc. There were the first component elements of the black economy that appeared and developed in Romania, the incomes of which were important in most cases and constituted the necessary capital for initiation in legal organized businesses. Among the component elements of black economy, the most spread in our country were the activities performed without registering, tax dodging and black labour.

Key words: fiscal fraud, black labour, formal sector, informal sector

The transition of Romania from the planned economy to the market economy favourized the appearance and the manifestation of the black economy. Corruption and activities characteristic to the black economy are realities to which all states fight against, including the transition economy of Romania.

The National Statistics Institute estimates the value of hidden economy at approximately 20 billions euro annually taking into consideration only black labour, the TVA fraud and the domestic industry, the weight being held by the first two. In Romania, black labour assures the necessary living incomes for over one million people. It is the effect of the economical development; the mass of the accumulated capital surpasses the absorption capacity of the unofficial sector so that the new rich from black activities officialize their role and new status through their penetration in illegal activities.

In the transition period, Romania implemented the national accounts in the Romanian statistical system starting with the calculation year 1989. The European System of National and Regional Accounts, version 1995/(SEC95) has applied in Romania starting with the year 1989. The methodology SEC95 is obligatory for the Countries Members of the European Union, being the compatible and coherent background at the international level with the revised of the National Accounts System 1993 (SCN93) used by the big international organization. The data obtained in the European System of National and Regional Accounts are used for:

* giving subventions to the regions of European Union through structural funds for which the expenses are estimated on the data of the regional accounts;

* the control and the orientation of the European monetary politics starting from the data provided by the assembly of the national accounts (public debt, public shortage, PIB, etc.);

* the calculation of resources proper to the European Union on the basis of the data provided by the national accounts of the member states, thus:

- the totality of the resources of the European Union is determined as percentage from the gross national products of the member states;
- the contribution of every state to the third resource proper to the European Union (also called TVA) is much influenced by the national accountancy;
- the relative contribution of every member state to the forth proper resource of the European Union is based on the national gross proper product.

In the methodology of national accounts elaborated by SNC 93 and SEC 95 are used the following concepts and terms concerning the hidden economical activities of the production units: illegal, hidden, informal.

The essential factors that allowed the exacerbated development of black economy can be, mainly, the following:

- legislative uncertainties which accompanied the economical mutations;
- the uncontrolled economical division, the appearance of some small enterprises with speculative, temporary activity;
- decentralization, division of power through the distribution of responsibilities, thus increasing the number of compatible individuals;
- the tolerant attitude, both of the authorities, and of the population to the breaking of regulations, a certain reserve to the discipline;
- the immediate junction realized by the representatives of the parallel market existent in the socialist period with circles of similar preoccupations to those in the neighbouring states and, in this way, the connection to the international structures of the black economy.

The problems referring to the black economy were noticed and made public by the American P. Gutmanu, who, in the year 1977, appreciated that the statistically unregistered economical activity can not be further considered a negligible entity. To the same problem V. Tanzi expresses himself and sees the development of black economy as product of two big categories of factors: those connected to the desire to avoid taxes and those connected to the desire to avoid the governmental rules and restrictions.

In the speciality literature, there appeared a multitude of definitions, wider or more reduced, as following the diversity of activities that black economy reunites but also a series of particularities in space and time of this one.

We can define under the concept of black economy those activities the existence of which is not officially known (bookkept) and the incomes of which don't make the object of fiscal statements.

The definition given by Pierre Pestieau: the black economy represents "the ensemble of economical activities that are realized outside penal, social or fiscal laws or of those which escape (massively) to the inventory of national accounts" – is considered by specialists the widest definition of the black economy.

The definition that circulates on the international level and which is also adopted by the countries in the European Union, classifies the activities connected to the sphere of the black economy in:

1. **Undeclared licit (legal) productive activities** (the black economy) including activities that are not registered at the level of state through the system of national accountancy (domestic activities, volunteer labour, community service activities, etc.) and those that are not declared at the financial administrations (fraud and tax dodging, black labour, tips, etc.) and
2. **Illicit Productive Activities (illegal) of goods and services** (the production and the narcotic trade, the gun running, etc.) of course undeclared.

The System of National Accounts SNA from 1993 and the European System of Accounts ESA from 1995 are using the next concepts, which refer to the "invisible" economy:

- illegal production
- underground economy
- informal sector

Pierre Rosanvallon makes another classification of the activities of the underground economy, distinguishing between the underground economy and the secret economy like this:

* The autonomous economy classifies the not tradable underground activities in: the domestic work (self-consumption, taking care of children, housekeeping and gardening etc.)., helping services between neighbors, friends, family, voluntary work for physical persons, legal persons, or communities in general;

* The secret economy speaks about the tradable underground activities, like:

- undeclared legal activities: the production of the illicit enterprises, diminish reports of the production of the official enterprises, paid wages or undeclared or declared but diminished wages.
- delinquent activities: pimp activity, prostitution, gambling, swindle, corruption, bribery, insurance frauds, narcotic trade, usurious interest, money falsification, etc.

– illicit activities: work under the table, fiscal fraud, trade of labor force, etc.

Considering the divers definitions written in the specialized literature, and also knowing, for classification criteria, the report with the national accountability, the underground economy can be divided in two large sectors:

– a sector of the uncountable activities, because are hidden by those who practice them (illegal, illicit), and of course activities of fiscal fraud and criminal activities.
– a sector of legal activities, known, but which are not included in the national accounts: domestic activities, including self-control, secretariat work., etc.

Lippert and Walker made in 1977, a grouping of the assimilated activities of the underground economy concept, principally having the coinage and the legacy of the respective activities at the base:

Grouping of the assimilated activities of the underground economy concept

Type of activities	**Monetary transactions**		**Not monetary transactions**	
Illegal activities	Trade with stolen goods, narcotic trade, prostitution, gambling, smuggling and fraud, etc.		The exchange of narcotics, smuggling, production or cultivating drugs for self-consume, robbery for the self-consume, etc.	
Illegal activities	Illegal tax dodging (the undeclared incomes of those who become employed, the payment with cash or in nature goods from an undeclared job, bound to the deliverance of goods and legal services, etc).	Illegal tax dodging (the deductions given to the employees, the untaxed advantages received above the fee, etc.)	Illegal tax dodging (the exchange of goods and legal services, etc.)	Legal tax dodging (domestic activities, the help given to the neighbors, etc.)

Table 1

Source : Lippert O., Walker M., "The underground economy: Global evidence of its size and impact", The Frazer Institute, Vancouver, 1997

In the creation process of the Gross Domestic Product, we can see in Romania a special given attention to the estimations of the unnoticed market economy. From the point of view of the national systems of accountancy, the SCN/93/SEC95 from the unnoticed economy we understand the sum of economical activities which are hidden from the statistical observations, comprehending that is about something else than the illegal and hidden economy. According to The System of National Accounts SNA and the European System of Accounts ESA the production is defined like an activity where the entries are used to produce outcomes.

The issue regards of course the identification and the estimation of the illegal production and of the hidden economy which are not current in the national accounts but they are influencing the economy of a country, member of the European Union and who misinterprets the international comparisons.

The “illegal” concept mentioned above, it refers to the illegal activities (productive activities and unproductive activities) for which do not exists a general methodology accepted by the states of the European Union. The measuring and the introduction of those situations in the national accounts is different from a state to another. It’s important to exactly delimitate the activities which can be illegal in an economy and who blocks the compatibility assurance of the production between countries.

We can mention some illegal activities: the production of drugs and the narcotic trade; prostitution; illegal trade with tobacco, bootlegger, illegal trade with stolen cars, gun running; gambling with no license;

corruption, usurious interest; money falsification; robbery of art masterpieces, jewelers, banks; fraudulency and kidnapping; legal activities productive and unproductive made by unauthorized persons.

Some of those activities can be found at the border of the production, according to the national accounts and they are not included in the estimation of the production from practical reasons and from lack of dates.

The hidden economy is represented by the activities legally made, but which are intentionally hidden by the public authority for reasons like: the non-payment of the contributions to the social insurances, the non-payment of the income taxes, of the value added tax VAT or other taxes, avoidance of administrative procedures like the filling in of the statistically printed form or of other administrative documents. The hidden economy contains activities intentionally hidden in the purpose of reducing the production costs ("hidden" from an economical point of view) but also unnoticed activities cause of the deficiency from the statistically system.

From a statistically point of view, in the unnoticed economical sphere can be included: unregistered activities; under-report; non-answer; default of the actualized informations.

To identify the hidden economy and its integration in the process of valuate the value added tax and the next aspects must be respected:

- the existence of some procedures which permit values for the total production for a specific activity without separately identifying the different types of the hidden economical activities.
- the efficient utilization of the known dates and using also additional dates, obtained separately
- the estimation should be based on specifically adjustments and detailed using available sources and normal bounds between indicators
- the insurance of the results reliability using alternative estimations which can be compared and analyzed
- the insurance of the ideas and the assumption reliability which are important for the estimation procedures and must be periodically revisioned and explicitly presented.

For the identification of the unnoticed economy it is made the classification of the entire economy in two sectors: formal and informal. In the estimation of the unnoticed economy must be used that method which respects the evaluation of the sources of the existent dates and of the practice of estimations, of the efficiency rise of the date collection and of the answer level to the statistically investigations existing in the system and also the utilization of the available dates for the estimation of the unnoticed activities with some indirect techniques and of the adjustments and the development of new date sources.

According to the national accountancy, statistically dates covers only a part of the production. For the estimation of the unnoticed activities, on the international level we can not find standard methods which can be applied in all the countries and in any case. In Romania, the Statistically National Institute has improved each year the method used for the estimation of the unnoticed economy, according to the new dates, existing because of the investigation of different possible ways, the methodology is the same and assuring the comparability of the dates.

The formal sector of economy characterizes:

- the under report
- the estimation of the black market of labor by

a) the evaluation of the labor force supply
b) the evaluation of the labor force demand

the estimation of the tax evasion, of the **Value Added Tax fraud**

The non-financial societies, like institutional units from the formal sector are press hard by the National Institute of Statistic by the realized estimations of the under-report of the value added tax obtained using the underground force labor or using the tax evasion in the domain of the Value Added Tax.

According to the International Organization of Labor, the informal sector reunites the production units who represents a small authorized capital, a reduce level of organization and it's work relations are based on the family relations than on steady contracts. These units appear in the ménage sector, and their owners are totally responsible by the financial and non-financial obligations imposed by the production activity.

In SNA and ESA, the “informal sector” represents units that belong to the institutional sector “ménage” that contains developed activities, generally, by the members of the same family, artisans, craftsmen, etc. The owners of these units are totally responsible for the financial obligations relative at the production process. However, the activity of those units is, deliberately, hidden, entering in the sphere of the underground activities (the hidden economy from an economical point of view).

According to the European system of national accounts, the informal economy includes only the work under the table and the fiscal fraud.

From a statistic point of view the estimation of the unnoticed economy it is being made for all the activities realized by the family associations and workers from their own. An important category of the unnoticed economy is being represented by the activity realized by the unregistered units from the informal sector and there we can find: house painters, plumber, tailor, mechanics, teachers that give private lessons, persons that land their house during the holiday, etc.

The unnoticed economy from the formal and informal sector is being calculated and estimated according to the informations about the economical and social phenomenon, using statistic methods previous mentioned to determined the rate of these activities in the added value and in the Gross Domestic Product.

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JURIDICAL TREATMENT AND ACCOUNTING REGARDING THE DAMAGES CAUSED BY AN EMPLOYEE TO HIS EMPLOYER

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Resume: The new Labor Code adopted in 2003 in order to adjust the legislation to the European regulations brought significant changes in what regards the employment contract that also affected the accountancy related to it.

At a glance, one could say that accountancy of the damages caused by the employee to his employer couldn't arise any real difficulties. Nevertheless, the new labor Code completely removed the old form of the civil responsibility of the parties of the employment contract, meaning the material responsibility, which generated in our opinion significant changes in what regards the accountancy of the damages caused by the employees to

Their employer. In this paper, by an interdisciplinary approach, we are going to present certain difficulties that could be found in practice with a view to the registration of such debts in the accountancy of the commercial societies (firms) submitted to the provisions of the Law 82/1991 – the accountancy law.

Key words: Civil responsibility,Damages, Employment contract, Accountancy, Debtor, Debt recovery, Guarantee, Deduction

Since 1 March 2003 Romania has a new Labour Code[319], adopted as an absolute necessity to adapt the Romanian legislation to the *aquis communautaire*, to the socio-economical realities of the market economy and the transition period that characterizes our country.

From all the juridical institutions regulated by the Labour legislation, the most radical changes of all have been observed to the regard of the reparatory responsibility of the parties of the employment contract. If in the past there existed the material responsibility of the employees as a specific responsibility form that characterised Labour law, on the basis of which the recovery of the damages was accomplished by the issue of the imputation decision by the employer or through a payment statement signed by the employee, both of them being executory titles[320], nowadays the recovery of the damages caused by the employees to their employers can only be accomplished by an amiable agreement or a trial in court.[321]

Thus, according art. 270, first paragraph of the Labour Code, the employees bear the patrimonial responsibility, on the basis of the norms and principles of the civil contractual responsibility, for the damages they cause to their employer as a result of their guilt of in connection with their work.

In the same time, the employee who cashed from the employer a sum that he wasn't entitled to is mandated to pay it back. If the employee received goods of services that he wasn't entitled to he is obliged to bear their cost.

Taking in consideration that according to art. 164 of the Labour Code damages that the employee caused to the employer cannot be deducted form the salary by the employer unless they are settled by a final and irrevocable judgement, the doctrine[322] showed that, under the rule of the actual provisions, the only legal ways for the employer to recover the damage caused by an employee are for the last one to assume a

[319] Law 53/2003, published in the Official Romanian Journal, part I, no. 72 of 5 February 2003

[320] Art. 102 - 110 of the old Labour Code – Law 10/1972 regarding the Labour Code, published in the Official Romanian Bulletin, no. 140 of 1 December 1972

[321] Art. 270 – 275 of the new Labour Code

[322] **E. Lipcanu**, *Consideraţii critice în legătură cu o opinie aberantă referitoare la recuperarea de către angajatora prejudiciului pe care salariatul i l-a cauzat (Considerations about an aberrant opinion with a view to the recovering of the damages caused by an employee to his employer)* , in „Law Journal", no. 4/2004, pp. 78-80

written payment statement or for the employer to obtain a final and irrevocable judgment that orders the employee to pay the damage.

In the same time, nothing stops the parties of the employment contract to convene by mutual agreement on the extent of the compensation and the recovering procedure, according to the norms of the usual civil law, completed by the special labour law regulations.[323]

At a glance, one could say that accountancy of the damages caused by the employee to his employer couldn't arise any real difficulties. Nevertheless, the new regulations of the Labour Code regarding the patrimonial responsibility of the employees had an important impact over the accountancy of this kind of debts.

As in most of the cases the heads of the accounting departments are the ones that deal with the damages caused by the employees to their employer there have been many times that problems appeared in the practice, related to a very knowledge of the labour law legislation in this field, we consider that the present subject has a high importance both theoretical and practical.

In this paper we are going to present certain actual difficulties that could be found in the registration of such debts in the accountancy of the commercial societies (firms) submitted to the provisions of the Law 82/1991 – accountancy law.[324] Thus, we would also refer only to the damages caused by the employees hired by an employment contract on the basis of the Labour Code, by the companies mentioned above.

According to the provisions of art. 1, first paragraph of the Law 82/1991, as amended by the Law 259/2007,[325] the commercial societies, the national societies/companies, the administrations, national institutes of research and development, the cooperatives and other entities are obliged to organise and conduct their own accounting, meaning financial accounting according to the present law and the assets management accounting specific to their activity.

In the same time, according to the provisions of art. 43 of the same normative act, realising inexact accounting registrations with the intent to do so is forbidden.

Even more, according to the provisions of art. 43 of the same normative act, realising inexact accounting registrations or the omission to make the proper accounting registrations with the intent to do so, having the consequence of altering the incomes, expenses, the financial results and the active and passive elements reflected in the balance, constitutes the crime of intellectual forgery and is punished according to the law.

Therefore, the accounting registration of all the damages caused by the employees is mandatory, as they represent accounting operations as intended by the accounting law.

In order to realize the accounting registration, as expected, within the company certain acts are required, by which the employer takes account of the damage and the employee guilty of producing it. According to the provisions of art. 95 of the Collective Labour Agreement Unique at National Level for the years 2007 – 2010, the signing union confederations recognize the right of the employers to establish, under the conditions of the law, the disciplinary or patrimonial responsibility of the employees guilty of breaching the labour discipline norms or that cause damages to the employer. No reference is made regarding the way in which the responsibility of the employee would actually be determined.

Art. 6 of the Law 82/1991 stipulates that any economic-financial operation must be registered in the moment of its performance in a document that will be the basis of the accounting registrations, giving to the document the quality of a justifying act.

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[323] **Ţiclea, Alexandru**, *Soluţii şi propuneri privind interpretarea şi aplicarea unor dispoziţii ale Codului muncii (Solutions and propositions regarding the interpretation and application of certain provisions of the Labour Code)* in „The Romanian Journal of Labour Law" no. 2/2003, p. 15; **Ţiclea, Alexandru**, *Răspunderea patrimonială a salariaţilor (The patrimonial responsibility of the employees),* in „Commercial Law Journal" no. 7-8/2003, pp. 65 a.f., **Ştefănescu, Ion Traian,** *Tratat de dreptul muncii (Labour Law Treaty)*, Wolters Kluwer Publishing House, pp. 485 a.f., **Moceanu, M.M.**, *Noul Cod al Muncii. Răspunderea juridică, (The new Labour Code. Juridical responsibility)* in „Labour Relations", no. 4/2003, p. 40.

[324] Published in the Official Romanian Journal, part I, no. 48 of 14 January 2005, as amended

[325] For the amendment and completion of the Law no. 81/1992 – Accounting law, Published in the Official Romanian Journal, part I, no. 506 of 27 July 2007

According to the provision of the Order of the Ministry of Public Finances no. 1850/2004[326], the justifying acts must have the following principal elements:

- name of the document;
- name and headquarters of the issuing institution/company;
- number and date of the act;
- mentions regarding the parties that participated in the act (when the case);
- the content of the economic-financial operation and, when needed, the juridical basis of it;
- quantitative and value data related to the economic-financial operation performed;
- first and last name, and signatures of the persons in charge to perform the economic-financial operation, of the persons in charge of the preventive financial control, and the persons having the right to approve the respective operations, given the case;
- other elements destined to ensure the complete registration of the performed operations.
- The documents that serve to the accounting registrations can be given the quality of a justifying act only under the conditions that they provide all the information required by the legal provisions in force.

We consider that art. 95 gives to the employer the possibility to issue all kind of acts, that according to the law can be justifying acts in order to serve as basis for the accounting registrations of the damages caused by the employees to their employer. The provisions of art. 95 of the CAUNL must be interpreted as giving the employer the right to determine by its own ways both the identity of the employee that damaged him and the quantum of the suffered damage without permitting it to proceed to salary deductions and without any obligations in what regards the court's own settlement, unless the employee himself admits the evaluation realized by the employer. This is a preliminary phase in determining the patrimonial responsibility of the employee oriented to the acceptance of the employee of the established damage and to recovering the damage amiably, or, in the contrary, to obtaining a sum of proving elements to be used in court.[327]

The character of act usable to make accounting registrations regarding the damages caused by the employee to his employer also depends of the moment in which the registration should take place.

Taking in consideration the recent orientations in the practice of the courts, that of conditioning the proof of the damages incurred by the accounting registrations (that corresponds completely to the provisions of the Law of accounting, mentioned above), it means beyond any reasonable doubt that at the moment of the claim starting the trial against the employee the accounting registrations should have already been realised. Therefore, the judgement issued on the basis of this claim, and by which the employee is ordered to pay the damages, cannot serve as a justifying act for the first accounting of this damage, as the registering must have already been made before this moment. On the contrary, the acts that served for the accounting of the damages caused by the employee would be used as proofs in the trial against the employee, if the last one doesn't pay by his own the compensation, or the same acts would serve to the drawing up of an expert valuation that could be required by the court during the trial.

The following acts can serve as justifying acts on the basis of the mentioned provisions, the enumerating not being limited:

- Control acts (statements) issued by the financial and fiscal control organs of the state (Financial Administration, Financial Guard, Court of Auditors).
- The acts issued by the judicial organs that contain mentions regarding the damage (the resolution of non-prosecution, the judgement by which the court rejected the claim started by the employer against an employee on the grounds that another employee is guilty of producing the damage, etc.).

[326] Regarding the financial and accounting registers and forms, published in the Romanian Official Monitor, part. I, no. 23 bis of 07/01/2005

[327] **D. Crumpănă**, *Aspecte privind modalitatea de constatare a prejudiciilor cauzate de salariat angajatorului său – Aspects regarding the acknowledgement of the damages caused by the employee to his employer*, in „Romanian Labour Law Journal", no. 2/2007, pp. 108-109

- Acts issued as a result of the internals audits of the company, by the assigned control organs.
- The act issued by the commission of disciplinary investigation or by the commission assigned according to the provisions of art. 77 of the Collective Labour Agreement, Unique at National Level, for the years 2007 – 2010, in order to evaluate the employee professionally unfitted, if in during the proceedings a damage caused by the employee is also established.
- The decisions issued by the management of the company according to the provisions of the Law 31/1990, to serve the good functioning of the company by which there are acknowledged damages and the employee guilty of producing them. We do not mean by these acts to the imputation decisions issued under the regulations of the old Labour Code, as they can no longer be issued legally, and couldn't serve as basis for salary deductions, as they aren't executory acts anymore.[328]
- The act (convention – o.n. - C.D.) containing the agreement between the employee and the employer regarding the damages produces by the employee and the procedure of recovering it.
- The act – statement - by which the employee assumes the damage he produced and its quantum, with the amendment that this act isn't an executory deed and cannot serve as basis for salary deductions.[329]

Accounting of the damages produced by the employees and their recovery

The accounting registrations regarding the damages produced by the employees involves going through the following steps:

- establishing the patrimonial elements missing of destroyed and their value.
- Deleting from the registers the destroyed of missing assets.
- Establishing the guilty persons and imputing the damages.

Establishing the patrimonial elements missing or destroyed results from the inventory.

The inventory has the principal purpose of establishing the real situation of all the active and passive elements of every unit and the assets and valued held in any way, belonging to other persons or entities, in order to draw up the yearly financial reports that should offer a correct image of the financial position and performance of the company during the respective financial exercise[330].

Deleting from the registers the assets destroyed or missing is usually registered in the accountancy in the debt of an expenses account and in the credit of the account corresponding to the assets missing or destroyed.

Establishing the guilty persons and imputing the damages

The guilty persons are determined on the basis of an internal investigation within the company that suffered the damage.

The following acts are concluded:

- Explicative notice.
- Decision issued by the manager of the company by which there are determined the facts, the guilty persons, the disciplinary sanctions and measures to be taken in order for the damage to be recovered.

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[328] As we affirmed before this kind of decisions are valid as long as they don't breach any imperative provision of the labour law - **D. Crumpănă,** *Aspecte privind modalitatea de stabilire şi recuperare a daunei cauzate de salariat angajatorului său (Aspects regarding the establishment and recovering of the damages caused by the employees to their employers),* in „Romanian Journal of Labour Law", no. 3/2005, p. 105

[329] For explanations that the new Labour Code doesn't preclude the employee form assuming a written payment statement plese refer to **I.T.Ştefănescu, Ş. Beligrădeanu**, *Prezentare de ansamblu şi observaţii critice asupra noului Cod al muncii (General overview and critical observations regarding the new Labour Code)* , in „Law Journal", no. 4/2003, p. 76

[330] Order of the Public Finances Ministry no. 1753/2004 regarding the approving of the norms referring to the organising and realising the inventory of the active and passive elements.

– The employee's written payment statement, if the case.

In case a judgement is obtained to oblige the employee to pay the damages, salary deductions can be performed to the limit of 1/3 of the salary. If the salary deductions are meant to cover several debts (alimonies, damages to a third person, damages to the employer, financial debts, etc.) altogether they couldn't be larger than ½ of the salary.

Examples of accounting of the damages:

I. On the basis of the inventory missing staples of 2.000 lei is acknowledged:

1. The missin staples are downloaded from the administration:

601	**=**	**301**	**2.000**
"staples expenses"		**"staples"**	

2. On the basis of the decision of the manager mentioned above the debt of the administrator is accounted.

4282	**=**	**%**	**2.380**
"Other credits related to personnel"			
		7588	**2.000**
		"Other activity incomes"	
		4427	**380**
		"collected VAT"	

3. Cashing the debt on the basis of the receipt or the salary grid – as a result of a judgement:

5311	**=**	**4282**	**2.380**
"Cash register in lei"-cash or		**"Other credits related to personnel"**	
421			
"Personnel salary owed"-for salary deductions			

If the administrator employed had a guarantee deposit:

Registering the guarantee of 3.000 lei:

4281	**=**	**5311**	**3.000**
"Other debts related to personnel"		**"Cash register in lei"**	

Deduction as a result of the recovering of the damage:

4281	**=**	**4282**	**2.380**

"Other debts related to personnel"		**"Other credits related to personnel"**

II. Example of accounting of the damages produces to a car property of the firm, resulted from a car accident. The registering value is of 30.000 lei, amortized 40%.

1. Deleting the destroyed asset from the register:

%	**=**	**2133** **"Transport means"**	**30.000**
2813 **"Amortisement of the transport means"**			**12.000**
658 **"Other exploitation expenses"**			**18.000**

2. The credit against the administrator is registered on the basis of the decision of the management.

4282 **"Other credits related to personnel"**	**=**	**%**	**35.700**
		7588 **"Other incomes from exploitation"**	**30.000**
		4427 **"collected VAT"**	**5.700**

Deduction as a result of the establishing of the damage and guilt, if the employee produces another car evaluated at 40.000 lei:

2133 **"Means of transport"**	**=**		**40.000**
		4282 **"Other credits related to personnel"**	**35.700**
		4281	**4.300**

The doctrine[331] showed that, in what regards the responsibility of the employee towards the employer it is usually inadmissible the granting of moral damages. Certain specific cases are excepted provided that the exception is stipulated by the law, as for example, the cases regulated by the Law no. 11/1991[332] regarding the combating of the unfair competition, in the case of damages resulted from crimes committed by the employees or in the case of the employees guilty of organising an illegal strike.

Nevertheless, we emphasise that such damages shall not be recovered from the employees on the basis of the Labour Code or on the basis of the contractual liability, but according to the norms and principles of torts, meaning on the basis of art. 998 – 999 of the Civil Code and other provision of special laws.

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[331] **Ş. Beligrădeanu**, *Inadmisibilitatea – de regulă – a acordării daunelor morale în cadrul raportului juridic de muncă reglementat de Codul muncii* (*The usual inadmissibility of moral compensation within the employment relationship)*, in „Law Journal" no. 2/2006, pp. 301-317, taken over with adenda by **Ş. Beligrădeanu**, *Studii de drept român al muncii(Romanian Labour Law studies)* C.H.Beck Publishing House, Bucharest, 2007, pp. 302-331

[332] Published in the Official Romanian Journal, part I, no. 24 of 30 January 1991

ACCOUNTING INFORMATION IN THE POLICY AND GENERAL STRATEGY FOR THE ADMINISTRATION OF LENDING CREDIT RISKS

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Abstract: *Any credit represents an anticipation of some future cashing. From this perspective, by cash flow, any credit contains the risk that these cashing isn't achieved totally or partly. This risk is also called insolvency risk of the creditor; it is essential in the banking activity due to the fact that the main function of a bank represents the granting of credits. The exact appreciation of the credit risk is, thus, of major importance for the bank. Being easier to prevent than to cure, for the minimization of the risk exposal, the most important stage of the crediting process is the choosing of the credit demands. In this stage, the behaviour of a bank might be presented as follows: a credit is granted only if there might be estimated that the probability of reimbursement exceeds the one of non – reimbursement. The appreciation of this reimbursement capacity might be done if it has at its base different procedures, according to the debtor: economic agent, private person, State. The determining elements for the administration of the lend risk are: payment capacity, character of the debtor – his wish to pay, the capital – wealth of the debtor, the guarantee (real or personal), all based on book information.*

Keywords: *lend risk client, book information, cash flow.*

General conditions regarding the reliability of economic agents in the crediting activity

Accounting information is an important component of the credit granting process. Accounting information establishes the monitoring relationship between the borrower and lender, affects accounting choices made by the borrower, and influences perceptions of the riskiness of the borrower and lender. Using inappropriate accounting information, particularly those that are too restrictive, are noisy signals that could have economic consequences for borrowers and lenders. In this circumstaces, professional loan officers analyzed financial and nonfinancial information of candidate borrowers and set preferred levels of collateral and covenants while their decision processes were captured using computerized process tracing.

The strategy of the Bank regarding the lend risk is included in the Crediting Regulation filled in with the General Strategy of the Bank for a short, average and long term, approved by the Board of Administration. The target group of the Bank, in the case analyzed in the present material, are **Micro-enterprisers and small and average enterprises (IMM's)**, category where are also included the micro, small and average private business, that are involved in the production or marketing of goods and services and which is active in Romania. We suppose, as well, that the Bank might finance also authorized natural persons that act as entrepreneurs and any other persons which are involved in entrepreneurial activities. Further on, the term "enterprise" makes reference to any form of business according to the above mentioned. In case of natural person, the main income source (during season, in case of season activities), must result from the development of some entrepreneurial activities.

Generally, there are used two criterions for the segmentation of the target group of the Bank: the number and employees and the rate of turnover.

The turnover criterion is determined in order to establish the type of client but, in exceptional situations, according to the profile of the business and the number of employees, the client might be framed in another category than the initial one.

In any case, the Bank shall not finance enterprises that develop as main activity one of the activities included in the List with Exclusions for Environmental Problems.

The Bank engages itself to observe the policies of a prudent lend, according to the international banking practice. This thing supposes that there shall be granted credits only to clients with reliability. The reliability is established according to:

- Personal aspects;
- Current and future financial situation of the solicitor, including the competition situation, the future perspective for the business type in which the solicitor is involved, and the currency exchange risks;
- Future payment capacities – according to previsions of the cash flow of the borrowed or to the estimated situation of the income.

The data base of the Central Office of Banking Risks (CRB) must be consulted for debtors and co-debtors for all credits. The Credit Officer/ Credit Director of the Subsidiary/ Agency/ the Credit Coordinator/ the Deputy Director of the Subsidiary/ the Director of the Subsidiary/ Agency might ask the consultation of the CRB also in case of guarantees and/ or associates/ administrators of the enterprise and/ or other economic entities considered in the frame of the risk valuation process for the debtor/ co-debtor.

The access to the data base of CRB for debtors and co-debtors mustn't be older than 1 month at the moment of granting the credit and to the moment of granting each installment, if the credit is granted in installments.

The data base of the Credit Office (**CredIT**) might be consulted in case of Credits for enterprisers for main owners of the respective company, only when the Credit Officer/ Credit Director of the Subsidiary/ Agency/ Deputy Director of the Subsidiary/ Credit Coordinator/ Director of the Subsidiary/ Agency considers that the loan fulfills all conditions for being approved and the access is performed for granting the loan. However, for any debtor or co-debtor, natural person, there must be signed the agreement for the consulting of the Data Base of the Credit Office.

The data base regarding the payment incidents (CIP) shall be accessed for debtors and co-debtors, for all credits, excepting natural person with activity in agriculture and authorized agricultural producers (in this case consultation shall be done only at the request of a member of the credit board). The Credit Officer/ the Credit Director of the Subsidiary/ Agency/ the Credit Coordinator/ the Deputy Director of the Subsidiary/ the Director of the Subsidiary/ Agency might request its consultation, also for other person involved in the business and/ or for guarantees and/ or for other economic entities considered in the frame of the risk valuation process for the debtor/ co-debtor.

The bank classifies the credits granted to enterprises in Micro, Small and Average Credits.

Analysis and processing of information for the risk valuation of the client

Information obtained and checked might be processed by the Credit Officer such as to offer an exact image of the generally current financial situation of the economic unit.

Generally, at *microfinancing*, the relation between families and business is very important. The balance issued by the Credit Officer, that reflects the current situation of the enterprise, shall include all actives used in the activity, even if the juridical owner is one of the family members. The private debts of the family, as well, made for covering the needs adequate to the economic activity, must be included in the balance presented by the credit officer.

In the case of *small and average enterprises* the accent is put on the financial analysis of the economic unit, generally there exists no close connection between the economic unit and the family of associates/ shareholders.

However, the Credit Officer must identify in both analysis types the active and the debts that are bound from juridical point of view to the business owners, that are used in the activity or that are owed to it and that might influence the reimbursement capacity of the crediting enterprise. The active and the passive whose book value doesn't reflect the reality (because of inflation or of other reasons) must be valuated by the credit officer according to their market value, the probable investment cost, the depreciation, the replacement cost, etc. (or according to the contractual and juridical clauses in case of debts).

The average cash flow presented in the analysis forms is an important indicator regarding the present and future payment capacity of the client. It considers the influence of the credit on the activity (replacement of expenses with rents, reduction of expenses bound to fuel or consumable materials, etc.) and neglects the incomes or expenses that shall clearly disappear during the credits' reimbursement (cease of the leasing or crediting contracts, temporary incomes, stopped activities, etc.). The foreseeing of the development of the clients' activity has also an important role in establishing the cash flow.

The cash flow shall include incomes that come from economic activities, including future estimation and those that come from other sources (salaries, etc.), as well as monthly expenses and obligations of the enterprise and the family, replacing the projection of the cash flow.

The historical cash flow shall be presented in the analysis form or in analytical book documents supplied by the client in case that the Crediting Board decides it is a representative and useful element for taking the decision of granting the credit and for Average Credits there might be done a **projection of the cash flow,** that shall include the duration of the credit.

In case of Small and Average Credits, the valuation of the Credit Officer might additional include precise information regarding the juridical status of the enterprise, the financial situation issued and checked by the Credit Officer, the historical cash flow and projections that show the probable impact of the credit on the future of the business.

The Credit Office shall do its best to obtain the most exact information possible as base for the performance of the credit analysis. The Credit Officer might use following sources:

- A general discussion with the owner of the business regarding its general, specific features and recent development. The truthfulness of the supplied information must be certified by crossed checking.
- Inspections at the headquarters of the business in order to obtain qualitative information (for ex. Management and administration capacities of the potential client) and in order to collect and check data for the financial and economical analysis (stocks, fixed assets, account receivables, debts, cash, banking accounts), including relevant documents such as contracts, invoices, etc.
- Information regarding the market quota of the enterprise, the situation of the competition, currency exchange risks, etc.
- Collecting and checking the official documents of the enterprise.
- Information regarding other business unfurled by the solicitor.
- Inspection of goods that might be considered as guarantee.
- Estimation of the moral integrity of the future client (references).
- Information regarding the location of the business headquarters and of the client's dwelling (for the facilitation of the future monitoring).
- Comparing the conclusions in case of repeated visits.

In case of average enterprises, considering the complexity of the business and implicit of their relation with the bank, there shall be put a greater accent on financial and legal aspects of the business.

These credits do have usually longer maturities and thus there exists a bigger probability for the apparition of some changes in the activity and evolution of the enterprise. As a result thereto, the Credit Officer must estimate the opportunities and risks associated to these changes. This means that, the aim for which the credit shall be used, plays a much more important role in the valuation of the reliability made by the credit officer than in the case of Micro Credits.

In the performance of the analysis for small and average credits, the Credit Offices must use following additional information sources:

- A discussion with different persons in the management of the enterprise. The correctness of information must be checked by crossing.
- The analysis of the documents of the enterprise.

- The analysis of the documents regarding the participation to other companies, affiliation to groups (if it is the case) and a consolidated and explanatory analysis of these participations (if it is the case).

Conclusions

The risk that appears at the moment that one credit client or counter-party can't or doesn't wish to observe his contractual obligations, resulting an adverse effect on the profits and capital of the bank, represents the *client credit risk*.

The administration of the credit risk starts from the credit officers. Thanks to the detailed analysis made by them, to the adequate guarantee level and to the conservator crediting practices, we reduce the lend risk even at the beginning of the crediting cycle, for example, from the moment the credit demand is received and processes. The decisions regarding credits must be based on the analysis of documents brought by client, on the entire and prudent valuation of the economical – financial situation of the client, on the analysis and valuation of the impact provoked by the use of the credit on the activity of the debtor, inclusively on the valuation of guarantees. The key of the high quality level of our analysis is the intense formation of which our credit officer benefit and the rigorous analysis of the cash flow and of the book balance. The demands regarding the guarantee must be defined as integral part of the credit decision and the credit can't be integrally granted but when there were passed the registration steps of the requested guarantee. Additional demands, such as the composition of the credit boards and the adhering to the rules regarding the levels for approving the credits, create efficient mechanisms for the administration of lend credits during the credit granting and for the reduction of the fraud risk. The mechanisms for the approval of credits are described I detail in the crediting procedures of the bank. The good relations with clients, according to the mission of the bank, are an important instrument in avoiding the delay cases and in the identification of problems bound to the credit, even from its beginning phase. The bank revises half – annual the scoring of the client, according to the demands of NBR and performs, if necessary, the adequate changes in the system. The bank has procedures that define the steps to be followed when the capacity for the fulfilling of credit obligations by a client begins to give deterioration signs.

The crediting and monitoring standards, together with the demands regarding the guarantees and the monitoring of the problem situations bound to credits, tend already to "remove" the potential problem clients. It is important that the bank avoids the creation of an image as a "neglecting creditor".

The monitoring of the quality of the credit portfolio is constantly done by using the risk portfolio indicator, defined as the credit volume in development that has at least one rate delayed with more than 30 days, as basic unit for the measurement of the quality of the actual portfolio.

In all these analysis the book information is the main data source.

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ACCOUNTING APPROACHES REGARDING THE FACTORING BUSINESS

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Factoring is a modern technique of financing that is done especially in the countries which are developed from an economic point of view, the most important markets being the United States, Italy, Great Britain and Japan. In Romania, three- four years ago, factoring was a notion which was not too much utilized, but nowadays it tends to become a customary practice due to the needs of financing of the commercial societies.

This paper has as its goal a short presentation of the factoring operation and of the implications that these operations have upon the accounting of the factor but also of the adherent.

Key words: factoring, factor, factoring client, factoring debtor, cession of debts.

1. The description of the factoring operation

Factoring represents the operation of financing of the bills in order to rapidly get cash.At the basis of the factoring businesses there is the factoring contract, which is concluded between the adherent or the supplier, that owns a package of debts, and the factor, which in exchange for a commission which is received from the adherent takes on the obligation of paying the equivalent of the debts which are surrendered by the contract.

According to the criteria of classification, we distinguish the following types of factoring:

a) a) depending on the right of recourse that the bank can exercise upon the adherent, we distinguish:

– non recourse factoring – the factor pays the adherent the accepted equivalent of the bill, usually 80%, immediately after having been issued, and 20% in 180 days since the date of payment of the bill, even if it does not collect (totally or partially) one or more of the bills. In the interval of 180 days from the date of payment of the bill, the bank tries to recover the sums from the debtors or perhaps from the ensuring- reinsuring society to which it was ensured against the risk of non-collecting. The factor does not turn to the adherent in order to recover the equivalent of the bills, not having the right of recourse upon it.

– -recourse factoring – in the case of not paying, the factor will recover the sums which were not collected from the adherent, by exercising the recourse right, through the debiting of the current account of the adherent or through the capitalization of the security.

b) depending on the participants in the factoring operation, we distinguish:

– domestic factoring – at the basis of this operation there is an internal contract that takes place inside the same country and within it there is only one factor.

– international factoring – supposes the existence of an international commercial contract within which there intervene two factors (the import factor and the export factor). The export factor buys the debts of the exporter (also called the adherent) upon the importer, then surrendering them to the import factor.

The international factoring appeared as a consequence of the development of the national factoring, the important characteristics of the two forms being:

a) In the case of the national factoring, the undergoing of the contract supposes the participation of three parties:

– The supplier – it can render services or execute works, or a producer that delivers merchandise that according to the contract becomes a *factoring client* or an adherent.

– The beneficiary – it is the one that purchases the merchandise from the producer, benefits from the executed works or the rendered services and that according to the factoring contract will pay the bill directly to the factor. It is called a *factoring debtor.*

- The factor (usually a banking society) – buys the debts and finances the supplier. The factor, the supplier and the buyer undergo the transaction according to the national legislation of the country in which the operation takes place.It gets from the supplier a commission in exchange for which it pays the value of the package of surrendered debts, either totally, or partially in falling due instalments. The commission of the factor consists of agio and the security commission. Currently, in addition to these sums, the factor also holds back from the adherent the security of collection risk that is paid back to the adherent after the collection of the bills from the debtor clients. The factor performs the operation of financing in the local currency.

b) b) A contract of international factoring implies the participation of four parties:

- The supplier (exporter) – that delivers goods or renders services.
- The export factor (FE) – the one that performs the financing operation in the currency in which the exporter made the delivery of the good or the rendering of the service. This is exposed to the risk of exchange variations. We mention the fact that the supplier and the export factor are situated in the country of the exporter.
- The import factor (FI) – is responsible for the monitoring and the collecting of the funds from the importer.
- The buyer (the importer) – that purchases the delivered goods or the services which are rendered by the exporter.

The import factor and the buyer (the importer) are situated in the country of the importer. The export factor and the import factor collaborate on the basis of a code of rules regarding the international factoring.

2. Accounting aspects regarding the taking place of the factoring operation

The accounting treatment of the factoring operations will be different depending on the position of the factor in relation with the risk of cashing of the debt. As mentioned above, if the factor takes on the risk of cashing the debt, we speak of an operation of factoring without recourse (RPF), otherwise we speak of an operation of factoring with recourse.

In order to be able to discuss the accounting aspects of the factoring operation, it is necessary to clarify, according to the legal provisions and the current practice, who will do the bookkeeping and will present in the balance sheet the debts towards the factoring debtor.

a) In the case of the factoring contracts without recourse, the specialized literature considers that the factor has the right of property upon the debts which were taken over. By becoming the rightful owner of the debts which were taken over, the factor has the obligation of comprising them in the balance sheet.

The adherent (the factoring client) will eliminate from his bookkeeping the debts towards the factoring debtors, the debts which come from the delivery of goods or from the rendering of services. The factoring client will accentuate in his balance sheet only the debts towards the factor that will be maintained until they are settled by it.

In the accounting of the factor:

DEBIT (ACTIVE)		CREDIT (PASSIVE)
Debts which are bought towards the factoring debtors	=	Debts which are expressed in the buying price towards the factoring client(the sums which are paid in advance are subtracted)

In the accounting of the adherent (the factoring client):

DEBIT (ACTIVE)		CREDIT (PASSIVE)
Debts towards the factor to pay the selling price/ analytic factor (the sums which are paid in advance are subtracted)	=	

b) the case of the contracts of factoring with recourse is discussed in the specialized literature in a controversial manner. This is because there is still no concrete answer to the question: Who must keep the books and in whose balance sheet should it appear? Some specialists claim that the debts which are surrendered and taken over must be registered in the accounting and the balance sheet of the factor. Other groups of specialists uphold the theory according to which the lack of services of the factor leads to the marking out in the accounting of the adherent of the operations which are the object of the factoring. Because the opinions are divided and the normative acts of our country do not comprise exact and detailed provisions in this regard, it remains for the problem to be treated taking into account the specific character of each factoring contract.

The factoring operation presents accounting implications in the accounting of the factor, as well as in the accounting of the adherent. So we will take on the problem distinctly for each of the two parties which are involved.

The taking place of the factoring operation has the following succession: receiving the bills from the factoring client; separating the approved bills from the un-approved ones; financing the debts which come from approved bills; retaining the security of the risk of cashing; cashing the commissions; cashing the debt; giving back the security; cashing agio.

a) a) In the accounting of the factor:

The bills which are taken over by the factor are classified into two groups:

- bills which are approved, that generate the available term of factoring. These bills are available immediately under the form of credit in the account of the client, based on the presentation of some ensuring documents of the bank.
- bills which are unapproved or unavailable that generate the unavailable term of factoring. These bills are not approved until the cashing of the debts or until their contractual date of payment.

The factoring society can function from the point of view of the form of organization both as ***conventional societies of factoring*** (outside the banking societies) and as ***factoring societies that belong to banking societies.***

The conventional factoring societies will have to adapt the general plan of accounts which was approved by OMFP 1752/2005 modified through OMFP 2374/2007 to the specific of the factoring operation. In her book, which is called *The accounting of the operations of external commerce*, (Ed. Economică, Bucharest, 1997, p.224), Margareta Traşcă underlines an adaptation of the account plan to the operation of factoring. Keeping in view the changes which were brought to OMFP 1752/2005 modified through OMFP 2374/2007 the accounts which are utilized in the operation of factoring are the following:

- - the taking over of the debts from the adherent will be done utilizing the 2678 "Other immobilized debts" account and the 269 "Payments to be made for financial immobilizations" account.

The 2678 "Other immobilized debts" account will present three analytic accounts that will be utilized according to case:

2678.1 "Other immobilized debts/ available factoring"

2678.2 "Other immobilized debts/ unavailable factoring"

2678.3 "Other immobilized debts/ securities to the factoring operations"

The 269 "Payments to be made for financial immobilizations" account will be developed according to case:

269.1 "Payments to be made for financial immobilizations"/ approved bills

269.2 "Payments to be made for financial immobilizations"/ unavailable factoring.

I would like to mention the fact that there are on the market societies of accounting consulting that suggest for the financial brokering societies the use of other accounts than those which are presented above and namely:

4111 "Clients" – the nominal value of the debts which is taken over from the cessionary

401 "Suppliers" – with the value that is owed to the releaser of the debt.

- the management commission and the interest will be initially registered in the 472 “Incomes which are registered in advance/ factoring operations” account, going to be monthly marked out in the accounts from class 7. We are talking about accounts 766 “Incomes from interests”/ agio factor and 704 “Incomes from executed works and rendered services”/ commission factor.
- for the commission and the interest which is collected by the factor, the provisions of the Fiscal Code which was effective on the 1st of January, 2008, specify the compulsoriness of paying the Value Added Tax to the state budget, in a percentage of 19%, marked out in the 4427 “Collected Value Added Tax” account. The security will be taken in the 2678 “Other immobilized debts” account.

The factoring societies that function within the banking societies are usually the main societies that perform factoring operations. The plan of accounts which is specific to the banking societies, in accordance with Order no.5 from 22.12.2005 for the approval of the accounting Regulations which are in accordance with the European directives, which are applicable for the institutions of credit, modified and supplemented by Order no. 24/2006 and Order no.11/2007 provides special accounts for the taking place of the factoring operations. Thus we distinguish the accounts:

- at the signing of the contract the equivalent of the bills which are taken over from the adherent is registered outside the balance by using the accounts:

90319 “Other commitments in favour of the clientele” and 999 “The trade-off”

- the factoring debt implies the utilizing of the accounts:

20.112 “Factoring” – in which the nominal value of the mobilized debts and of the 25211 “Available factoring accounts” respectively 25212 “Unavailable factoring accounts” accounts is registered

- the management commission and the interest will be registered in the 70212 “Interests to the factoring operations” and 7029 “Commissions” income accounts
- the security for the risk of not cashing will be marked out in the 25336 “Other collateral deposits” account.
- the Added Value Tax which is afferent to the value of the commission and the interest will be marked out in the 35327 “Collected Added Value Tax” account.

b) in the accounting of the adherent (factoring client):

The general plan of accounts which is approved by OMFP 1752/2005 modified through OMFP 2374/2007 does not provide special accounts through which the adherent can mark out in accounting the taking place of a factoring operation. According to the specialized literature, in the accounting of the adherent there are two variants of bookkeeping of the operations of factoring:

1. The first variant (Vişan, “Accounting in external commerce”, Bucharest, 1999, p.82) supposes the taking place of the registering in accounting thus:

- the delivery of merchandise (and the issuing of the commerce bill with the specification that the beneficiary is really the factor, the commerce bill that is accepted by the importer not being given back to the drawer of the exporter but to the beneficiary):

4111” Clients/ Factoring debtor”	=	%	V
		707” Incomes from the sale of the merchandise”	
		708”Incomes from various activities”	
		766”Incomes from interests”	
		472” Incomes which are registered in advance”	

- the transfer of the debts of the factor, in order for it to pay the equivalent of the bills:

4111”Clients/ The factor” = 4111”Clients”/The importer V

- the cashing of the debts from the factor (the equivalent of the bills), excluding the value of the interest and of the commission:

5124” Accounts at banks in devices” = 4111” Clients” /The factor V-(C+D)

- registering the commission and the interest:

668 „ Other financial expenses” = 4111”Clients”/ The factor C+D

2. The second variant of reflecting in the accounting of the adherent (Margareta Traşcă – *The accounting of the operations of external commerce,* Ed. Economică, Bucharest, 1997, p. 224) presents itself like this:

– the debt which is accepted by the factor will be closed through account 2678 “Other immobilized debts” until the date of the collecting of the sums from the factor:

2678 “Other immobilized debts” = 4111 “Clients” / importer V

– cashing the debts from which the managing commissions and the interest held back by the factor are held back in the 622 “Expenses with the commissions” account, respectively 666 “Expenses regarding the interests” and Added Value Tax 19%.

%	=	2678”Other immobilized debts”	V
5124”Accounts at banks in devices”			Ci
622” Expenses with the commissions”			C
666” Expenses with the interest”			
4426”Deductible Added Value Tax”			D

– the value of the security which is held back by the factor will be registered in the 2678 “Other financial immobilizations” to a distinct analytic 2678.3 “Other immobilized debts/ securities to the factoring operations”.

5124 “Accounts at banks in devices”= 2678.3 “Other immobilized debts /securities to the factoring operations”.

Where : V – the nominal value of the approved bills ; Ci- the value which is cashed by the adherent; C- the value of the managing commissions; D- the interest

By analyzing the two variants we can state that the last variant would be preferred if we think that the external commerce society does not deliver merchandise to the factor but sells bills. Applying none of the two variants is not rigorously imposed but in practice the first variant is more utilized. We specify that for the registration of the income and the commission which are held back by the factor, according to the current legislation, it is recommended to use the 622 respectively 666 accounts.

In the end I would like to make some references to the cost of the factoring operations on the Romanian market. The collected cost for the factoring operations is divided into the tax for the managing of the transaction and a separate tax for the actual financing of the operation. Thus, there is a factoring commission and a financing one. The factoring commission is applied to the nominal value of the paid-for bills and represents 0.5-1% for the internal factoring services (in lei) and 1-2% for the export factoring services (in foreign currency).The financing commission is applied to the financed value, respectively to 80-90% of the equivalent of the bills, during the taking place of the contract. This is comparable to the interest which is applied to the short term loans (in lei or in foreign currency) and can be negotiated according to each transaction.

3. Conclusions

Factoring is an alternative to the classical models of financing, especially the operations of exterior commerce, that brings the clients the advantage of getting the financing in the shortest possible time, compared to the classical loan. It also allows the development of the business without immobilizing the actives of the societies in material securities, ensuring, at the same time, an efficient management of the debts. As we can see from the presentation of the paper, in the case of the banking societies, the bookkeeping of the factoring operations is ensured by registering into accounts which are especially provided for this operation. We cannot say the same about the accounting of the conventional societies of factoring (other than banking societies) and about that of the economic agents. The plan of accounts does not provide any special account for this type of operation, and the accounting legislation makes no concrete reference to the way of marking this out. If special accounts were introduced, each of the three parties which are involved could correctly and distinctly register in the bookkeeping the movement of the surrendered debts from every point of view. There are opinions of some specialists in this area, regarding the taking place of the factoring operations, to which I actually made a reference in this paper, but a legislative provision would clarify things, especially that during the last three, four years, the factoring operations in Romania increased.

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UTILIZING THE OPERATION OF FORFEITING AS A TECHNIQUE OF FINANCING AND UNDERLINING THE IMPACT WHICH THIS OPERATION HAS ON THE ACCOUNTING OF THE EXPORTER

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Romanian integration into European Union brought about a series of changes, including the domain of banking activities.The first operations of forfeiting appeared in Switzerland , and today they are used all over the world's financial centres.Forfeiting strongly developed durong the 1990s as a result of opening of new markets in Central Europe and Eastern Europe due to the existance of enough buyers of goods but lack of financial resources for their aquisition.This paper has as its goal a short description of the forfeiting operation and the advantages which it offers in relation with other techniques of financing which are utilized in our country, such as: bank loans, bank rating, leasing, factoring. The flux of records in the accounting of the exporter which utilzes this technique of financing is also presented.

Key words: forfeiting, debts, commercial effects, contract, accounting records.

1. The description of the forfeiting operation

The term *forfeiting* comes from the French expression "a forfeit" and means giving up certain rights. The forfeiting operations developed to a great extent in the period of the years 1950 – 1960, as a result of the increase of the importers' demands for longer and longer periods of loan with a view to ensuring the necessary financial resources for the payment of the acquired goods or services. As a result, there was an increase in the need of the exporters of goods and services to mobilize their financial resources which were placed in the exports which were made and had a longer and longer term of payment. As a consequence of the opening of new markets in Central and Eastern Europe, in the 90s, the forfeiting operations underwent a significant growth, because on this market there are enough buyers of goods and services but insufficient financial resources for their acquisition. The first forfeiting operations were initiated in Switzerland and nowadays they take place in almost all the worldwide financial centres. London is the most important centre from the point of view of the volume and of the value of the forfeiting operations. At first, the forfeiting operations were done only by specialized financial institutions, but nowadays the banks have developed departments which are specialized in these operations.

"Forfeiting represents a technique of financing in the phase of post-delivery/ rendering goods/ services, by the sale- buying without recourse to the exporter or to the beneficiaries of some falling due debts, incorporated in loan bonds (bill of exchange or promissory note), guaranteed or not by a third party, or debts which can be paid through ensuring methods of payment (the documentary letter of credit or the letter of guarantee)." [333]

The main element that differentiates forfeiting from bank rating is the transfer from one owner to another, without recourse, of the debt and consequently of all the rights and risks that the transaction debt implies until the date of payment. The term "without recourse" assumes that any buyer takes on the risk of loan of the debtor's and/ or the guarantor's, if it exists, as well as the vis major risk that can stop the making of the payment.

Forfeiting offers the exporters/ sellers the following possibilities: removing the risks which are related to the sale, offering loaning terms to their clients, improving the situation of their cash flow.

The simplicity of the solicited documentation is one of the most important advantages of forfeiting. This fact facilitates the rapid conclusion of the transaction. The client will present to the bank, in order to initiate

[333] Mihaela Rovenţa - Introducere în forfetare &factoring. Tehnici moderne de finanţare a activităţii de export Editura Economică,2002-pag.160

the forfeiting operation, the loan bond along with a forfeiting request which will comprise, along with the identification information of the beneficiary: the issuing date of the bond, the date of payment of the bond, the mention by which the beneficiary undertakes to acquit to the bank, in exchange for the rendered service, the forfeiting tax and the afferent commissions, will present the bond to the bank with a view to forfeiting at least 15 working days prior to the date of payment.

The development and implementation of the forfeiting product have been generated by the supplier loan, perfected between a supplier and a buyer, by which the supplier accepts to be paid by the buyer at a later date for the delivered goods or the rendered services, usually in a period of time of up to 5 years.

Forfeiting refers to the buying/ selling of the debts which are materialized in bills of exchange or promissory notes, which come from delivering goods and services, with fixed dates of payments. The banks buy these bills of commerce from the supplier or their owner, usually without recourse to the seller, in exchange for the holding back of a forfeiting tax and the collection of a commission.

The forfeiting tax is the tax which is collected by the bank or the specialized institution, according to the risks which it undertakes: the country risk, the transfer risk, the exchange risk, the commercial risk, the interest risk. The forfeiting tax is determined by taking into account the value of the bond, the number of days between the date of forfeiting and the date of payment and the level of interest for the respective currency. When establishing the forfeiting tax, one also takes into account a global risk margin which is calculated according to the conditions of the import-export contract, while keeping in mind the commercial, economic and political risks.

The calculation formula:

$$TF = \frac{VN*(D+M_r)*n}{100*360}$$

where:

TF= the forfeiting tax which is due to the bank

VN= the nominal value of the bond which is inscribed on the especially reserved rubric on the front of the bond

D= the level of LIBOR interest which is afferent to the respective currency

Mr=the risk margin

N= the number of days until the date of payment

2. The advantages of the forfeiting operation in relation with other techniques of financing:

Studied in relation with other techniques of financing, the forfeiting operation presents some specific advantages. I will mention some of the particularities that make the forfeiting operation differ from other techniques of financing:

The bank loan is any obligation to pay a sum of money in exchange for the right to be reimbursed the paid sum, as well as the payment of an interest or other expenses which are related to this sum, or any extension of the date of payment of a date and any obligation of acquiring a bond that incorporates a debt or another right to the payment of a sum of money. In comparison with the bank loan, the forfeiting operation has the following differences:

- the fluctuation of the interest: the banking societies give credits, getting interests in exchange, all through the duration of giving the loan. The value of these interests fluctuates depending on the variation of the basic rate of the interest of that currency. The basic rate of the income is established according to the LIBOR or EURIBOR level for various terms. The resorting of the exporter to a bank loan in order to mobilize the financial resources which are afferent to the loan deliveries can be a decision with a negative impact on his financial situation if the rate of the interest evolves in an unfavourable way. The unexpected increase of the interest rate and its long-term maintaining inevitably determines problems in the activity of the one that took out the loan. The bank loan is distinguished in the accounting of the one that took out the loan in specific loan balance sheets, affecting its solvency indicators.

- the constituting of guarantees: in the case of the banking loans, the banking societies usually solicit guarantees under the form of mortgages or deposits and all the costs of evaluating and constituting are the task of the one that took out the loan. As a result, this process is costly for him, and his access to loans is limited because his patrimony can be insufficient.
- the risk of not collecting at the date of payment: the exporter may be in the situation of not paying the loan instalments. This fact can lead to a re-spreading out of the payments of the debts by the bank but this facility is temporary and implies additional costs for the one that took out the loan. If the bank decides to execute the constituted guarantee, major problems in the activity of the exporter are created. In the case in which the exporter resorted to an insurance policy with a view to cover the risk of not collecting, his budget would be affected. Practically, the insurance of the risk of not paying generates costs that affect his budget.

Leasing – is an operation through which a Locator places at a User's (locating client) disposal a good which is bought from the supplier, in exchange for the periodic payment of some leasing instalments by the user to the locator. The leasing operations are regulated by the Government Ordinance no. 51/ 1997, republished, which classifies them into two types: financial leasing and operational leasing. This financing technique is exclusively used for the deliveries of goods of capital: equipments, tools and other similar products. As a result, it cannot be applied to the deliveries of the goods of consumption or services.

Bank rating is a technique of financing by which the owner of a commercial bond gets from the bank, by cession, the equivalent of the bond, diminished by an agio, before the date of payment. The agio represents the sum between the interest and the commission which is collected by the bank. The differences between the two methods of financing are the following:

- the bank rating action is done on short terms, up to 90 days, while the forfeiting can be done on medium or even long periods of loan.
- the financing in the case of bank rating is done only based on bills of exchange and promissory notes, while the forfeiting has as goal the financing of the debts which are incorporated in loan bonds of both the type of the bill of exchange and the promissory note and of the debts which can be paid through insuring methods of payment, with a date of payment.
- usually, the bank rating operation is based on transactions which are made inside a country, between partners which are situated in the same country. The forfeiting finances debts which come from international commercial transactions, between partners that are situated in different countries.
- bank rating is an operation with recourse upon the beneficiary of the loan bond, while forfeiting is an operation with no recourse upon the latter.

Factoring represents the operation of financing the bills to rapidly obtain cash. The main differences between the factoring operation and forfeiting are the following:

- the duration of financing: in the case of factoring we speak about a 30-80 days financing, and in the case of forfeiting, a long and medium term financing.
- the factoring operation is specific to the delivery of the consumption goods and services (the capital goods are excluded), while forfeiting is usually practiced to finance the deliveries of the capital goods. We specify that by forfeiting one can also finance the deliveries of consumption goods/ the rendering of services.
- the financing by forfeiting ensures the mobilization of the debt, 100% of its value, while factoring does not allow the mobilization of the entire value, only of a part of it.
- in the case of the factoring operations, the cost of the operation is totally the exporter's obligation, while for the forfeiting operations, almost all the financing costs are transferred to the importer, by their inclusion by the exporter in the value of the commercial contract.

3. The registering in accounting of the forfeiting operation by the exporter

Although the forfeiting operations give multiple advantages to the users, in country resorting to such a technique is manifested in a reduced manner. The accounting plan which is afferent to the financial accounting approved by OMFP 1752/ 2005 does not provide accounts with a specific name regarding the taking place of the forfeiting operation.

In the exporter's accounting the 413 "Bills to collect" account for the value of the accepted bills of exchange and promissory notes, the 667 "Expenses regarding the given bank rates" account for the value which is held back by the bank at the granting of the bank rate loan to the exporter are used.

The flux of the entries regarding the operation of forfeiting which is reflected in the accounting of the exporter is the following:

- making the bill of delivery of the merchandise to the importer:

4111"Clients" = % V

707" Income from the sale of the merchandise"

708" Income from various activities"

766" Income from interests "

- the emitting of the commerce bill (the debt bond) :

413 „ Bills to receive" = 4111 „ Clients"

V

- the extra-accounting bookkeeping is done at the same time:

8028 „ other received bills " V

- the bookkeeping of the billing of the forfeiter's debts, at the same time sending him the endorsed commerce bills:

4111" Clients „/Forfeiter = 413 „ Bills to receive V

- collecting the equivalent of the forfeiter bills, excluding the forfeiting tax and the collected commissions:

5124 „ accounts at banks in devices" = 4111" Clients" /Forfeiter V -TF – C

- registering the forfeiting tax and the commissions which are due to the specialized institution:

a) if the forfeiter calculates the forfeiting tax and commissions in a global way, the bookkeeping operation will be:

668" Other financial expenses" = 4111" Client /Forfeiter" TF + C

b) if the forfeiter distinctly calculates the forfeiting tax and the commissions the bookkeeping entry will be:

% = 411 „ Clients / Forfeiter" TF

667" Expenses regarding the given bank rates" TF

627"Expenses with the banking and assimilated services " C

where : V– the value of the right of debt upon the importer

TF – the forfeiting tax

C- the commission which is collected by the bank

Conclusions

The globalization of the world economy and of the financial market have determined the banking societies to orient themselves towards the utilizing of new techniques of financing. Due to the complexity of the operations which take place between the clients and suppliers, the financers have had to look for new forms of financing, which are different from the classical ones.

In the end I would like to synthesize advantages which are given by using the forfeiting operation:

- the foreign currency liquidities of the exporter are improved, the “on term” transaction becoming a “transparent” transaction;
- the possibility of the total financing of the transaction (up to 100%);
- the transfer of the risk of not paying, in a 100% percentage (there is no regress upon the exporter, once he has sold the documents, with the exception of the fraud cases);
- structuring the transaction according to the solicitations of the owner of the debt;
- eliminating the risk of fluctuation of the interest, of transfer, of not paying;
- eliminating the costs of managing and monitoring the payment;
- fixed interest till the date of payment;
- no real guarantees are solicited (mortgages, deposits, etc.);
- ensuring the confidentiality, according to the wish of the participants to that respective transaction;
- relatively simplified documentation.

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VALUATION OF INVENTORIES CONSIDERING THE FAIR VALUE OPTIONS

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Our paper represents a pleading for fair value in the specific case of valuating inventories. The real significance and implications of fair value can only be seen after analyzing the topic from different points of view concerning all involved actors. Therefore we have based our scientific demarche on analyzing the trade literature and comparing the foresights of international regulations given by both the accounting setting bodies and the valuation setting bodies. Moreover we have followed two of the three moments which require valuation and for these moments we have selected those cases which require the using of fair value. Our opinion regarding the findings of the research is expresses by giving practical examples for the specific application of fair value and the way to reach it.

Key Words: Fair value, inventories, recognition, market value

Introduction

Any commercial, industrial or service providing entity must purchase goods and services on a regular basis. A purchasing policy must be established consisting in finding the best supplier in order to reach the optimum profitableness. More precisely we are talking about: the suppliers' competences, technical qualities of the products, delivery terms and prices.

From the accounting point of view, purchases (acquisitions) are first debated in the form of inventories bought by the entity or of the services used, and then in the form of their consumption within the different processes of creating new products or offering new services.

Our study deals with inventories and their value in different moments from their entrance within the estate of the entity until the exit. The possible destinations for inventories consist in productive consumption or sales in the same form.

Valuation of inventories from the accounting point of view is being made in three major moments, corresponding to initial valuation (entrance within the estate of the entity) and the subsequent valuation (the moment when the inventories exit the entity or the closing of the financial period) (Matiş et al., 2007). Our opinion differs from the classic presentations regarding the moments for inventories valuation which talk about entrance within the estate of the entity, the stock taking of assets, closing of the financial period and exit. We believe that the moment of stock taking coincides with the one of closing of the financial period when the patrimonial elements, including inventories, are being valued from the qualitative point of view by comparisons with their specific market.

Main objectives of the paper and research methodology

Among these accounting valuation moments, we will present and debate valuation of inventories at entry within the estate of the entity and valuation of inventories at the closing of the financial period. One of the reasons which made us choose these moments are the discussions that go beyond the historical cost as a basis for valuation, since they require estimating some values or they imply making some calculations and allocations of costs, through reference to the needs of the market. All these cases lead to fair value, accounting concept which corresponds to other valuation basis than the historical cost (the current cost, the reachable value and the current value).

The current accounting regulations (OMFP nr. 1752/2005) restrain the using of fair value. It is only explicitly foreseen in the case of revaluation for tangibles when dealing with consolidated financial statements and also in the case of financial instruments still within consolidated financial statement. Even though we believe that fair value is implicitly necessary in an indirect manner in other situations. Moreover, some entities apply mandatory or optional IFRS. With these having been said, we will present some considerations regarding the use of fair value in Romania in the specific case of inventories.

The paper has a theoretic character with some technical aspects. It is based on the normative accounting theory, both the one that uses the general chart of accounts and the one which relies on the conceptual framework, considering the fact that in Romania the two approaches coexist. We actually connect the classic accounting concepts and principles to the reform in the field of valuation – the fair value. In order to achieve these objectives we have analyzed the normative documents (valuation standards for assets and accounting standards) and also the trade literature. The comparison method and case studies were extremely helpful in demonstrating our opinion towards the moments when the fair value should and is being used and also its optimum utilization.

Valuation at the moment of entry within the estate of the entity

We believe that the values of inventories at the moment of entry within the estate of the entity, are both the ones proved through documents which show their source and fair values, in some special situations. These special cases will be discussed in the following part of the paper.

Fair value is conceptually presented as being a valuation basis, a convention or an accounting principle or an objective of the valuation (Obert, 2004; Casta, Colasse et al., 2001; Tournier, 2000; Holmes et al., 2002).

From the practical point of view, as an application, we consider that fair value can be reached through the three used approaches for valuation of assets or business': cost, income and market comparisons. The first approach leads to the net replacements cost, the second to the continuing utilization value and the third to the actual market value (Deaconu, 2004).

The case of inventories obtained free of charge

When we say free of charge inventories we understand receiving some inventories as a donation or having positive differences at the stock taking moment. In these situations the valuation is being done at the identified fair value for the moment of entry within the estate of the entity for that particular inventory. Across history, Romanian accounting regulations have also used some other names to refer to fair value, such as utilization value or current value. Generally, for assets, a certain type of consensus exists when talking about the value which they receive as being donated. Both the Romanian and International regulations refer to a certain form of fair value. Regarding the plus of stock taking, sometimes no express mentioning is being done and some other times we find some references to fair value. It is our opinion that in the case of inventories obtained free of charge their fair value must be determined, consisting in their market value as we will show within the 3rd section of our paper.

The case of acquisition/production of coupled inventories

It is sometimes possible that some acquisitions/production processes regarding inventories to be made at a global cost, corresponding to more coupled inventories. In this case it is necessary to determine the acquisition/production cost for each product separately, the accepted method being proportional to the corresponding market value (Blin, 2005:24). Other trade literature specify the using of the net realizable value (Epstein and Mirza, 2005: 170). Anyway we consider that it is the case for a value in correspondence to the market conditions at the valuation moment, with or without deduction of supplementary corresponding afterwards costs.

Case study no.1:

A batch of materials is being bought at a global acquisition cost of 5.000 lei. After the sorting, ferrous materials, copper and aluminum are being separated. An estimating market value of 3.000, 2.000, and

1.000 Lei at the date of acquisition is being considered for the three distinguished products. Consequently the global acquisition cost will be assigned to each inventory separately, proportionally to its market value, as follows:

- acquisition cost for ferrous materials: 5.000 x 3.000/6.000 = 2.500 Lei
- acquisition cost for copper: 5.000 x 2.000/6.000 = 1.666 Lei
- acquisition cost for aluminum: 5.000 x 1.000/6.000 = 834 Lei.

The case of determining the cost for the harvest agricultural production from biological assets

Inventories in the case of agricultural production which is being harvested by the entity from its biological assets are treated from the determination of costs point of view within IAS 41 "Agriculture".

At the moment of initial recognition for these type of inventories, in other words at harvest time, the valuation is being done at fair value less the estimated costs at the selling point at harvest time.

We should also mention that according to IAS 2 "Inventories" the fair value, even diminished with the harvest costs is different from the net realizable value, which is specific for inventories. Our own point of view referring to these aspects will be presented below.

Valuation at the moment of closing the financial period

It is the case for determining the net realizable value at the moment of closing the financial period. The aim of the valuation is analyzing some eventual impairment of inventories and presenting the minimum between their cost and their net realizable value within the balance sheet.

We consider that calling the above mentioned value a fair value consisting in net realizable value leads to the realizable value as valuation basis. Appling this valuation basis represents the actual market value.

The way to reach the market value is presented and developed within the valuation standards and also within the accounting standards. Among the accounting standards, the most complex in clarifying this matter, in our opinion, are the ones comprised within the FASB's project "Fair value measurements" and which aim the market value. The project offers o hierarchy of value which groups the inputs which should be used in order to estimate the fair value at three levels. Among these we have selected the first 2 levels:

a) Level 1 of estimations, which uses market references and which requires the observation of the active market with immediate access for the entity;
b) Level 2 of estimations, in the case when market prices for identical assets can not be found. In this case market prices for similar assets are being used by adjusting them for differences if such information is available.
c) More precisely, in order to obtain the net realizable value to compensate it with the accounting value of inventories and eventually record some adjustments for impairments, the following stages are distinguished:
    1) *Estimating the current selling price on the market, in other words the market value*

In our opinion, the market value must be understood in the exact sense of its name, using prices which are already met on the market for identical or similar inventories.

We appreciate that inventories subscribe to the above presented procedures with the observation that when some selling contracts exist the contractual price can also be used as an equivalent of the market value for the corresponding quantity of inventories. Even without an actualization clause for the prices comprised in the contract, because of the high rotation speed of inventories on the market, there is no significant risk for the prices in the contract to "get old".

The used market information will represent the most sustainable data available at the moment of valuation, concerning the events which occurred after the closing of the financial period, if these confirm the existent conditions at the end of the period.

2) *Deducing some elements meant to transform the market value into a net value, specific for the considered inventory*

Therefore the following are taken into consideration: usual commercial discounts, administration and distribution expenses which were afterwards made, and also production expenses which will be made forward for the products in progress. The profit percent isn't deducted on product, as the benefice wouldn't exist for the sellers of inventories.

The International Accounting Standards, through IAS 2 "Inventories" subscribe to the above presented aspects regarding the net realizable value. We consider it to be useful to also underlie three aspects mentioned within the standard, among which we agree with the first two of them. On the other hand we dare to comment upon the third.

Therefore:

- Considering the mentioning within the accounting standard, we appreciate that at the moment of estimating the net realizable value, the aim of holding the inventories is also taken into consideration. This influences their value as follows:
  - for raw materials and consumables - held for consumption – it is recommended to determine the replacement cost;
  - for finished products, semi finished products and commodities – destined for trading – it is appropriate to determine the market value and to deduct the corresponding elements in order to obtain the net realizable value, as described above.
- Also, the international accounting regulations referring to inventories mentions that normally, the net realizable value must be determined for each inventory element taken individually. Some exceptions are still admitted for global valuation of some assembling elements, which are linked to each other, and therefore can be correctly valuated even if taken together. As an example, products lines with assembling utilizations, made and traded within the same geographical area are mentioned (Feleagă and Malciu, 2004: 164).

Besides the above mentioned case within the international standards there are also some situations stipulated within the American accounting standards. We should mention that the US GAAP accept the recognition as revenue for the gains, even if there aren't achieved yet. Therefore the valuation at net realizable value for a whole group of products is accepted if for some elements an unrealized gain appears (the net realizable value being higher than the accounting value), and for other an unrealized lose (the net realizable value being smaller than the accounting value), finally the two of them compensating each other and reducing the net lose.

- Finally, IAS 2 "Inventories" underlies the fact that the net realizable value which is being determined for inventories, with the aim of analyzing some eventual impairment is different from the fair value. The net realizable value would refer to the net sum which the entity would expect to obtain by selling inventories during the normal development of its' activity (IASB, 2007). The fair value would reflect the sum for which the same inventory could be exchanged on the market, between buyers and sellers who are interested and well informed. It is mentioned that the first is a value which is specific to the entity while the second isn't. It is also shown that even though fair value would be diminished by the selling costs, it wouldn't be equal to the net realizable value for inventories.

As for where we are concerned, we do not accept these differentiation and these arguments. In our opinion fair value can take the shape of an historical cost, a market value, a replacement cost, an actualized value. It does not have to be looked at unilateral, just as a market or exchange value. If so, the net realizable value, based also on a market value or seldom on the replacement cost, is equal to fair value which takes into consideration all the required deductions that might appear in a particular situation for valuation an inventory.

We believe that the accounting standard wants to differentiate the way to determine fair value, term used in a generic manner, for the whole category of inventories – it is the case for net realizable value – and particular inventories such as biological assets or inventories held by brokers on the stock exchange – for which the fair values/current values are being determined considering the specific conditions.

More precisely, after analyzing the trade literature and the spirit of IAS 2 "Inventories" and also of the connected standards such as IAS 41 "Agriculture" we understand that there are two exceptions from applying the historical cost as a basis for valuation of inventories. These require applying other valuation basis for initial recognition which would lead to fair values. We refer here to: biological assets until the moment of harvest, according to IAS 41 "Agriculture" (since afterwards IAS 2 is being applied and therefore a valuation based on costs) (1); inventories that belong to brokers on stock exchanges in accordance to IAS 2 (2).

In order to continue our arguing for the equivalence between the net realizable value and fair value diminished with the specific costs of finishing or selling the inventories we also offer the case, also stipulated within IAS "Inventories", of initial valuation of inventories at the so called net realizable value. These would apply in the exceptional case of inventories of agricultural and forest products, agricultural products after harvest, mineral and mining products for which we can not determine the cost, but the price of the day is available (again the realizable value is just a market value). When inventories are valued over the cost, revenue will be recognized in advance of the selling (anticipated). In conclusion, the net realizable value used to directly record these inventories whose cost can not be determined, is actually a fair value, another basis for initial valuation than historical cost. We therefore find ourselves in the case of biological assets and inventories held by brokers on the stock exchange, which are initially valued at fair value.

The international valuation standards (IVS), conceived in close correlation to the accounting ones, restate the definition for net realizable value comprised within IAS 2 "Inventories", but mention that it is a value which can be used only in the context of IAS 2 for properties held with the purpose of selling within the course of the normal activity of the entity (IVA 1 "Valuation for financial reporting") (IVSC, 2005). In the context of valuation for financial reporting, the valuators should respect this accounting presentation /requirement following the market value (from which the cost related to the selling are being deducted) if and only when all the demands within the definition given by valuators for market value are carried out. The valuation standard also mentions that the term "net realizable value" is equivalent to the one of "net selling price".

An important remark taken from Annex A "Accounting fundaments for IVA 1" of IVA 1 is the one referring to the definition of current assets and their connection to tangibles and intangibles assets on which the valuation standards generally focus. It is shown that for current assets they refer to elements which are effectively owned as a commercial inventory which is to be sold during the exploitation cycle of the entity, usually one year. Dwellings built and sold by the constructors are given as an example and it is concluded that current assets (we must underlie again that they are only understood to be non current assets own with the purpose of being sold) should not be valuated in the context of their connection and meaning for accountancy and financial statements.

We conclude that it is recommended to apply the valuation methodology for investment properties in order to identify their market value and therefore their net realizable value.

Also, we consider that the valuation standard (IVA 1) is reductive, it does not understand inventories different from commodities and only includes in this category non current assets held for trading. Its' contribution still consists in underlying the fact that the net realizable value is actually an accounting term, specific for inventories valuation, which is determined by starting with the market value. Obviously that the net replacement cost, which might be used in the case of some raw materials and consumables, it is not mentioned since this type of inventories doesn't even exist within the standard. The connection to fair value isn't done, but it is also presented as a market value (with the exception referring to the case when there is no market information available, therefore appealing to other valuation models). Moreover the connection with the net realizable value is easy to be done.

Case study no.2:

An entity owns for selling an inbuilt land, with a surface of 1000 m2, situated in an industrial area. At the valuation date, the prices on the market for comparable lands had values between 50 and 80 Eur/m2. The values were determined through expertise, by using the direct comparison method, applying corrections for: ownership rights, legal restrictions, financing conditions, selling conditions, location and other comparison criteria. The valuator opted for the value of 60 Eur/m2, by using the standard with a few corrections. Therefore a value of 216.000 Lei was determined.

Conclusions

Fair value gains more and more field as a principle used in valuation. Promoted by the American accounting regulations and then by the International ones, it seems to be more required in Europe by each day. In order for it to applied, fair value must be understood as a concept and technical implications. Our study presents the moments and cases which impose the using of fair value for inventories. We consider that accounting valuation is being done in three moments, among which we have presented the moment of entry within the estate of the entity and the closing of the financial period in the case of inventories. For these moments we have selected those cases which require the using of fair value. We have expressed our opinion regarding the specific application of fair value and the way to reach it by giving some examples. Therefore we have based our scientific demarche on studying the trade literature and the professional standards. We consider that in the case of inventories, very often, it is followed the market value and as an exception the replacement cost. These applications are required in the case of inventories which are obtained free of charge, coupled inventories, inventories with a specific nature (like biological assets or investment property owned for selling), and also in the case of estimating adjusting for impairment at the closing of the financial period.

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SYSTEM OF ACCOUNTS SPECIFIC TO THE MANAGEMENT ACCOUNTING IN WHOLESALE TRADE

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According to the Romanian accounting norms, management accounting is organized at the level of each patrimonial unit according the specificity and information needs; and they have the possibility to create and use their own system of accounts, adapted to the viewed aims.

In this paper we present a system of account specific to the organization of the management accounting on responsibility centres in wholesale trade units.

Key-words: system, accounts, management

The organization of accounting, referring to the ***separation of the confidential information from the public information***, has generated ***the dualism in accounting***[334], concept based on the organization of accounting on two interrelated branches: the financial accounting and the management accounting. This concept supposes the distinct processing of expenses and incomes by the two accountings by separate information flows (circuits), each of them aiming the realization of their specific objectives, that is the drawing up of financial situations at the end of the accounting period, by the financial accounting and, the calculation of production costs, the establishing of results and return of the developed activity, the following and control of results, by the management accounting. The latter uses specific accounts, grouped separately from financial accounting system of accounts, by means of which the following objectives are met:

- the taking-over of expenses from the financial accounting for their collection and repartition on destinations;
- the calculation of costs according to the technical-productive characteristics of the developed activities and to the information needs of the decision-taking factors;
- the taking-over from the financial accounting of incomes for the settlement of afferent costs and establishing of analytic results;
- the realization of the management control on the deviations from the pre-established costs (in the case of standard costs use);
- internal budgetary control on budgetary expenses and incomes.

The management accounting is also useful for the establishing of unitary tendencies of economic phenomena and processes, for the substantiation of programmes and the elaboration of previsions regarding the expenses and incomes to be realized[335].

In fact, as Michel Capron concludes, the management accounting is an instrument used by the enterprise management to fill their information needs and to direct their decisions and that, unlike the financial accounting, is not liable to some common conventions of all enterprises, and the supplied information is not public.

In accordance to the Romanian accounting norms, the management accounting is organized at the level of each patrimonial unit according to its specificity and information needs, and they have the possibility either to use a system of specific accounts, or to develop the financial accounting accounts or to organize cost calculation by means of the technical-operative record.

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[334] N. Feleagă, I. Ionaşcu, *Contabilitatea financiară (Financial Accounting)*, vol. I, Economic Publishing House, Bucharest, 1993, p.13

[2] M. Capron, *Contabilitatea în perspectivă (Accounting in the future)*, Humanitas Publishing House, Bucharest, 1994, p.57

The use of accounts, as well as their symbolizing is realized so that the stocking and accessing system of the obtained results should be flexible and allow a wide range of options. The list of management accounts can be adapted according to the viewed aims, respectively: the prominence of the cots flow, the determination of the costs afferent to stocks, the determination of incomes and results according to the generating-activity, previsions etc.

As within the management accounting there is followed only the determination by accounts of production costs, the expenses taken for re-treatment from the financial accounting refer only to the operating expenses and to a part of financial expenses with depreciations and provisions[336].

The procedures and techniques used in the management accounting are established in accordance with the qualitative characteristics of the information required by users, as well as with the characteristics of the developed activity[337].

We suggest here a system of accounts appropriate to the management accounting in the wholesale trade sector.

Taking into account the characteristics of the wholesale trade enterprises, operating expenses and incomes recorded in the financial accounting on different types according to their economic nature, are taken in the management accounting on expense places or responsibility centres, as we have defined them, divided in profit centres and cost centres using the 9th class accounts with the following adjustments:

- group 90 – "Internal settlements accounts"
  - 901 "Internal settlements on commercial activity expenses";
  - 902 "Internal settlements on commercial activity incomes";
  - 903 "Internal settlements on results".
- group 92 – "Calculation accounts"
  - 921 "Main activities expenses";
  - 922 "Auxiliary activities expenses";
  - 923 "Indirect expenses";
  - 924 "General administrative expenses";
  - 925 "Selling expenses"
- group 94 – "Operating incomes"
  - 941 "Commercial activity incomes".

We have to make the following observations to the system of management accounts, proposed for a wholesale trade enterprise:

- within group 90 "Internal settlements accounts", the account 903 "Internal settlements on results" gets another economic content than that established by the accounting norms.

This account helps to record the results on profit centres as well as to take the expenses afferent to the period (general administrative expenses, subactivity cost, selling expenses) according to the way the result is established on the commercial activity cost or on the total commercial cost.

Taking into consideration the lack of finished production in the wholesale trade activity, this account loses its signification of reflecting the differences between the pre-established cost and the effective cost of production, the way it functions in other sectors of activity.

- - group 93 "Production cost" will no longer be used, taking into consideration the lack of finished production and of manufacturing production, so that the two accounts 931 "The obtained production cost" and 933 "The manufacturing production cost" remain without objects.

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[336] Budugan D., *Contabilitate de gestiune (Management accounting)*, Pro Juventute Publishing House, Focşani, 1998 p.222

[337] Ministry of Public Finances. Mentions on some organization and management measures of the management accounting, approved by Order 1826/22nd December 2003, published in Monitorul Oficial no. 23/12.01.2004

– from reasons of reflecting the result afferent to profit centres, obtained in the selling process, we suggest the introduction of *group 94 "Operating incomes" that, by account 941 "Commercial activity incomes", will take from the financial accounting the incomes afferent to profit centres, offering thus the possibility to determine the afferent results.*

We have to demonstrate here that, in fact, the system of management accounts regulated by the Romanian accounting norms allows only the calculation of effective costs on costs holders and the record of differences from the pre-established cost, leaving unsolved the problem of the products selling results reflection.

In order to organize the calculation on responsibility centres by using the suggested system of accounts, it is necessary to take the financial accounting expenses into the management accounting, on expenses places and calculation items, as follows:

– the direct expenses that can be charged directly to the responsibility centres, will be taken to the debit of the account 911 "Main activities expenses" on profit centres and calculation items;
– the expenses afferent to the auxiliary activities will be taken by the debit of the account 922 "Expenses afferent to auxiliary activities", with development in analytical on appearance places (auxiliary activities) and on expense elements;
– indirect expenses, meaning those expenses that cannot be charged directly to the profit centre will be taken from the financial accounting by the debit of the account 923 "Indirect expenses" with deduction on analytic on appearance places (operational or functional structures-deposits or auxiliary sections) and expense elements;
– the general administrative expenses will be taken from the debit of the account 924 "General administrative expenses" on appearance places and types of expenses;
– the selling expenses will be taken by the account 925 "Selling expenses" on types of expenses and appearance places;
– the incomes from the selling of goods will be taken by the credit of the account 902 "Internal settlements on commercial activities incomes", analytically on profit centres, in correspondence with the account 941 "The commercial activity incomes".

The determination of results on profit centres requires the collection of incomes on places of appearance, calculation and settlement of the auxiliary activities costs, the repartition of indirect expenses and the calculation of the main activities cost. The necessary stages and the afferent book entries can be represented synthetically as follows:

1. The collection and entry of direct expenses afferent to responsibility centres (main activities and auxiliary activities).

%	=	**901 "Internal settlements on expenses"**	10,000,000
921 "Main activity expenses"			8,000,000
analytic xx.xx.xx[*]			
922 "Auxiliary activities expenses"			2,000,000
analytic xx.xx[*]			

2. The collection of indirect expenses on responsibility centres (main activities, auxiliary activities and general activities).

[*] The explanation of analytical accounts is presented at the end of this paragraph.

%	**:**	**901 “Internal settlements on expenses”**	2,000,000
923 “Indirect expenses ”			1,500,000
analytic xx.xx*			
924 “General administrative expenses”			500,000
analytic xx.xx*			

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3. The settlement of mutual carrying-outs between the auxiliary sections, as well as by the other enterprise activities.

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%	**:**	**922 “Auxiliary activities expenses”** analytic xx.xx*	2,000,000
922 “Auxiliary activities expenses”			500,000
analytic xx.xx*			
923 “Indirect expenses”			700,000
analytic xx.xx*			
924 “General administrative expenses”			500,000
analytic xx.xx*			
925 “Selling expenses”			
analytic xx.xx*			300,000

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4. The repartition of indirect costs on profit centres and the establishing of the effective cost for each profit centre.

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921 “Main activities expenses” analytic xx.xx.xx*	**:**	**923 “Indirect expenses”** analytic xx.xx*	2,200,000

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5. The taking of incomes from the financial accounting, analytical on each profit centre.

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941 “Commercial activity incomes”	**:**	**902 “Internal settlements on commercial activity incomes”** analytic xx.xx*	1,500,000

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6. The settlement of the effective costs of the profit centres on incomes and the establishing of the gross results, afferent to each profit centre, according to the commercial activity cost, and

* The explanation of analytic is presented at the end of this material.

the costs of the period (general administrative costs, selling costs, sub-activity cost) will be charged directly to the result account.

Variant A

902"Internal settlements on commercial activities incomes" analytic xx.xx*	**921"Main activities expenses"** analytic xx.xx*	10,200,000

902 "Internal settlements on commercial activities incomes" analytic xx.xx*	**903 "Internal settlements on commercial activities results"** analytic xx.xx*	4,800,000

903 "Internal settlements on commercial activities results" analytic xx.xx*	**%**	<u>800,000</u>
	924 "General administrative expenses" analytic xx.xx*	500,000
	925 "Selling expenses" analytic xx.xx*	300,000

7. The settlement of the general administrative expenses and of the selling activity on the responsibility centres account, with the determination of results on profit centres according to the total commercial cost:

Variant B

921 "Main activities expenses" analytic xx.xx*	**%**	<u>800,000</u>
	924 "General administrative expenses" analytic xx.xx*	500,000
	925 "Selling expenses" analytic xx.xx*	300,000

902,, Internal settlements on commercial activities incomes" analytic xx.xx*	**921"Main activities expenses"** analytic xx.xx *	11,000,000
902,, Internal settlements on commercial activities incomes" analytic xx.xx*	**903,, Internal settlements on commercial activities results"** analytic xx.xx*	4,000,000

8. The settlement of total expenses on incomes with the view to close the internal settlements account on expenses.

901"Internal settlements on the commercial activity expenses"	**941 "Commercial activity incomes"**	11,000,000

9. The closure of the commercial activity results and income account.

903 "Internal settlements on commercial activities incomes"	**941 "Financial activity incomes"**	4,000,000

The use of the two variants requires further elucidations:

- **in the case of Variant A:**
- the results obtained by each profit centre are supplied by the analytic record of the account 903 "The commercial activity results" and are established according to the incomes resulted from the selling of goods and the commercial activity cost;
- the administration and distribution cost affects the result of the whole activity and is supplied by the two accounts: 924 "General administrative expenses" and 925 "Selling expenses".
- **in the case of Variant B:**
- the result obtained for each profit centre is calculated according to the total commercial cost – established for each profit centre by means of the account 921 "Main activities expenses" and is found in the crediting turnovers of the analytical of the account 903 "Commercial activities incomes", before closure, as a difference between the incomes obtained from the selling of goods and their complete cost.

After these two entries, all accounts are balanced.

In order to give the possibility to collect expenses and incomes on responsibility centres, so as to determine the commercial activity cost as well as the results afferent to each profit centre, the synthetic management accounts have been developed on analytic accounts, as follows:

921 - is divided on three categories of analytic accounts:

921.xx. - 1st degree analytic accounts, corresponding to level I profit centres (storehouses);

921.xx.**xx** - 2nd degree analytic accounts corresponding to level II profit centres (managements);

921.xx.xx.**xx** - 3rd degree analytic accounts, corresponding to calculation items

(01 – „Merchandise purchase cost";

02 – „Salary expenses";

03 – „Social insurance-supplementary pension";

04 – „Indirect expenses";

05 – „Bank interests";

07 – "General administrative expenses").

922, 923 - developed on two categories of analytic accounts,

924, 925 as follows:

922.xx - 1st degree analytic accounts – afferent to responsibility centres

923.xx (profit centres and costs centres)

924.xx

925.xx

922.xx.**xx** - 2nd degree analytic accounts on types of expenses symbolized with two figures

923.xx.**xx** representing the completion of the expenses accounts from the 6th class

924.xx.**xx** financial accounting, respectively 6**00**, 6**01**, 6**02**, …, 6**81**.

925.xx.**xx**

902, 903 - are broken down on two categories of analytic accounts:

902.xx - 1st degree analytic accounts representing level I profit centres

903.xx (storehouses, auxiliary activities);

902.xx.**xx** - 2nd degree analytic accounts representing level II profit centres

903.xx.**xx** (managements and auxiliary activities).

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MANAGEMENT ACCOUNTING ORGANIZATION IN WHOLE SALE TRADE - CHARACTERISTICS

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The characteristics of management accounting organization in wholesale trade enterprises are based on their unstandardized character, fact that gives enterprises the possibility to establish an independent management accounting system, conditioned by the following factors:

- *the specificity of the goods supply and selling activity;*
- *the organizational structure of wholesale trade enterprises;*
- *the concept of cost used in establishing the results and performances of responsibility centres;*
- *the system of economic and financial indicators of return analysis and control.*

Key words: characteristics, accounting, management.

The characteristics of management accounting organization in wholesale trade enterprises are based on their unstandardized character, fact that gives enterprises the possibility to establish an independent management accounting system, in accordance with their own specificity and information needs.

In fact, in approaching the specific aspects of each enterprise, we should start from the fact that management accounting information "represents a component of the enterprise's information system that helps realizing independently the operating analytical accounting, respectively of expenses and results from the point of view of value holders and organization's subdivisions – responsibility centres, as well as the internal budget audit, with the purpose of supplying confidential information necessary for the substantiation of the patrimonial unit"[338].

Taking into consideration all the aspects mentioned above, we can conclude that the organization of the management accounting is conditioned by:

- the specificity of the goods supply and selling activity;
- the organizational structure of wholesale trade enterprises;
- the concept of cost used in establishing the results and performances of responsibility centres;
- the system of economic and financial indicators of return analysis and control.

a). The specificity of merchandise supply and selling activity

In accordance to the classified list of economic activities, used in European Union countries wholesale trade enterprises are considered: *"units wholly or mainly employed in reselling, in partnerships, goods to retailers or other wholesalers, producers or other users with a view to further processing, conditioning, packing, disassembling. Generally, the wholesaler's role involves, on the one hand the storage of goods and, on the other hand, the deed of property or the right of disposing of the respective goods"*[339].

This definition covers, in general, the traditional role of wholesale trade, supply, storage and selling of goods by the different beneficiaries (not consumers). Yet, in practice the existence of wholesalers is justified by the services they offer to their customers and the assumed risks:

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[338] V. Pătruț, *The attempt of the management accounting conceptual delimitation*, „Finances, Credit, Accounting" Journal, no. 11,12/1999

[339] NACE – The Classified List of Economic Activities in the European Community, endorsed by the Regulations of European Economic Community Council no. 3037/9th October 1990.

- the physical purchase of goods for anticipated storage in order to meet the clients' operative needs, fact that makes wholesalers more preferred than producers (by getting closer to beneficiaries, varied selection lines and efficiency);
- in order to cover the supply and storage costs, wholesalers charge a reasonable addition share, inferior to the expenses the beneficiaries would have if they supplied directly from the producers;
- the purchased stocks financing for which the wholesalers invest their funds as well as a high volume of loans (bank credits);
- clients' financing by selling on commercial credit;
- risk assumed from the moment of supply and storage of goods of keeping a certain unsold merchandise fund (the registration of damages, degradations which are not imputable to the staff, the change of selection lines demanded on the market etc.).

From all those mentioned above, one can see the complexity of the activity developed by these enterprises and we can notice at the same time that these units do not have production activities that would necessitate the collection and repartition of expenses with a view to determine the product cost what makes the management accounting object be centred on the determination of the commercial activity cost on responsibility centres, according the decisional factors' information needs regarding the obtained results and the determination of influence factors.

The main categories of expenses concerning the trade activity refer mainly to:

- storage and keeping expenses;
- salary expenses;
- goods selling expenses (packing, sorting, batching, retailing, loading etc.);
- expenses concerning auxiliary activities (transportation, transport facilities maintenance and repair shops, loading machinery and internal transport maintenance and repair shops, general repair an maintenance shops);
- general administrative expenses (managerial activity, financial accounting activity, information processing, security, firemen etc.).

b). The organizational structure of wholesale trade enterprises

The organizational structure of a wholesale trade enterprise contains, just like any other profit-generating patrimonial unit, an operating (production or operational) structure and a managerial (functional) structure.

The operating structure of wholesale trade enterprises refers to the activities developed in operational subdivisions, organized as managements, specialized in the supply and selling of certain groups of products. Managements themselves are classified according to certain technical-economic criteria, in organizational structures, called storehouses. Within the operating structure, there can also be included the auxiliary activities whose object is the execution of works or providing services in order to normally develop the main operating activities (the supply and selling of goods) and the general administrative activities, such as:

- the transport activity using their own transport facilities;
- yard track transport activity;
- the mechanization activity of loading-unloading, stowage works (cranes, motolifts, gantries, truck scales etc.);
- car and machinery maintenance and repair shop;
- the maintenance and repair activities of machinery under operating standards checking (scales, truck scales, gantries);
- general repair and maintenance shop;
- power station, if need be.

The functional structure refers to those activity compartments where the general functions of a lucrative enterprise take place, respectively: the management, commercial, financial-accounting, finance, marketing, administrative function, etc.

Both the activities developing within the operational (operating) structures, and the functional ones are generating expenses that all constitute the whole cost of the commercial activity. In order to locate and follow the reduction of expenses caused by operational-functional links, **we suggest that they should be organized in *responsibility (analysis) centres*** *that, according to the direct contribution to the turnover and profit, can be divided in* ***profit centres*** *where turnovers and financial results are realized and* ***cost centres*** *when incomes cannot be associated to the expenses caused by these structures.*

The grouping of activities on responsibility centres, divided in profit centres and costs centres for a wholesale trade enterprise, is as follows:

- profit centre:
  - **managements** – specialized in the trade of some groups of goods with the same characteristics of consumption destination, grouped in organizational structures at a storehouse level;
  - **transport activity** – developing both transportation for the main activity (supply of goods) and tariff transportation to third parties.
- costs centres:
  - on the structure of auxiliary activities:
    - maintenance and repair shop for transport facilities and machineries;
    - general repair and maintenance shop;
    - handling devices mechanization shop (loading, unloading, stowage, etc.);
    - power station.
  - on the structure of general administration activities
    - management activity (commercial, financial-accounting);
    - information processing activity within a computing office;
    - administrative activity (cleaning, security, firemen, telephone exchange).

In a wholesale trade enterprise the organization of income and costs accounting on responsibility centres, is strongly influenced by the specificity of the activity object, that is *supply-selling* of goods that requires the main activity to be represented by the administrative structures of the merchandise fund, that is *storehouses* and, within them, the *managements of goods*. Within these organizational links the process of supply, storage and selling of goods takes place.

The *managements of goods* are *profit centres* as the expenses caused within them are associated the incomes obtained from the selling of goods, so that a result account can be drawn up for each centre.

Profit centres, *managements of goods*, respectively, represent the object of *cost calculation* characteristic for the commercial activity and the establishing of afferent results. In the management accounting, the collection of expenses and the cost calculation are realized by means of a synthetic account developed on analytic accounts corresponding to each profit centre.

In order to ensure the appropriate conditions for the *supply-selling* functions by the operational structures (management of goods) within the enterprise, there are organized a series of auxiliary activities that perform works or provide services for them, but sometimes for third parties, as well. It's the *transport* sector that performs both carryings out for the main activity and transportations for *clients'* interest, as well as *the mechanization activity of supply and selling works* (AMLAD), which sporadically provide services for third parties.

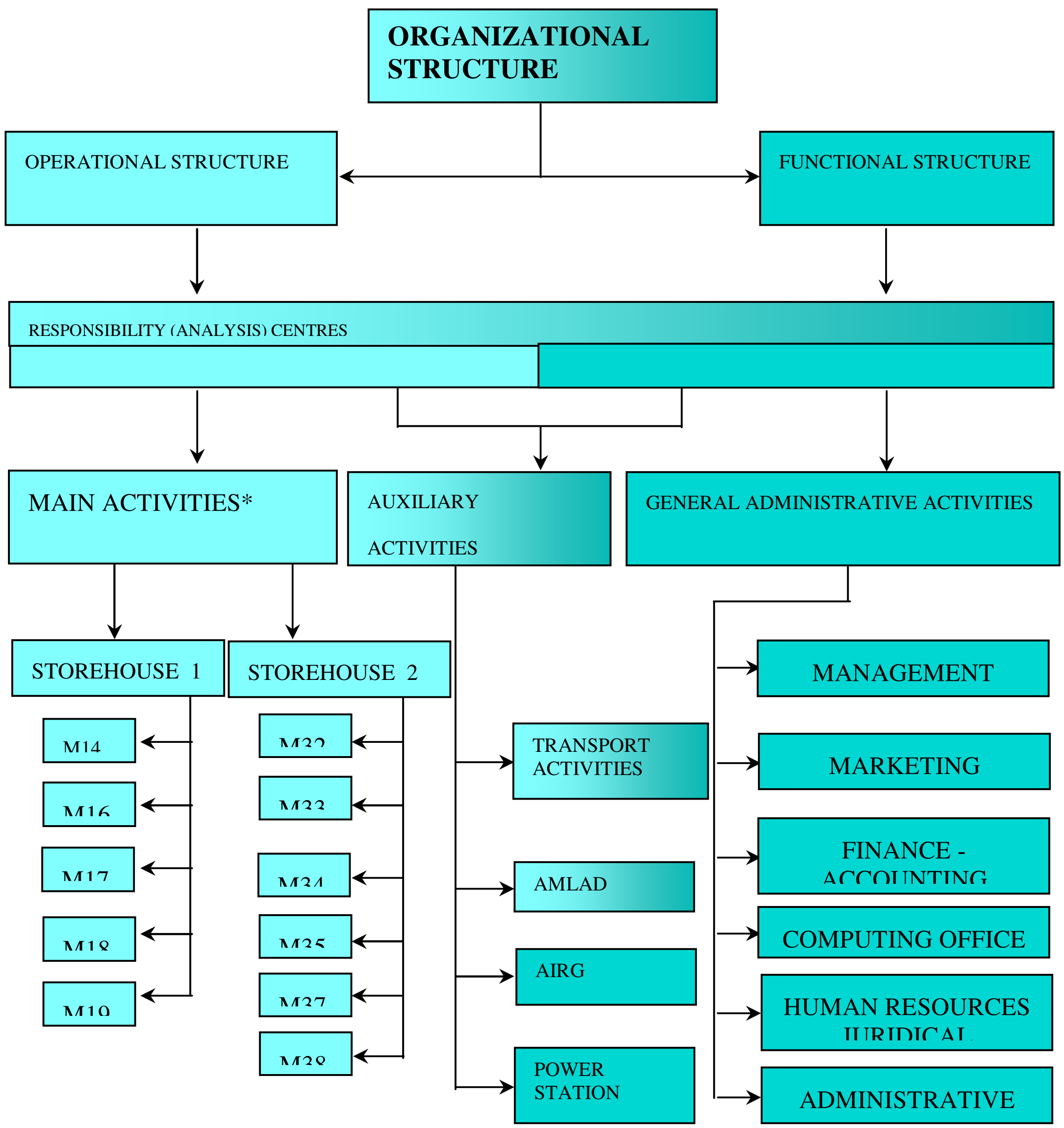
Due to the random and insignificant character of the carrying-outs accomplished within the *auxiliary activities* by third parties, we consider that it is not necessary to organize a calculation concerning the determination of these carrying-outs effective costs. In order to avoid the repartition of the cost afferent to the carrying-outs supplied to third parties on the main activities, we shall separate them by a method of indirect estimation, according to the planned return margin which is part of the used tariffs. Thus determined, the costs of the carrying-outs tariffed by the auxiliary activities of the different third parties will be charged to the incomes collected for the respective activities.

Taking into consideration that the incomes from the auxiliary sectors are insignificant, these expenditure zones appear as *cost centres*. The role of management accounting, as far these structures are concerned, is that of establishing the deviations of real costs from budget costs. The auxiliary activities costs, collected by means of a specific account deducted on appropriate analytic accounts, are settled on profit centres and cost centres.

In order to collect the indirect expenses that are to be found in profit centre costs only after the realization of some repartition and charge calculations (such as the expenses at storehouse level), there are used specific accounts analytically developed on responsibility centres and on expenses elements.

At the level of the enterprise functional structure, within the management accounting there are constituted distinct expenses areas that act as cost centres, grouped on the comportments accomplishing the general functions of the enterprise (management, financial, administrative, etc.).

The organization on responsibility centres of wholesale trade enterprise activities is presented in the following figure:



Structure model on responsibility centres of wholesale trade enterprise activities

c). The concept of cost used in establishing results

The management accounting collects expenses from the financial accounting so that it would be possible to determine both the commercial activity cost and the total commercial cost on profit centres, in the following structure:

- merchandise purchase cost;
- direct expenses;
- indirect expenses;
- bank interest expenses [x]

Circulation expenses

TOTAL COMMERCIAL ACTIVITY COST

- general administrative expenses [xx]
- selling expenses [xx]

TOTAL OR COMMERCIAL COST

The simultaneous presentation of the result, calculated according to the commercial activity cost and the total or commercial cost, in the conditions of a determined selling price, is as follows:

<table>
<tr><td colspan="3">900</td><td colspan="3">270*</td><td>1170</td></tr>
<tr><td colspan="3">Commercial activity cost</td><td colspan="3">Profit*</td><td>Delivery price</td></tr>
<tr><td>600</td><td>100</td><td>200</td><td>150</td><td>50</td><td>70</td><td>1170</td></tr>
<tr><td>Merchandise purchase cost</td><td>Direct expenses</td><td>Indirect expenses</td><td>General administrative expenses</td><td>Selling expenses</td><td>Profit</td><td>Selling price</td></tr>
<tr><td colspan="5">TOTAL OR COMMERCIAL COST</td><td>PROFIT**</td><td>DELIVERY COST</td></tr>
<tr><td colspan="5">1100</td><td>70**</td><td>1170</td></tr>
</table>

Note:

* *The profit is determined according to the realized income expressed in delivery prices, and the expenses were collected at a commercial activity cost level.*

The general administrative and selling expenses are considered costs of the period and influence the result on total operating activity and not on profit centres.

*** In the second variant, the profit is determined according to the total of commercial cost (which includes the general administrative and selling expenses rate distributed to each profit centre) and the income expressed in delivery prices.*

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[x] As a trade characteristic, we consider relevant the inclusion of expenses with the interest afferent to the financing of circulating assets (stocks) within the activity cost. [x x] Taking into account that the determination of results on profit centres is made according to the commercial activity cost, the general administrative expenses and the selling expenses are considered expenses of the period.

d). The system of the return analysis indicators

Among the indicators used for the return determination and analysis in the wholesale trade, we can enumerate the following:

- gross margin (trade mark-up);
- commercial activity cost on profit centres;
- commercial activity cost on cost centre;
- total commercial cost on profit centres;
- the result on profit centres;
- rate of return afferent to the consumed resources.

In the process of expenses collection and repartition on profit centres, such as they have been proposed in our paper, one has to take into account the obtaining of these indicators necessary for the setting and control of the respective profit centres return.

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THE QUALITY OF THE BOOK-KEEPING INFORMATION – ESSENTIAL CONDITION IN ORDER TO MAKE EFFICIENT DECISIONS

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Summary: The accountancy, as language of business, must keep up with the evolutions which have been registered in the fields of economical life and the need to promote unanimously accepted concepts prove its usefulness more and more.

The contribution of the accountancy in the achievement of managers' strategic objectives manifests itself under the form of the assurance of necessary information in order to gain control and to determine the degree of responsibility and of the effect at different jobs. This thing allows the tracking down of internal reserves, of non-economical expenses and of losses.

In other words, the book-keeping information constitues the most important source, the „data base" of the leadership in the process of making decisions. Thus the accountancy becomes needful in the leadership activity of economical entities, indifferently of the activity which they develop.

Key words: book-keeping information, qualitative characteristics, relevance, users, decision

The relationships between the econimcal unities and the background where they develop their activity generates the need of relevant and objective information whose satisfaction demands an appropriate offer. The production of book-keeping information is assured by professional practitioners in this field within the informational book-keeping system of the entity. This type of information must accede to certain demands so that it can be useful for everybody who uses the accountancy products. That's why we consider that their dissemination must take place in a dynamic and rational process as a result of the negociations and compromises between the enterprise and the external factors.

Nevertheless, we have to notice that the growth of the number of users who apply to book-keeping information determined both the growth of the volume of requested information and the exertion of a constant pressure during the dissemination process. At the same time we witness an intensification of the entity's responsibilities towards the quality of the product.

The book-keeping information in the decisional process is useful to the partners of trading companies only if it accomplishes certain attributes called qualitative characteristics.

The need of qualitative book-keeping information has appeared in the United States after the economical, financial and stock market crisis from 1929 when the investors didn't have enough information. The first step in this direction was to establish financial rules for companies which were making out negotiable titles.

The users take advantage of the support of the generally accepted conventionswhich have the goal to simplify the interpretation of financial situations. FASB enumerates the following generally accepted conventions: the comparability and and the permanence of methods, the relative importance, the prudence, the good information and the reliability, which influence the quality of information transmitted to the users. This thing is also noticed in the figure below.

Intelligibility

The decision factors have to be able to interpret the book-keeping information

Conventions which make interpretation easier:

-comparability and permanence

-the relative importance

-prudence

-good information

-reliability

Usefulness

The accounts have to provide useful information in the process of making decisions.

External financial reports of general use

The relevance

-the image value of the past

-the prevision value

-the opportunity

The reliability

-the faithful representation

-the possibility to check or to be checked

-the neutrality

Figure 1. The relationships between the qualitative characteristics of the financial information and the generally accepted conventions

Though they have the same objective, the qualities of the book-keeping information vary in different ways according to the body which nominates them.

According to the General framework of IASB (International Accounting Standards Board), in order to elaborate and present financial situations, the qualitative characteristics of book-keeping information, seen as symbols which determine their utility, refer to: intelligibility, relevance, credibility and comparability**.**

Intelligibility is presented as the main characterstic of financial information. The paragraph 25 stipulates that "the information delivered by the financial situations must be easy to understand by the users". In order to reach this goal the articles and the book-keeping elements are aggregated and clarified in the most adequate way. They must assure a balance between the book-keeping knowledge, that concerning the businesses and the economical activities, on one hand, and their interest to study the information reflected in the financial situations, making the necessary efforts, on the other hand.

Obviously, not all the information are accessible to all the categories of users. There is complex and relevant information which appear in the financial situations even if all the people don't understand it. To assert that any book-keeping information with a complex character may be understood any time and by anybody means, in our opinion, to deny the necessity of qualification and perfecting of human ressources in this field.

We think that the information regarding the complex problems which influnce the users' economical decisions must be included in the financial situations even if they prove to be more difficult to understand to a part of the users.

The relevance represents the quality of financial information to influence the users' economical decisions, supporting them to evaluate past, present or future events, confirming or correcting their previous evaluations. For instance, the balance sheet and the profit and loss account offer to the users information related to the financial postion and to the performances of the enterprise from the past financial budgetary year but they also help them to make previsions regarding the financial position and the future performances in other fields of great interest such as: the payment of dividends, of wages, the capacity of the enterprise to honour its falling due obligations.

In the theory of speciality, the relevance of information is present under two forms: spatial and temporal.

The spatial relevance of information supposes its selection and processing according to the needs of a beneficiary while the temporal relevance supposes the bringing up-to-date of the information.

The two forms of the relevance are found in the General Framework of IASB under the deonomination of "the nature and the threshold of significance" and represent the influence factors of the relevance and of the opportunity of information.

In some circumstances, the nature of the information is self-sufficient in order to determine its relevance. For instance, the information regarding the creation of a new activity sector in an enterprise is sufficient in order to measure the risks and the opportunities of the enterprise, indifferently of the results registered within the new activity sector during the report period. In other circumstances, the nature of the information is not self-sufficient in order to determine its relevance, both of them being necessary. For instance, the information related to the debts of a society must be completed taking into account their falling due terms.

An information is appreciated as being significant if its omission or its wrong presentation changes the economical decisions of the users taken on the basis of financial situations. The threshold of significance depends on the size of the element or of the error which is judged in the specific circumstances of the omission or of the wrong presentation. As a consequence, the threshold of significance represents more a limit than a main characteristic of the information in order to be useful and relevant. It's worth being mentioned that we notice quite frequently that the published book-keeping information is affected from the point of view of the relevance characteristic because it has a subjective character which results from the expression of the individual's opinions in what concerns the methods and the practise of the commitment book-keeping. The book-keeping documents do not deliver raw information but information which have suffered some processing or retreatment whose meaning depend on the utilization and interpretation of book-keeping principles. There are certain limits due to the fact that rules and principles can not predict everything, leaving also freedom of action to the enterprise in order to book-keep some operations or economical phenomena.

In conclusion, we can assert that the book-keeping information is relevant when it helps the users to evaluate correctly the past, present and future events, confirming or correcting their evaluations.

The credibility of financial information refers to its lack of error, partiality or distorsion so that the users can trust that it represents the reality in a correct and reasonable way. In other words, the book-keeping information must be neutral and complete. It also must represent the events faithfully and reflect mainly the economical substance of operation, not only its legal form.

In its book-keeping framework IASB imposes neutrality as a characteristic of financial situations, stating that "in order to be credible, the information included in the financial situations must be neutral and must lack influence. The financial situations are not neutral if through the selection and the presentation of the information influences the decisions or the formulation of a reasoning in order to reach a result or a pre-determined goal".

The IASC book-keeping framework stipulates that: "In order to be credible, the information must represent the transactions and other events they are supposed to represent or which could reasonably be expected to represent. For instance, the balance sheet must represent in a credible way the transactions and other events which are being concretized in current assets, debts and stocks in-trade of an enterprise at the report date and which accomplish the recognition demands".

Nevertheless, being credible supposes also being prudent, cautious in what concerns the exertion of professional reasoning (the current assets and the incomes should not be underevaluated while the liabilities and the expenses should not be overevaluated).

The complexity of the contemporary activity makes us question about the credibility of book-keeping information. This characteristic of being credible is fully satisfied only when the whole truth is reflected in accountancy and when the user is sure of the trustworthiness of the information.

The comparability represents the quality of book-keeping information which can be compared by the users.

The comparability of book-keeping information must be assured both in time and in space. By comparing book-keeping information of a company in time, the decisional factors can identify the evolution of the financial position and of the performances obtained by the company. The comparability of book-keeping information in space offers to the users the possibility to make decisions through the comparaison of financial situations of different companies.

One of the important implications of comparability is that the users should be informed about the book-keeping policies used to elaborate financial situations, their changes and their effects. Besides, the users should be able to identify the differencies between the book-keeping policies used in transactions and other similar events used within the same enterprise at diiferent periods of time or those used by other entities.

The necessity of comparing the information doesn't have to lead to uniformity and doesn't have to constitute an obstacle in what concerns the introduction of improved accountancy standards. It's not in the advantage of an enterprise to continue its book-keeping in the same way for a transaction if the adopted method doesn't maintain the qualitative characteristics of relevance and credibility. Besides, it's not indicated for a company to leave its book-keeping policies unchanged when there are more relevant and credible alternatives.

The general framework IAS also presents a series of limitations which can restrict the quality of book-keeping information even if all the desiderata mentioned above have been accomplished. The opportunity of presenting / publishing the information is essential because a "perfect" information which has become degraded because of the passage of time can no longer be relevant though it's credible. On the other hand, an incomplete information may be relevant but not credible.

The Romanian scientists agree with the IASB opinion according to which "the application of the main qualitative characteristics and of adequate book-keeping standards has normally as a result the elaboration of financial situations which reflect a faithful image of the enterprise situation".

However, there are some questions related to different aspects which don't have anything to do with the normalization process but which influence the quality of the book-keeping information. In that regard, we can mention several aspects:

- can we talk about the relevance of book-keeping information when there are a lot of users who have at their turn a big diversity of users?
- which is the unanimously accepted degree of intelligibility?
- how objective is the book-keeping information? Is there a conflict of interests between the economists and other categories of people who use book-keeping information?
- The quality of book-keeping information is being appreciated according to the economic reality (as long as this reality, depicted, on one hand, by the economical, social and political climate in which the Romanian enterprises develop their activity and, on the other hand, by the economical and financial situation of each enterpise) and is being characterized by insecurity, non-productivity, reduced performances, etc. We can expect nothing but a painful "book-keeping truth" and we suppose that under these circumstances we may assist to a distortion of the book-keeping image.
- Is there a comparability if there are standards which limit the options but do not exclude diversity?

We think that the satisfaction of the informational needs of the users in making economical decisions imposes the achievement of a balance between relevance and credibility.

- The rapport cost-benefit has as a premise to consider the financial information as a "resource of the enterprise". The benefits obtained through the use of information must be superior to the costs which are necessary to its delivery.
- The balance between the qualitative characteristics is, generally speaking the condition sine-qua-non in order to achieve the objective of the financial situations. The achievement of this objective becomes more difficult when the relative importance of qualitative characteristics is a problem of professional reasoning which belong to the producers or users of information related to financial situations".
- The faithful image or the faithful presentation, the performances and the changes of the financial position must be a reality, not an idea.
- In order to be useful in mking economical decisions, the book-keeping information must have all the qualitative "standards". That's why, some "situations of conflict" may frequently appear between them. The most commonly encountered situation is between the relevance and the credibility because the growth in what concerns the relevance of information decreases its credibility. We can assert that to impose some qualitative characteristics to the book-keeping information is a necessary nut not sufficient condition to have the guarantee of its quality.

Due to its importance, the problem of quality criteria has been in the center of multiple theoretical and empirical studies. Such a study has been made by the researcher Morton and has had as an objective to check if the qualitative characteristics mentioned in the conceptual framework are correctly understood in practise and if they form the basis of making a correct decision. The conclusions enunciated by Morton have been the following: the qualitative characteristics are subjective while the intelligibility and the relevance are two qualities which depend on each other. As a consequence, the information which is less intelligible but relevant are not taken into account by the users when they make economical decisions.

We can draw the conclusion that in the economical unities the book-keeping information plays a very important role in the knowledge and the multilateral analysis of phenomena and processes and it constitutes, in fact, the basis of making decisions. They have imposed both through their increased cognitive value and through the importance they have in the total volume of economical information.

The efficiency of the decisions and of the aactivities undertaken in the leadership process is influenced by the quality of book-keeping information and by the way this information is understood and applied. This category of information allows the leadership of economical unities to realize the way in which the activities must be developed and to compare the efforts which have been made with the results which have been obtained.

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THE PARTICULARITIES OF TOURISM AND PUBLIC FEEDING PROCESSES AND THEIR INFLUENCE UPON THE ACCOUNTING MANAGEMENT

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Summary: The importance of the two fields of activity – tourism and public feeding – within the national economy frame, constitute the first reason as regards the choise of the research theme.

The second reason that we had in view, as important as, the first one, is the place and the role of accountancy in the managerial process.

The implications concerning the particularities of the two types of the activities upon accountancy are multiple, but we only kept in mind some of these considered more important by the specialists.

Key words : tourism, public feeding, distinct features, system of accounts, accounting technique.

Tourism is situated, within the national economy, in the third section – of services, together with trade , transport, public feeding and other activities that do not produce material goods.

Two famous specialists in the management and marketing field, namely Kotler and Armstrong state that : "services are facilities with immaterial form given by the supplier to a beneficiary, without the latter,as a buyer, to get the right of ownership .Usually the services are connected to a material good, although this is not a compulsory condition."

Specialized literature reveals the fact that the individualisation and the limiting of services from the other components of the economic and social activities is based on the specific features of these activities.

As an activity of providing services, tourism means a series of specific features coming out from the particular way of carrying on the activity, of its own nature of production and work in this field. Some of them are the same with all the components of the third section – which emphasizes on the tourism membership to this section - having only distinct character, others are specific only to tourism services and are determined by the tourism supply and demand.

In the following part, out of the multitude of features common to all the services, we bear in mind only those that specialists consider as being more important:

- Unstockability – due to its inmaterial feature, touristic services can not be stocked and kept for a future consumption. Some authors in the field name this feature perishability. It can generate a series of drawbacks, especially in ensuring the equilibrium between supply and demand and the effective accomplishment of the touristic services. Therefore, the services once offered on the market, but not used determine losses of human and material means (for example, the offer of places for accommodation) but they can not be kept.
- The simultaneousness of production and consumption – the accomplishment of the touristic services imposes the presence in the same place of the provider and of the beneficiary, the concomitance of their carrying out and their consumption
- The inseparability from the person of the provider – the touristic services cease to exist from the moment of ending the action of the provider.
- The high weight of the expenses with the human work – the presence of the worker in tourism both due to the specific of the activities and the consumer - tourist psychology, is required.
- The lack of ownership means at the same time, in some specialists opinion, a feature of the tourist services. Thus, the tourist is offered a satisfaction without the result of the transfer upon any object. Within this context, touristic service providers should make special efforts for their clients to become faithful to them, by offering different incentives to their consumers.

In their turn the features specific to touristic services mainly refer to the following issues :

- The personalization of services – due to the differentiated behaviour of the tourists regarding each component of the carrying out of the touristic services, they should be particularized both at the group level, and the individual level.
- Temporary fluctuation - the result of the oscillation of the tourist request, of its concentration in certain periods of the calendar year.
- Complexity – the result of different combinations between the elements that come out of the natural and anthropic conditions specific to each touristic destination and the services provided by the organizers
- Dissimilarity – the result of the touristic services being dependent on material endowment and the provider's personnel
- Replacement – results of the multitude of opportunities of the combination and the substitution of the elements constituting the touristic offer, allowing the accomplishment of a large range of touristic products.
- The participation of a large number of service providers to the accomplishment of the final product - this feature comes up as a conquence of a great number of economic activities comprised in the structure of touristic service (accommodation – meals, transportation, entertainment, production and selling of goods specific to tourism, services connected to the organization of tourism).

In the context of those presented so far, we can declare that those particularities influence, to a certain larger or smaller extent, the way of organizing and managing the accountancy of the economic units that develop activities in tourism.

The implications of these particularities upon accountancy are multiple, but we keep in mind only few of these, considered by the specialists as being more important:

The variety of services ensured to the tourist all the way of his trip (accommodation, meals, transport, visits etc) determines the complexity of the touristic activities

If these services are comprised within a programme determined in time and space, for a certain touristic action (holiday programme trip etc) they form the touristic action (holiday programme, trip etc.)

In order to determine the efficiency of the activity carried on, globally or partially, the accounting limitation of expenses and incomes on activities, types and kinds of touristic activities, types and kinds of touristic services, as well as the suitable detaliation of the analytical accounts of the accounting management, are required.

a) Each touristic action is entrusted to a specialized agent who receives mandate to making the expences required by its accomplishment.

Handling various valuables (money, traveling tickets, etc) the travel agent becomes debter until the moment of justifying the received valuables, at the end of the action.Special attention should be payed to the material guarantee, issued on the name of the travel agent, since he uses large values sometimes.

The registration of the expenses in the accounting process takes place after concluding the touristic actions, since the agent keeps himself the documents containing the expences during the trip period.

In the accounting management process, the expences reimbursed by the travel agent have the effect of a direct expense given the touristic action, their reflection being justified into each of these . From the practical point of view, due to the large number of touristic activities, the analytic pursuing of these can be possibly done by the help of the technical – operative book keeping and the analytical accountancy of the direct expences to be done into the inner management accountancy only on activities and on types of touristic actions. These difficulties can be easily surpassed if electronic means are used in the process of treating the accounting data, when by suitable enconding, only one a complex data processing is possible both for the financial accountancy and for the management one.

b) The short period of time of the touristic actions, which makes a touristic action initiated within a month time to end in that particular month, being a direct connection between incomes and expenses in the same management period. If the actions are in development, they are not looked as expenses the documents being held by the travel agent, and if some payments are done, they are treated in advance using number 471 account: “Expenses registred in advance”.

c) Touristic services are usually collected in advance regarding the total utilization of the capacity of the technical and material basis.Guaranteed means of payment can also be used.

Since the effective value of the services is different than the one collected in advance or the touristic reflection of the collection coincides with the incomes, being made evident en number 472 account: “ Incomes registred in advance”.

The various conditions of engaging touristic services determine differentiation in the way of settling the services and the emphasizing of incomes and expenses.This settling in the organized tourism is done between the contracting units through the agency of banks.In the unorganized tourism, the practice of tourist paying in advance is frequently encountered and as a consequence, the received amount of money is to be regularized or the money connected to the unprovided services is to be reimbursed.

In the organized tourism the expenses and the incomes are emphasized only by the contracting unit even it the performing units also participate to its accomplishment.

In the unorganized tourism, the expanses and the incomes are reflected in the accountancy of the unit that organizes and collects the money from the touristic services.

The expenses that the providing units made , are not emphasized as the expenses of the touristic activities, but in the form of the expenses from the touristic service activities, being recovered from the requesting unit. The incomes also come from the touristic service activities.

In the case of the accomplishment of a touristic action, more units participate, one of them palying the part of the organizing unit and the others being performing units .This situation determines the emphasis of incomes and expanses from tourism activities only in the accounting of the organizing unit and the recovery of the price of the touristic services by the performing unit from the organizing unit (usually from the travel agents). The performing units receive an errand for some services, out of which they cover their own expenses and they ensure their own profit.

The content and the particularities of the travel activity determine, from the accountancy aspect, the utilization of a certain system of accounts and a suitable technique of entering in the accounts of economical – financial operations. Both in the specialized literature, and in the practical activity the specialists deal with different forms entering in the accounts of the touristic activities, more accounts being used, of which the following can be mentioned :

- 472 “ Incomes registered in advance “ – reflects the price of services of medical attendance and leisure, received in advance. These returns are constituted into incomes in the same financial exercises, at the beginning of the holiday periods, corresponding to the fully used places.
- 704 “ Incomes from the work performed and the services done” – reflects the incomes constituted at the beginning of the holiday
- Expense accounts – used to collect the expenses of the organizing unit.
- Treasury accounts – for defraying of the expenses
- 121 account “ Profit and Loss Account “ – to emphasize the result got from the performed activity .

According the way of engagine of touristic performance, direct relations of the travel unit with the outside companies and with the tourists, can be reflected by using 419 account “Clients – Creditors” or 462 account – “Various Creditors”

We choose to use 419 account “Clients – Creditors” that can be detailed on types of touristic actions or on types and kinds of touristic performance.

In order to offer information regarding the constitutive elements of costs and results, one can use the management accounting, using the 9th class accounts of whose content should be adapted to the specific character of the touristic activity. On the other hand, according to the real situations we consider as necessary the introduction of accounts adapted to the specific character of the touristic activities, as follows :

- 901 " Internal settling up of accounts regarding expenses " which ensures the process of taking over the expenses from the financial accountancy into management accountancy.
- 904 " Internal settling up of accounts regarding the performance done", detailed on inner tourism, international tourism, medical attendance and leisure tikets etc.
- 903 " Internal settling up of accounts regarding the Differencies of Price with development in analytical way, similar to 904 account. Having in view the explanations previously given regarding the specific features of the touristic units the amounts registred in 903 account will have the meaning of incomes from the performed activity and not differences upon costs.
- 921 " Basic activity expenses " whose name can be "Expenses of the basic Activity in Tourism ", developped in the analytical way for the inner tourism international tourism, medical attendance and leisure tikets, visa granting etc for expenses that can be identified according to the respective actions or touristic services.
- 924 " General Epenses of Mnagement ", with modified name and content, which to take over, from the financial accountancy, the indirect expenses given the types and ways of actions on touristic services.Due to the complexity and the variety of touristic activities, the sums registred in 924 account will have to be distributed according to the types of activities, having in view the above mentioned way of analytical detaliation, the basic of distribution being the value of direct expenses stipulated in the price precalculation.
- 941 " Service Peformmed Cost" which is detailed for the inner tourism, the international one selling of medical attendance and leisure tikets, visa granting etc.
- in close connection with the touristic activity in the public feeding activity, which can function withen this one's frame, but also independently, as a specific unit.

The particularities of the activity that develops in the public feeding field, such as: the complex aspect of the activity (production activity and goods circulation), different types of restaurants and the wide range of types of goods have a direct influence upon the way of organizing the accountancy of operations from these units.

The most important particularities regarding the organization of accountancy, consist in the impossibility of separation of this activity of production from the circulation activity, to the joint operative units of public feeding.

The activity of production, should normally be followed by the help of the expenses account specific to this activity, calculating the cost according to products, and finally the financial results of this activity shoud be able to be established.

The activity of circulation, on the other hand, should be distinctly followed by the help of accounts corresponding to goods, differences of prices on goods, expenses and incomes.

The distinct following of the two cathegory of activities is not possible, due to the tight combination of production expenses with the circulation expenses.The majority of the expenses that occur in these units have a mixed character, referring to both cathegories, and we can exemplify here : the salaries of the managerial personnel and the auxiliary one, the redemption the fixed means, the expenses generated by the electric power etc.

The content and the particularities of the activities of public feeding determine, in the accountancy aspect, the utilization of a certain " system of accounts and a suitable technique of entering the economical – financial operations into accounts .Both in the specialized literature and the practical activity , the specialists use various forms of accounting of the public feeding activity. There are different points of view regarding the accounting in the operations done in the confectionary and pastry laboratories such as :

- Some authors encourage the giving up of the utilization of the 345 account " Finished Products" and 711 " Stock Variation" because 345 account does not usually reflect real management, the confectionary and pastry products being delivered right from the laboratories, and 711 account does not justify its utilization from the same reason of quick circulation of products, the high degree of perishability does not allow their stocking.

Other authors consider that, due to the fact that in the confectionary and pastry laboratories an activity of production is developed, the two accounts that reflect the production results should be used.

As far as we are concerned we agree with the second point of view for the following reasons :

- The utilization of 701 account : " Incomes from the finished product selling " implies the registration of finished product in the debit of 345 account and in the credit of 701 account.
- There are deliveries between third persons that are not directly done from the laboratories and the products are stocked within the validity limit.

Regarding the management accounting of the goods circulation in the public feeding, it can be accomplished by the specifiction of accounts in the 9th class : "Management Accounts".We are for the setting up of groups of expenses and incomes so that to establish the profitability according to places and to groups of products or even to products.

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THE INFORMATIONAL VALENCES OF THE FRENCH FINANCIAL STATEMENTS' SCHEDULE

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The schedule to the French financial statements is completing and commenting at the same time the information given by the balance and the result account, representing an essential instrument for the reflection of the true image of the enterprise's patrimony, financial statement and result.The schedule is defined as a document including the explanations necessary for a better understanding of the other synthetic documents and completes or presents under another shape the information within those.The structure of the schedule depends on the size of the enterprise, having two formats: simplified schedule and basic schedule.Besides the compulsory information stipulated by the legislation, other information considered necessary and relevant for the achieving of the true image will be recorded as well.

Keywords: schedule, synthetic documents, true image, basic schedule, simplified schedule

The schedule is a document of English origin, corollary and instrument to put in practice for the principle of true image/description.

It had been introduced in France by GAP, becoming in 1982 a compulsory document, beside the balance and the result account in the structure of the annual statements.

From the general point of view, we consider **that the schedule has the role to give the information and the explications necessary for a better understanding of the other synthetic documents, to complete or present under another shape the information within those.**

As an argument in favor of our opinion we mention the art.9 from the Commerce Code saying: **the schedule completes and comments the information given by the balance and the result account.**

It becomes therefore an essential instrument for reflecting the **true image** of the enterprise's patrimony, financial statement and result.

So if the application of an accounting prescription is not enough for revealing a true image, supplementary information must be given in the schedule.

The Commercial Code also stipulates: "*if, in an exceptional case, the application of an accounting prescription is improper for revealing a true image of the patrimony, the financial account or the result, a derogation must exist; this derogation is mentioned in the schedule and seriously motivated, pointing out its influence on the the enterprise's patrimony, financial statement and result*"[340].

The same legislative act is referring to the contents of the schedule, as following:

- the total amount of the enterprise's obligations regarding the retirement funds is indicated in the schedule;
- the balance, the result account and the schedule must include as many columns and situations as necessary for reflecting the true image of the enterprise's patrimony, financial statement and result.

In consensus with the stipulations of the Commercial Code, the Accountancy Law also stipulates a series of information that must be given by the schedule, such as:

a) presentation of significant information;
b) presentation of some balance positions in detail;
c) explications of sums that are object of the records from the regularization accounts;

[340] Neag R. – Reforma contabilității românești între modelele francez și anglo-saxon, Editura Economică, București, 2000.

d) commentaries on various situations like: expenses related to the society's formation, the research-development expenses, the commercial fund, other non material fix assets etc.

And, last but not least, the GAP defines the schedule as: "**a document that includes the explications necessary for a better understanding of the other synthetic documents and completes, when is needed, or present under another shape the information within those. No presentation in the schedule can not generally represent a substitute a normal registration stipulated by the General Accounting Plan in other synthetic documents."**

GAP also includes the necessity to mention in the schedule the accounting methods and rules used, the information complementary to the balance sheet and the result account, as well as other informational elements.

Considering the fact that financial statements must present a true image of the enterprise's patrimony, financial statement and result and the incidence of the fiscal norms bring about important subterfuges in accountancy, our expressed opinion is that **"schedule has an important role in presenting supplementary information, commentaries and explications that will allow access to other perspectives, different from the juridical one in the accountancy domain.".[341]**

We consider justifiable to point out the perspective of Claude Perochon who succeeds in synthesizing the informational significance of the schedule in regard to the application in practice and the achievement of the objective **true image** – an opinion we sustain.

The role Claude Perochon gives to the schedule is found in its presentation, as mentioned above:

1. **a complementary document** to the balance and the results account; it has no double utilization with these two, only brings its information in addition to those to complete them;
2. **an open document** in which all information susceptible to influence the judgment of the annual accounts reader on the matter of the enterprise's patrimony, financial statement and results must be recorded.
3. **a document meant for the principle of importance**, because there are no compulsory standards for the schedule like in the case of balance sheet and profit-loss account;
4. **a document for the accounting side but also for the extra accounting side:**

   1.**accounting**, for the elements given directly by the accounts and verifiable in those

   2.**extra accounting**, for the qualitative or quantitative elements that are not expressed in the accounts.

5. **a document modulated according to enterprises' nature and size**, modulation that is not the identical with the limits stipulated for the use of basic or arbitrary systems, as follows:
   - **juridical persons:**
     - over 50 employees – **basic schedule**
     - until 50 employees – s**implified schedule**
   - **physical persons:**
     - more than 3.500.000 F from the business turnover - **simplified schedule**;
     - less than 3.500.00 F – **no schedule.**

The schedule is guided after the same principles as the other two financial statements, the balance sheet and the result account.

In consequence, the information stipulated in the schedule must be as reliable as the ones in the balance sheet and the result account, which means they can be verified by confrontation/comparison with the documents attesting their accuracy, and are comparable from an financial exercise to another or from an enterprise to another by application of the same methods of calculus and presentation.

Related to the schedule's contents, the GAP gives an **indicative list** of the information that are presented in the schedule only **if they are significant**.

Considering the above paragraphs on the matter, the conclusion is that **the most important information part of the schedule's structure are generally referring to:**

- the accounting methods and norms;
- the image/description of fix assets, amortizations and provisions;

[341] Perochon C. – Presentation du plan comptable français (PCG'82), Les Editions Foucher, Paris, 1983.

- the image/description of settling days and debts;
- liabilities and debts represented by commercial effects;
- explanations on the difficult accounts, respectively: formation expenses, commercial fund, regularization accounts etc.;
- information on the credit-bill operations.

We notice the large importance shown to the information that are object to detailed presentation in the schedule. We can group these, generally, in three sections:

- information related to accounting methods and norms, if they are considered significant;
- supplementary information related to balance and results account, if they are considered significant;
- other significant information, other than the already presented ones.

Because of the details degree of schedule's information, we consider obvious the higher and higher role and importance those have within the assembly of the documents done at the end of the financial accounting exercise.

The detailed presentation of the information considered significant in the decision taking process expresses a new vision on the users of the accounting information, that is also found in the methodology for the elaboration of the financial statements to be compulsory presented by the Romanian enterprises.

In conclusion, the information structured in the schedule must assure the satisfying of the informational needs of the various category of users.

The structure of the schedule is differentiated depending on the enterprises' size and has two formats:

- simplified schedule
- basic schedule

The compulsory information that must be presented in the simplified schedule are referring to: commercial effects, expenses to pay and incomes to receive; the expenses and incomes discovered in advance; leasing and the clause of property reserve.

For the **basic schedule**, the legislators have not imposed **a compulsory standard presentation,** and have only defined the information it must offer, information already presented when their classification was pointed out in a general manner.

In regard to the accounting norms and methods that are presented in the schedule, we consider necessary to be mentioned the general conventions applied, and in the case of derogation from the above the reasons for which the method was changed indicating the direct influence on the patrimony, financial statement and results.

The French enterprises present the following informational valences regarding the **information complementary to the balance and the result account**:

- the situation of the fix assets;
- the situation of amortization;
- the situation of provisions;
- the situation of the claims' settling days and of the debts at the closing of the financial accounting exercise after the criterion **under 1 year, between 1 – 5 years** and **more than 5 years;**
- the variation of the reevaluation differences within the exercise and their repartition;
- the situation of the financial obligations;
- information about leasing;
- the modality of accounting the commercial fund and its depreciation;
- the accounting treatment of the non material fix assets, of expenses and incomes imputable to other exercises and of the exceptional expenses and incomes;
- the distribution of the business turnover on sectors of activity and geographical markets;

- the affiliation of the income tax to exceptional elements and other elements in order to point out the current result after taxation;
- information concerning the consequences of applying the fiscal dispositions on the exercise result;
- mentioning the increase or decrease of the future taxation debts that derive from the temporal difference between the fiscal process and the accounting treatment of the incomes and expenses;

In the category of **other various information** are included:

- the image of the result affiliation that presents the modality used for the result's repartition;
- the image of the result and other specific enterprise elements during the last five financial accounting exercises;
- the list of subsidiaries and participations;
- the number and nominal value of shares;
- the identity of all enterprises setting consolidated accounts;
- the medium number of employees on categories etc.

Besides the compulsory information stipulated by the legislation, other information considered necessary and significant for achieving the real image will be also recorded in the schedule.

While analyzing the problems of schedule, we may notice the special informational valence given to it, an approach found also in the romanian schedule, the difference being that the legislators in Romania impose a more restrictive character of the information presented in the explicative notes and, more than this, standardizing the format of some of situations such as:

- the situation of provisions(Note 2);
- the situation of profit repartition(Note 3);
- the situation of the exploitation result analysis(Note 4);
- the situation of claims and debts(Note 5).

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SUSTAINABLE DEVELOPMENT INDICATORS: HUMAN CAPITAL AND ACCOUNTING

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This paper wants to reveal the importance of Sustainable Development (SD) as a new concept and also the measurement of sustainable development indicators (SDI) on a capital approach. Capital approach is a new concept for SDI measurement so that the research team considered that it is interesting to present this approach. The team's preoccupation was human capital (HC) as a concept and valuation and also some possible contributions that make clear this concept and how organizations must act and how accounting must provide information.

Key words: sustainable development, sustainable development indicators, human capital, accounting.

Introduction

Sustainable Development (SD) was defined by The Brundtland Report of the World Commission on Environment and Development as follows: "Humanity has the ability to make development sustainable – to ensure that it meets the need of the present without compromising the ability of future generations to meet their needs". This definition clearly reveals two fundamental aspects: one is based on present needs or intergenerational equity issues and the other has to do with future generation or development in time.

So that SD may be considered as a temporal concept, a never-ending process where development must be forever in the benefit of the sustainability.

What kind of development may be accepted for a long period of time? Is this in relation with a long-team policy? When is a development good or bad? Why a development is considered as a good or bad one?

These are some questions that were arisen during the period when the research team was studied SD and SDI and also the accounting's position in this context.

Sustainable Development and Sustainable Development Indicators

The concept of development (economic development) was analyzed during a long period of time, on a capital base of societies as an important force behind development. Capital as a base that explains development consists on more than money and assets (produced capital), such as human, natural and social capital. Consequently, development may be explained by produced capital; human, natural and social capital.

Sustainable development is a dynamic concept, is about the development of social welfare over time. Also development over time requires savings that can be invested in various capital types.

SD, as a new concept, was analyzed by a lot of researchers, such as A. Knut, M. Greaker, A. Geir etc. Pears and Atkinson (1993) considered that SD might be a weak or a strong sustainability. Strong or weak sustainability is a concept based on the interrelation between different types of capital, the substitution between the various stocks of capital.

Sustainable development from a capital approach was characterized as follows in the UN handbook and System for Environment and Economic Accounts (SEEA 2003): “Sustainable development is development that ensure non-declining per capital national wealth by replacing or conserving the sources of the wealth: that is stocks of produced, human, social and natural capital”.

Capital approach to measuring SD was often analyzed by different institutions and organizations implied in SD policy but also by a lot of researcher interested by a theoretical outline of the capital approach. Some arguments in the favor of this concept are the following:

- welfare may be considered as a function of how assets are distributed so distributional rules can be viewed as a manifestation of social capital;
- production and consumption can be seen as a function of capital, of how capital was allocated through the working of societies institutions (Dasgupta, 2001).

By contrast Czesnay (2007) considers that capital is not the most appropriate term to be used because of a misleading connotation between different forms of capital.

Total National Wealth (TNW) may be defined as the sum of different types of capital. But to give a value to TNW each form of capital must be valued based on an accounting price or shadow price, which are defined as the welfare effects of a marginal change in the corresponding types of capital.

Human capital (HC) and accounting

Human capital is not a traditional type of capital such as financial assets and physical capital. Human capital in its current meaning is what used to be called human potential or human resources. HC may be defined also as an individual’s collection of human resources including personal abilities, knowledge, skills, time, and energy. Other some definitions of HC are as follows:

- the stock of economically productive human capabilities (Bahrman and Taubman in World Bank, 2006,p89);
- the knowledge, skills, competencies and attributes embodied in individuals that facilitates the creation of personal, social and economic well being (OECD, 2001).

Czesnay (2007) analyzed the relation between HC and the enhancement on the other forms, such as:

	Private benefits	Public benefits
Economic benefits	I	II
Wider social benefits	III	IV

Human capital theory was based on private economic benefits because an better-educated people are economically active and also potential sources of higher earnings. In other way, investment in HC may yield benefits to the economy at large.

A study that was made by OECD shows us that a rise in HC by 10 percent leads to an increase in output per capital between 4 and 7 percent. So that, in the last years, researchers tried to identify the effects of education on economic growth in order to show that HC in general and education in special, have on important impact on national wealth.

In order to calculate SDI, on the capital approach is necessary to establish a measurement frameworks. What does this mean? In this context a measurement framework “is a practical set of data and organizational rules that translate a conceptual framework into policy relevant information in the form of a sustainable development indicators set” (Working Paper, Economic Commission for Europe Conference of European Statisticians, 2007, page 40).

The instruments used for a measurement framework are considered national accounts. In 2003, UN made an extension of the Standards for National Accounts (SNA) to cover natural resources and this was done in the Systems of Environmental and Economic Accounting (SEEA). But, regarding HC and SC such extension does not exist. In this context, a part of HC may be estimated based on national accounts, using some data from those accounts.

Regarding HC, in literature, there are two points of view: the first consider HC composed by three elements: raw labor, education and skills and the second identifies HC with education and skill.

The value of HC was calculated not only to evaluate SD but also for other three reasons:

1. to evaluate education policy;
2. to evaluate what determine employment;
3. to understand economic growth (Stroombergen, Rose and Nana, 2002, Review of Statistical Measurement of Human Capital).

How to calculate the value of HC? This was a challenge for many researchers. An intensity method for HC valuation was conceived by Stroombergen, Rose and Nana. They identified three categories for HC valuation such as:

a) the cost based method that estimate HC from the input side;
b) the revenue generating method that estimates HC from the output side;
c) the current stock characteristics method.

a) On the cost based method from the input side, HC is estimated by all expenses that contribute to HC formation such as education expenses; on job training expenses and employer financed outside job courses. Also some depreciation may be considered due to the period when people leave the work, or stay unemployed, or they begin a new trade.
b) The revenue generating method from the output side supposes to estimate the expected wages obtained on a labor market. In this method the economic point of view is important.
c) The last method consist in a separate measurement of average years of schooling in the population, unemployment rates, the health status of the population and to translate them in monetary units to the stock of HC.

Because a lot of investments in HC are made, HC may be valued at the discounted sum of expected returns.

Pearce and Atkinson (1993) discussed for the first time about an indicator called Genuine savings for SD. After this moment a lot of researchers developed this indicators. In 2005 World Bank, in a book presented a model of how to calculate genuine savings (GS) as follows:

$$GS = NIPC + EE - RR - DE$$

where: NIPC – net investment in physical capital

EE – expenses for education; wages paid to teacher, but excluding investment in buildings

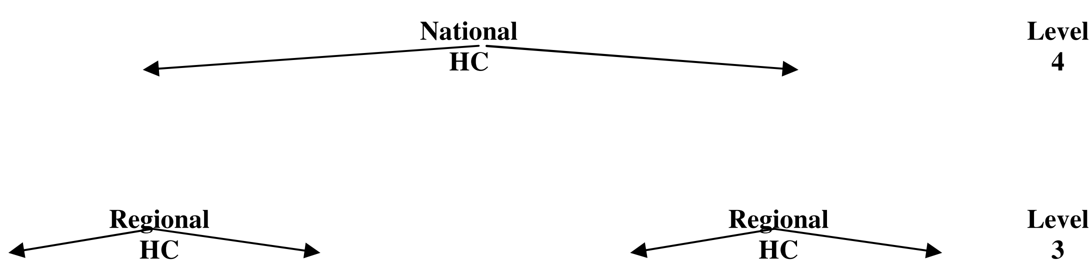
RR – resource rents in non-renewable natural resource sectors

DE – damages to environment from particulate matter and carbon dioxide.

If GS is non-negative that means that consumption is sustainable. This indicator also expressed changes in HC component with expenses to education for a particular period of time.

In the last years the growth literature has tried to ensure HC from the output side, because HC from the input side was largely debates in literature. So that Becker (1975), Jorgenson and Traumeni (1989,1992), Hui Wei (2004), Ervik, holmay and Hargeland (2003), based on the measurement of HC from output side, calculated rates of return to education by looking at wages differentials between workers with different levels of education and also they calculated the HC component.

One important conclusion arises from this presentation: that is not easy to measure HC in order to calculate SDI. In our opinion HC may be analyzed at different levels such as:



Local HC	**Local HC**	**Local HC**	**Local HC**	**Level 2**
		Organization's HC		**Level 1**

The measurement of HC at different levels must be something specific based on procedures and methods considered as appropriate for each level and also for the general target that is the calculation of SDI on capital approach.

From the organization's points of view in order to ensure the participation to the preparation of a HC measurement framework is necessary some information to be periodically transmitted to a higher level so that organizations must prepare a few statements where some indicators regarding HC and HC components are to be presented.

Those indicators may be:

- number of employees classified by different level of education and wages received;
- training expenses in order to help employees to gain a particular job skill and techniques that help them contribute to achieve the organization's strategy;
- development expenses involving on-going education to help prepare employees for future jobs;
- on-the-job training expenses for new employees in order to accumulate enough experience to achieve a predetermined performance.

Those indicators may be calculated based on accounting information, especially from managerial accounting where a network of budgets is prepared and HC budget is an important part of the budgeting system. In order to calculate national HC two elements are necessary: (1) information from other levels and (2) own procedures and information (statistical investigation). So, two kinds of accounts are basically used: organizations accounts and national accounts. The research team considers that for organizations the measurement of HC may be ensured from output side and for other levels of HC from both methods.

SDI on the capital approach

In the report from the Joint UNECE/OECD/Eurostat Working Group on Statistics for SS was presented a list of SDI based on capital approach such as:

1. real per capita economic wealth
2. real per capita produced capital
3. real per capita human capital
4. real per capita natural capital
5. real per capita social capital
6. a physical indicator of climate
7. a physical indicator of air quality
8. a physical indicator of water quality, quantity
9. a physical indicator of ecological integrity
10. a physical indicator of biological integrity
11. a physical indicator of soil productivity
12. a physical indicator of educational attainment

13. a physical indicator of health status.

This set of indicators clearly reveals two policies: (1) to optimize the social welfare in relation with a given stock capital and (2) to limit or reverse the depletion/degradation/depreciation of capital stocks through investments of savings.

An important advantage of this set of indicators is the possibility of international comparison (benchmarking) between different countries. On the other hand, another advantage is the opportunity to invest in different types of capital and use these capitals.

SDI calculated on capital approach operates with a long period of time, because the effect of different actions is not immediate.

In our opinion organizations must contribute with a set of specific indicators to the calculation of SDI. So, these indicators are obtained by the contribution of different organizations and areas.

General conclusions

(1) SD as a new and important concept must be known by people and organizations in order to act consequently;
(2) SDI ensure the measurement of SD;
(3) SDI may be calculated on different basis;
(4) Capital approach is now considered as an appropriate base to measure SD because of some advantages such as:
    a. Solid theoretical base;
    b. Harmonized solution across countries;
    c. Comparability; work in cooperation;
    d. Reduce political manipulation;
(5) HC is a specific form of capital difficult to be measured, but some theoretical methods were created and applied in practice;
(6) HC may be analyzed at different levels in order to calculate the real value;
(7) Accounting must have an important contribution to the preparation and presentation of appropriate information for HC calculation;
(8) HC policy, in our opinion, must be a national policy and each region and organization has to ensure the application to the general human resources policy.

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DEVELOPMENTS REGARDING THE MANAGEMENT ACCOUNTING- WHERE ARE WE AND WHERE ARE WE HEADING TO IN THE CALCULATION OF THE COSTS?

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Starting from the reality according to which, from the objectives of the management accounting, for the model adopted in Romania, ***the objective regarding the stocks management lacks – this one being realized through the financial book-keeping*** *– a main objective of the study is represented by the presentation of two models of book-keeping which allow* ***the passage of the actual model based on the analytic calculation of the costs, to the model centered on the analytic calculation of the result, pattern oriented at the same time towards the stock management****. Also, we appreciate that in the profit and loss account we must renounce to the conflict between the analysis of the expenses by nature and destination.* ***The solution proposed – that of the passage from the results account by nature to the results account by functions –*** *constitutes the second objective of the study and it is based upon the reclassification or the re-composition of the expenses depending on their function and destination.*

Key-words: the analytic calculation of the costs, the analytic calculation of the result, monist conception versus dualist conception, nature-destination conflict.

The existence of a pattern centered on the analytic calculation of the result and oriented at the same time towards the stock management, has as motivation the need to insure, for now in the transition period, through a standardized and obligatory system, the evidence and the control of the stocks integrity. Of course such a variant can be discussed, practically being appreciated that the analytic evidence of the stocks cannot be standardized, the methods and the techniques used being details.

Being given the pattern adopted in Romania, regarding the management accounting, the problem will concern the calculation of the costs and the analytic results. Proceeding in this manner, we are in the same consensus with the fact that within the calculation process, the central problem is represented by that of the costs. By cost it is expressed the consumption having as destination the resources, and by this way we can find answers regarding the allocation of resources to maximize the profitableness.

In what follows we present three solutions regarding the perfecting of the management accounting, this way:

1.The pattern proposed regarding the calculation of the analytic result

A variant which we submit to the attention is **that of the evidence and the calculation of the analytic result without the presence of the stocks accounts.**

The pattern proposed is based on the development of the 9th **class "Management accounts"** on the following structure:

90 Internal reimbursements: 901 Internal reimbursements regarding the expenses; 902 Internal reimbursements regarding the production obtained; 903 Internal reimbursements regarding the price differences; 904 Internal reimbursements regarding the internal circulation; 905 Internal reimbursements regarding the sales

92 Calculation accounts: 921 The expenses of the base activity; 922 The expenses of the auxiliary activities; 923 The indirect expenses of production; 924 General expenses of administration; 925 distribution expenses

93 The production cost: 931 The cost of the production obtained; 933 The cost of the production now being executed; 935 The cost of sold production

95 Accounts of analytical results: *951 Analytical results*

The cycle of accounting registering is presented this way:

1. The taking over of the initial stocks of finite products (**931 = 902** and **902 = 901)**

2. The collection of the effective stocks: (**92x = 901**)

3. The gaining of finite products during the month, evaluated at the standard cost: (**931 = 902**)

4. The sale of the production registered at the sale price: (**905 = 951**)

5. The calculation and the reimbursement of the production costs:

5.1. The effective cost of the unfinished production (**933 = 902**)

5.2. The effective cost of production of the total production (finite and unfinished): (**902 = 92x)**

5.3. The calculation and the registration of the price difference between the effective cost and the standard cost of the obtained production: (**903 = 902** and **931 = 903**)

5.4. The reimbursement of the effective cost of production of the sold production: (**935 = 931**) and with the same value, (**951 = 905**)

5.5. The reimbursement of the period cost:

951	=	**923**
		924
		925

6. The establishment and the registration of the analytic result and the closing of the account **951 "Analytical results"** through the account **905 "Internal reimbursements regarding sales"**: positive result (**951 = 905**) and negative result (**905 = 951**)

It can also be used the variant in which the account **903 "Internal reimbursements regarding the price differences"** is credited by the debit of the account **901 "Internal reimbursements regarding the expenses"**. In this way, in the accounts **931 "The cost of the obtained production"** and **935 "The cost of the sold production"**, the production is evaluated and registered at standard price. Altogether, when taking over the initial stock of finite products the registration takes place:

931	=	**902**
903		

7. The interface cost production-occasional costs

901	=	**905**
		931
		933
		935

2. Alternative – the developed pattern of the management accounting

The new system of accounting, adopted within the reform, circumscribes the management accounting only to the collection and the calculation of the costs of activities, sections, phases of fabrication and products, works and services. For now, it does not propose to keep the evidence of the stocks, the determination of the analytical results, the foreseeing of the costs and incomes through the internal network of budgets, the costs and budget control through deviations. At the same time, the accounting settlements do not exclude, depending on the enterprises' option, the adoption of the developed variant, on the structures above, of organizing the internal management accounting.

In the spirit of those mentioned above, in what comes next it is presented the developed variant of analytic accounting which proposes as objectives: *the analytical evidence of the stocks and the analytical calculation of the costs and of the results on value carriers (products, works and services). The places of the delimited costs presented under the form of activities, sections, phases, of fabrication and of other structures of calculation are used only as intermediary steps in the delimitation and the calculation of the costs concerning different types of products, works and services.*

The adoption of the developed variant imposes the reconsideration of the actual class 9 "**INTERNAL MANAGEMENT ACCOUNTS**", in the structure presented below:

90 Internal reimbursements: 901 Internal reimbursements – initial stocks; 903 Internal reimbursements – buying; 904 Internal reimbursements – expenses and donations; 906 Internal reimbursements – obtained production; 907 Internal reimbursements – sales; 908 Internal reimbursements – analytical results; 909 Internal reimbursements – collector account

92 Costs accounts: 921 The expenses of the base activity (9211 The expenses of the base activity – normalized costs and 9212 The expenses of the base activity – deviations); 922 The expenses of the auxiliary activities (9221 The expenses of the auxiliary activities – normalized costs and 9222 The expenses of the auxiliary activities – deviations); 923 Indirect expenses of production; 924 General expenses of administration; 925 Distribution expenses; 926 Circulation expenses.

94 Inventory accounts: 940 Inventory – commodities and materials (9400 Commodities, 9401 Consumable commodities and 9408 Price differences of the commodities and of the materials); 942 Inventory – inventory objects and compounds (9421 Inventory objects, 9422 The wear of the inventory objects, 9423 Compounds and 9428 price differences of the inventory objects); 943 Inventory - the production now being executed (9431 Products now being executed, 9432 Works and services now being executed and 9438 Price differences of the production now being executed); 944 Inventory – products (9441 Goods in process, 9445 Finite products, 9446 Residual products and 9448 products price difference); 945 Inventory – stocks hold by third parties (9451 Commodities and materials hold by third parties, 9452 Inventory objects hold by third parties, 9453 Products hold by third parties, 9456 Animals hold by third parties and 9457 Goods in custody or in junk shop hold by third parties); 946 Inventory – animals (9461 Animals and birds; 9468 Price differences at animals and birds) 947 Inventory – goods (9471 Goods and 9478 Price differences at goods);948 Inventory – packing (9481 Packing and 9488 Price differences at packing); 949 Adjustments – stocks and production now being executed (9490 Adjustments – commodities, 9491 Adjustments – consumable commodities, 9492 Adjustments – inventory objects, 9493 Adjustments – production now being executed, 9494 Adjustments – products, 9495 Adjustments – stocks hold by third parties,9496 Adjustments – animals, 9497 Adjustments – goods and 9498 Adjustments – packing).

97 Incorporation differences: 971 Non-incorporable differences and 972 Added differences (suppletives)

98 Analytical results: 981 Sales results; 982 Intermediary results; 983 Results obtained after renouncing at the assets; 984 Results obtained from the taking back of the provisions; 985 Results obtained from inventory differences; 989 Other analytical results.

From the comparative analysis of the 9th class of accounts – the actual variant and the proposed variant – can be noticed the introduction of three groups: **94 "Inventory accounts"**, used for the evidence and the analytic management of the stocks, **97 "Incorporation differences"**, for the delimitation and the accentuation of the non-incorporable and suppletive differences; **98 "Analytical results"**, for the calculation and the analytical evidence of the results. It hasn't been created a separate group for the evidence of the incomes, due to reasons of simplification. All incomes created by sales and other operations are accentuated directly, through the credit of the accounts from group **98 "Analytical results"**. Also, by creating the account group for the stocks accentuation, the accounts in the actual group **93 Accounts regarding the production cost** loose their content and accounting function. For the production obtained, their role and function are taken over by the accounts in group **94 "Inventory accounts".**

For the definition of the function of the accounts in the 9th **class "Internal management accounts"** in the proposed variant, we present in what follows the cycle of accounting registrations for the base operations and significant operations.

The functioning of the accounts in group **97 "Incorporation differences"** is inspired from a common principle: **It debits** when the internal management accounting registers fewer expenses and more incomes than the financial accounting; **It credits** in the opposite case; **It sells off** through the transfer to the account **98 "Analytical results"**

In what concerns the adjustment accounts for depreciations regarding the stocks and the production now being executed, **it credits** through the debit of the cost accounts in the case of the increase of the adjustments calculated upon inventory at the closure of the exercise and **it debits** at the diminishing or resumption of the adjustments through the **credit** of the accounts **98 "Analytical results."** In what follows it is presented the cycle of accounting registrations:

1. The taking over of the initial stocks, at the effective cost, (**94x = 901**)

2. Buying of stocks at the price of acquisition (**94x = 903**)

3. The collection of the primary costs, the effective cost of the used production factors

92x = **94x** • stocked consumptions, inclusively unfinished initial production

903 • non-stocked consumptions

904 •personnel expenses, amortize

4. Cost determined by the internal circulation, inclusively the distribution of the indirect costs of production (**92x – place of receiving costs = 92x – place of supplying costs)**

5. The production obtained at registration price, inclusively the unfinished production,

94x = **906**

981

6. The production sale at sale price (**907 = 981)**

7. The reimbursement of the production costs regarding the obtained production (**906 = 92x**)

8. The establishment and the registration of the difference of price,

9438 = **906**

9448

981

9. The reimbursement of the production costs regarding the sold production, the registration price plus the price differences

981 = **9445**

9448

10. The reimbursement of the analytical result

- result-profit (**981 = 908**)
- result-loss (**908 = 981**)

11. The closure of the calculation accounts regarding the costs left outside the production costs

982 = **923** (the under activity cost)

924

925

12. The clearance of the account when closing the financial exercise

- for the accounts with debtor balance

901 = **909**

903

904

908 (debtor balance)

– for the accounts with debtor balance

909 = **94x**

907

908 (debtor balance)

3. The solution of the passage from the results account by nature to the results account by Functions

The solution of the decomposition or the passage regarding the passing from the results account by nature to the results account by functions, even though it appeals to the principle of relativity of the information, it is generator of supplementary efforts. In order to surpass this situation, it can be adopted the solution of the modification of the Plan of the General Accounts respectively of the classes of accounts meant for the accentuation of the expenses which are able to allow the supply of information for the elaboration of the profit and loss account in both variants. The variant proposed is based on the reclassification or the re-composition of the expenses depending on their function or destination. In this way in class 6 "expenses account" is created a distinct group **69 "Cost accounts on destinations"":** *691 The base production costs; 692 The costs of the auxiliary activities; 693 The indirect costs of production; 694 The distribution costs; 695 The general costs of administration; 696 Other exploitation costs; 697 The production cost now being in process; 698 The sales cost.*

According to the above modifications, the registration types regarding the re-composition of the expenses, the permission and the sale of the production are:

1. The re-composition of the costs depending on the expenses destination (**69x = 60x, 61x, 62x, 63x, 64x, 65x**)

2. The production cost of the obtained products (**34 = 697**)

3. The production cost now being executed (**33 = 697**), and at the opening of the period: (**697 = 33**); and it can be effectuated the registration too (**691 = 33**) or (**692 = 33**)

4. The cost of the production and of the sold goods

4.1. Sold products: (**698 = 34**)

4.2. Sold works and services (**698 = 697**)

4.3. The cost of the sold goods (**698 = 607**)

5. The collection at the closing of the period of the costs included in the production cost of the products and services:

697 = **691**

692

693

694

695

696

The costs of the period unknown as the element of the product cost remain as debtor balance of the accounts above.

7. The recognition in the profit and loss account of the costs connected to incomes (**121 = 69x)**

For the debtor balance of the costs accounts, and for the account **67 "The production cost under way"** for the debtor or creditor balance, by the case.

The above mechanism regarding the bookkeeping of the expenses allows the creation of joint account of result, which represents a combination of the two, nature and functions, which has as center of reference the production sold which has the decomposition of the expenses on functions and within them on natures. The pattern of such profit and loss account is presented this way:

	20-X	20-1

Incomes Sales cost **Gross margin** Other exploitation incomes Distribution costs Administrative expenses Other exploitation expenses **Exploitation profit** Financial costs Incomes from partner enterprises **Profit before taxation** Expenses with taxation on profit **Profit after taxation** Interest pertaining to a minority **Net profit from current activities** Extraordinary elements **Net profit of the period**	X (X) X X (X) (X) (X) X (X) X X (X) X (X) X X X	X (X) X X (X) (X) (X) X (X) X X (X) X (X) X X X

Table 1 The profit and loss account

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A MANAGEMENT CONTROL MODEL DESIGNED FOR A DISTRIBUTION COMPANY

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Generally, the concept of management control is associated to the production companies more than to the distribution ones. That is why, the research team considers that creating a management control model for the distribution companies should interest especially the practitioners. In this paper we will present the steps to be followed in the elaboration of a management control model based on the targets set by the company and on the reports that must be prepared for showing the way those targets are achieved. The model proposed will be elaborated based on the identified activities performed in a distribution company and on its responsibility centers.

KEY WORDS: Management control, distribution, performance, reports, responsibility centers

Introduction

Generalizing a reflection on strategy and management control within the Romanian companies is rather recent. The environment changes and especially the changes in the nature and the dimensions of the markets due to the globalization and normalization raised real questions for companies, generated a strategic thinking and made the appearance of an efficient management control compulsory.

The main mission of the management is to integrate as well as possible the external and internal complexity especially by searching for a temporary balance between coordination and anarchy by elaborating procedures and organizational structures that take into account the expectations of the personnel. But this mission won't be fulfilled unless the system called *enterprise* is subject of control.

The managerial accounting corresponds to the adoption of a new way of structuring the expenses in order to obtain a cost of a specific object such as the functions, processes, activities and in the end the finished goods produced and sold. The costs obtained are useful for the managerial decisions concerning the markets, distribution or the analysis and the evolution of the operational processes such as, for instance, the productive processes. Each cost method involves an accounting modeling of the company, a simplified face of the reality we wish to follow and control. This reality corresponds to operational acts that target producing a good or a part of it that fulfills the clauses of a distribution relationship (Sole, 2006).

Nowadays, the economic reality is characterized by uncertainty and strong competition asking from the entities that want to survive the same concern about their mission and vision, their stability in time, their adaptation to the changing conditions. How can you know if the entities follow the correct direction in order to achieve their targets; if they didn't miss their aim; if the instruments they use were well selected and applied? The answer has to be checked in control in general and in management control in particular.

The management control is a domain that interests the managers as they want to find out if the targets were achieved, with what effort, with what failures, why, who is responsible? How do you have to act in the future? We try to answer these questions in this article, which is concerned with the distribution and its characteristics, wishing to obtain adequate solutions.

Literature review

The concept of management control and the models of presentation for specific types of companies was studied by other authors throughout the time.

Mann R., Mayer E. (1996) have presented in their work a new concept of management: management control. Their work was based on a case study for a production company.

Bruggeman W., Everaert P., Levant Y. (2005) were among the first researchers that presented an innovative "method of cost modeling": the time-driven ABC method. In this article they presented examples of time equation and they could even formulate a rule to be used in order to build these equations in general. Their case study was conducted within a distribution company and they consider it is a research as they were pioneers.

The impact of the financial structure on decisions was studied by Saulpic & Tanguy (2004) on the example of burgundy wine merchants.

Research methodology

In order to explore real-world implementation of a management control model, we used the fundamental research (for the literature review) and we conducted case study research at distribution companies. A case study is the most appropriate research method to explore the reasons for a particular accounting practice (Scapens, 1990; Otley & Berry, 1994). As such, this case study represents a preliminary investigation of an innovative management control model, which is intended to generate ideas for testing at a later stage.

Since the purpose of our study was to learn from practice, we conducted interviews. Rather than assuming that the existing literature had covered all aspects of management control models we tried to uncover new concerns as much as possible. Therefore, the direction that every interview took was unique. Complete access was given to the activity databases. The authors approached these companies because of a business contact between one of the authors and the company. In a sense, these companies selection was not random, although it helped tremendously to overcome one of the biggest practical difficulties of conducting case study research, i.e. gaining access to companies (Baxter & Gua, 1998). These companies are attractive because they are some of the biggest companies in its area.

Management control for the distribution companies

Do the entities in the distribution area in Romania have a management control organized as a distinct department with functions and relationships with the other departments?

We can give a negative answer without being afraid to be wrong. However we still have to admit that some objectives of management control are achieved by other departments, without being identified as the attributes of the management control. As a consequence we can only suggest the organization of a distinct department that will have to pursue, analyze and report the information needed for the support of the managerial decisions concerning the achievement of the targets fixed on a short term as a step in reaching the strategic objectives. For this we consider that the information related to the costs is welcomed as it allows the computation of margins and results both at the level of the entity, groups of products and clients. As the generally accepted objective of each entity is customer's satisfaction it is normal for the management to have complete information about the clients they interact with.

As a consequence, we suggest two types of analysis adapted to the distribution companies especially because of the diversity of customers they operate with. A first analysis is a global one, at the level of the entity and on the warehouses, connected to achieving the performances: turnover, cost of sales, gross margin, profit or loss, breakeven point, standard and real.

For this, a model of such a report could be presented in the following manner:

Table 1. The report for the global/warehouse analysis

ElementS	Real	Standard	DIFFERENCES		CauSeS
			-	+	
1. Turnover	X	X´			
2. Cost of sales	X	X´			
3. Gross margin (1 -2)	X	X´			
4. Other variable expenses	X	X´			
5. Total variable cost	X	X´			
6. Margin on total variable cost (3-4)	X	X´			
7. Fixed expenses	X	X´			
8. Profit or loss (6-7)	X	X´			
9. Profit or loss/Turnover	X %	X´%			
10. Gross margin/Turnover	X %	X´ %			
11. Margin on total variable cost/Turnover	X %	X %			

The data source for fulfilling this report can be: the budgets network, the financial and managerial accounting. If the total of the expenses according to their nature is offered by the financial accounting, for function and behavior classification we have two options, meaning: a development of the financial accounting or the managerial accounting as suitable. The situation presented is also functional at the level of the warehouses, because each warehouse corresponds to a center of profit, so it can present an elementary profit or loss account.

In case an entity is split into different area, the report will be fulfilled for the total company and for areas. The effect is connected to the adapting the price politics to the specific of each area in the circumstances of achieving the objective of global and zonal profitableness.

At the level of the groups of products, the computation and analysis of the profitableness imposes detailed information concerning the full cost, which are rarely, but not impossible, computed in the distribution.

As the cost of goods sold can be easily computed, the managerial accounting has to focus on the other expenses in order to find a reasonable absorption rate.

In this case the recommended situation could include the information presented in Table 2:

Table 2. The report for the analysis of the profitableness on groups of products

ElementS	Real	Standard	DIFFERENCES		CauSeS
			-	+	
1. Turnover on groups of products	X	X ´			
2. Cost of sales on groups of products	X	X´			
3. Gross marginon groups of products	X	X´			
4. Other expenses	X	X´			

5. Full cost	X	X´			
6. Profit or loss on groups of products (3-5)	X	X´			
7. Gross margin ratio (3/4 x 100)	X	X´			
8. Profit or loss ratio (6/1x100)	X	X´			

Nowadays, the literature presents two types of enterprises (Kotler & Armstrong, 2005):

- some orientated towards the competition;
- other concentrated on clients.

Obtaining a good product with a low cost is not everything; finding the right customer for your product completes the process. The concept of the client profitability splits the performance obtained by the economic entity in categories of clients or groups of clients, building a hierarchy. It starts from the premises that there are not profitable products, only profitable customers and not all the customers bring the same profit. It is necessary to delimitate the part of the profit that corresponds to each client or each group of clients in order to identify properly the consumers which participate the most in profit obtaining and to formulate some future strategies for the profit maximization. And the use of the financial reports cannot be avoided. Manufacturing a product only generates costs while selling it determines the profit.

"Our client our master" should be the guiding line of the companies nowadays. "The scope of an enterprise consists in creating and keeping the client" (Lynch, 2002). The companies owe their prosperity to the customers that choose their products.

By the profitability analysis on customers the customers which contribute in a more significant measure to the enterprise profit can be identified, as well as the customers who are completely not profitable (Curpăn, 2007). According to the "20-80" rule it is possible for 80% of the company's profit to be provided by 20% of the total number of customers. Sherden proposed to change this rule with the following: "20-80-30", first 20% of customers (according to the value of their orders) contribute with 80% to the enterprise profit and half of these profits are used to cover the enterprise losses generated by the last 30% of the not profitable customers (Sherden, 1994).

In the case of the analysis of the profitability of clients appears the problem of computing the cost on client. What does this cost include? The elements would be: the cost of goods sold, the specific cost for the customer (transport, sales agent expenses, telephones, service etc.), the administrative expenses quota. All this components offer the possibility to compute margins and results, allowing a management through margins. Such a report of the profitability of clients is presented in Table 3.

Table 3. The report for the analysis of customers' profitableness

ElementS	Client A	Client B	Client C	Total FOR THE ENTITY OR FOR THE AREA
1. Turnover	X	Y	Z	X+Y+Z
2. Cost of goods sold	X	Y	Z	X+Y+Z
3. Gross margin (1-2)	X	Y	Z	X+Y+Z
4. Costs for the client . client visits . telephones . transportation . invoicing	X	Y	Z	X+Y+Z

5. Client cost (2 +4)	X	Y	Z	X+Y+Z
6. Margin on client (3 – 5)	X	Y	Z	X+Y+Z
7. Administrative expenses quota	X	Y	Z	X+ Y+Z
8. Full cost for the client	X	Y	Z	X+Y+Z
9. Profit or loss for the client (1-8)	X	Y	Z	X+Y+Z
10. Gross margin ratio (3/1x100)	X%	Y%	Z%	average
11. Margin on client's ratio (6/1x100)	X%	Y%	Z%	average
12. Profit or loss Ratio (9/1x100)	X%	Y%	Z%	average

The grand total of the report has to correspond to the totals on entity or area. The report above has to include all the discounts allowed for the customers according to certain criteria, such as: faithfulness, seriousness, satisfaction, etc., in order to analyze the impact of discounts on the profit and thus on the future price politics.

The analysis on areas and distribution channels can be made for all the types of entities but especially for the ones that activate in the en-gross sector.

M. Ristea et al. (2007) proposes another model for the customer analysis.

Table 4. Customer profitability analysis

	The net turnover specific to the client "I" (assessed based on the sale price of the products)
-	Cost of sale specific to the client "I" (based on the products costs)
=	Gross margin (commercial) on sales
-	Specific costs to the clients (for example the marketing costs with the client "I")
-	Indirect costs allocated to the turnover (for example cost for maintaining the enterprise on market segments)
=	Profit/loss obtained from the commercial relationships with the client "I"

Such a formula should not be applied to all the situations. As the literature shows (Dumitru, 2006), "Exhaustive allocation of all the costs on the whole clients portfolio is very risky, preventing the managers to make right decisions. For example, the decision to renounce to a client, which apparently is not profitable based on a complete analysis of costs can determine the disappearance of a descendent spiral, in which the lost turnover not to be covered by a comparable reduction of costs. For this reason it is necessary to understand well how an enterprise operates, starting from the cause-effect relations, in order to have a just repatriation of costs on the costs objects. Cost objects can be products, services provided to the clients, costs with enterprise maintenance on a market segment".

CONCLUSIONS

The management control becomes a necessity for the entities including the ones with a distribution activity, because in spite of the characteristics everybody's objective is to assure and control the performance. The way to deploy the management control depends on everybody's knowledge about the quantity and quality of the information asked by the managers.

The reports that communicate the information to the managers have to be flexible, prepared in due time, adapted to the requests even if you cannot use a standard format (which could create problems).

The content of the reports is very broad, including both the financial and nonfinancial (qualitative measures) side of the business. An efficient management control keeps under pressure the entity and helps it to enroll and stay on the right course, in order to arrive to the point it aims.

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FINANCIAL IMPLICATIONS OF THE IAS/IFRS ADOPTION ON THE CIRCULATING ELEMENTS OF THE LIQUID ASSETS TYPE

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Within this article one presents some aspects regarding the affectation of the liquid assets both in leu and in currency by the International Standards of Financial Reporting. Regarding the liquid assets in currency we gave some precisions related to their presentation within the financial situations, and regarding the liquid assets in leu we made some appreciations regarding the synthesis document – the situations of the treasury flows.

Key words: cash-flow, transactions in currency, non-monetary elements, monetary elements, cash equivalent

Since the 1st of January 1999, the beginning of the coming into force of the Economic and Monetary Union (EMU), euro has become a currency with its own rights, and the exchange rates between the euro and the national participating currencies have been irrevocably established, i.e. the risk of the subsequent exchange differences of these currencies being eliminated starting with this date. IAS 21 Requirements – The effects of the exchange rates variation, regarding the conversion of the transactions in currency and the financial situations of the operations abroad must be strictly applied to the passing to the euro. The same reasoning is applied to the exchange currency rates when the countries adhere to the EMU in the subsequent stages.

This means that, especially:

- the assets and the monetary debts in currency resulting from transactions will continue to be converted in the functional currency on the closing rate. Any differences of the resulting exchange rates will be immediately recognized as incomes or expenses, excepting the case in which an entity will continue the applications of its accounting policies existing for the gains and losses relative to the covering of the exchange rate risk in case of a forecast transaction ;
- the differences of cumulated exchange rates afferent to the conversion of the financial situations for the operations abroad will be further classified as stockholders' equity and will be recognized as incomes or expenses only in what regards the giving up to the net investment in the operation abroad;
- the differences of the exchange rates resulted from the conversion of the debts expressed in the participating currencies won't be included in the accounting value of the afferent assets.

IAS 21 – The effects of the exchange rates require that the monetary elements of the currencies (as they are defined here) should be reported using the closing exchange rate on each date of the balance-sheet. As we mentioned above, the differences of the exchange rate which appeared in the conversion of the monetary elements must be recognized, in general, as incomes or expenses in the period in which they appear.

The beginning of the coming into force of the EMU after the date of the balance sheet does not modify the application of these requirements on the balance sheet data. According to IAS 10 –The events subsequent to the balance sheet date , it is not relevant if the closing exchange rate can fluctuate or not after the date of the balance sheet.

On the basis of *the treasury flow situation* one can make appreciations by the users regarding the capacity of the enterprise to generate cash and cash equivalent, the necessities of using the treasury flows. When it is used with the rest of the financial situations, the situation of the treasury flows provides information which permits the users to evaluate the modifications in the net assets of an entity, its financial structure (inclusively its liquidity and solvability), as well as the capacity of the enterprise of influencing the value and the moment of the treasury flows apparition, in the view to adapting to the ever changing circumstances and opportunities.

The information referring to the treasury flows are useful for the establishment of an entity capacity of generating cash and cash equivalent and give the possibility to the users of developing models of evaluation and comparison of the updated value of the future treasury flows belonging to different entities. Also, this information raises the degree of comparativeness of the results reporting form exploiting between different entities, since they eliminate the effects of using different accounting treatments for the dsmr transactions and events.

The information referring to the treasury flows is often used as an indicator of the value, the apparition moment and of the certitude of the future treasury flows. This is very useful in checking the exactitude of the former evaluations of the future treasury flows, as well as in examining the relationships between profitability and treasury net flows, and of the impact of price modification.

The cash equivalents are detained more with the view to fulfilling the liabilities in cash on a short term, than for investments or on other purposes. To classify a placement as a cash equivalent, this one must be easily convertible in a cash pre-established sum and to be subject to an insignificant risk of changing the value.

Consequently, an investment is normally qualified as a cash equivalent only when it has a low maturity, for let's say three months or less since the date of purchasing. Investments in the shareholders' equity are not considered cash equivalents, excepting the case when they are in their economic fund, cash equivalents, for instance in the case of the preferred stocks during a short period before their falling due and with a date of specified compensation.

Generally the bank loans are considered financing activities. Anyway, in certain countries, the overdrafts which are reimbursable at sight make an integrant part form the management of entity cash. In these circumstances, the overdrafts are considered a component of the cash and cash equivalent. A characteristic of these banking arrangements is the fact the sold frequently fluctuates between positive and negative.

The treasury flows exclude the movements between the elements which constitute cash or cash equivalents, because these components are part of the cash management of an entity, and not from the activities of operation, investment and financing. The management of the cash presupposes the placement of the cash surplus in cash equivalents.

An entity presents its treasury flows from the activities of operation, investment and financing in a manner which correspond best to its activity. The classification on activities provide information that allow the users to establish the impact of the respective activities on the financial position of the entity, as well as the value of the cash and cash equivalent. This information can also be used, to evaluate the relations that appear between the respective activities.

A single transaction can include treasury flows that are differently classified. For example, when the reimbursement in cash of a loan includes both the interest and the borrowed capital, the interest element can be classified as an operation activity, and the capital element, as a financing activity.

The value of the treasury flows which come from activities of operation is a key-indicator of the measure in which the activities of the entity generated sufficient treasury flows in order to repay the loans, to maintain the capacity of functioning of the entity, to pay dividends and to make new investments, without resorting to external financing sources. The information regarding the specific components of the treasury flows from operations, together with other information, are useful in the forecasting of the future treasury flows from operations.

The treasury flows coming from operation activities are derived, in the first place from the main income producing activities of the entity. As a consequence, they result, in general, from the transactions and other events which enter into the determination of the profit or of the loss.

The separate presentation of the treasury flows coming from investment activities is important because the treasury flows represent the extent to which the expenses served to the obtaining of the resources meant to generate future earnings and treasury flows. The separate presentation of the treasury flows coming from financing activities is important because it is useful in predicting the future treasury flows expected by the financers of the entity.

The treasury flows coming from the transaction effectuated in currency will be recorded in the functional currency of an entity through the application of the exchange rate between the functional currency and the currency, on the value in currency, on the date of the treasury flow. For the treasury flows afferent to a branch abroad will be converted on the exchange rate between the functional currency and the currency, on the date of the treasury flow.

The unachieved profit and losses that come from the variation of the currency exchange rate are not treasury flows. Anyway, the effect of the variation of the currency exchange rate on the cash and the cash equivalents, detained or owed in currency is reported in the situation of the treasury flows in order to reconcile the cash and the cash equivalents at the beginning and at the end of the period. This value is presented separately from the treasury flows coming from activities of operation, investments, financing and includes the differences, if they exist, of those treasury flows which were reported to the exchange rate at the end of the period.

In the case of the interests and dividends cashed or paid, the treasury flows will be presented separately. Each of these ones will be classified in a consequent manner from a period to another, as being generated either by operation activities or investment or financing. Both the paid interest and the cashed interest and dividends are classified by the financial institutions as treasury flows form operations.

Anyway, there is no consensus regarding the classification of these treasury flows by other entities. Both the paid interest, and the cashed interest and the dividends can be classified as treasury flows from operations, because they enter into the determination of the profit or of the loss. Alternatively, the paid interest and the cashed interest and dividends can be classified as treasury flows from financing and respectively from investment, because they represent costs of the attraction of the financing sources or of the investments.

The paid dividends can be classified as treasury flows from financing, because they represent cost of the attracting the financing resources. Alternatively, the paid dividends can be classified as a component of the treasury flow from activities of operation in order to help the users to determine the capacity of an entity of paying dividends from treasury flows of operation.

The treasury flows coming from the profit tax will be presented separately and will be classified as treasury flows from operation activities, with the exception of the situation in which they can be allocated specifically to the activities of financing and investment.

The separate presentation of the treasury flows which represent increases of the capacity of operation and of treasury flows necessary to the maintenance of the capacity of operation is useful, offering the possibility to the users to determine if the entity invests adequately for the maintenance of the operation activity. An entity which does not invest adequately in the maintaining of its operation capacity can prejudice its profitability in the future for the current liquidity and the allocations towards shareholders.

In a hyperinflationist economy, the reporting without conversion of the results of operation and of the financial position in the local currency is not useful. The money loses its purchasing power to such an extent, so that the comparison of the sums that result from transactions and other events that took place at different moments, in the very moment of the same accounting period, induces in error. One didn't establish an absolute rate from which level the hyperinflation is considered. The date of the moment on which the conversion of the financial situations becomes necessary is a problem of professional reasoning.

The hyperinflation is indicated by characteristics of the economic environment of a country, which include, but do not limit to the followings:

- most of the population prefers having the fortune in non-monetary assets or in a relatively stable currency, the sums detained in the local currency are immediately invested in order to maintain the purchasing power;
- most of the population appreciates the monetary values as compared to a relatively stable currency and not with the local currency, the prices can be expressed in the same currency;
- the sales and the purchases on credit are done on prices that compensate the expected loss of the purchasing power during the crediting period, even if the period is short;
- the interest rates, the wages and the prices are related by an index of prices;
- the accumulated rate of the inflation on three consecutive years gets close or exceeds 100%.

In most of the countries, the financial situations are drawn up on the basis of the historical cost, without considering the changes on the general level of the prices and the increase of the prices specific to the detained activities, excepting the case in which the corporal immobilizations and the financial investments can be reevaluated .

Some entities present anyway primary financial situations based on the method of the current cost, which reflect the effects of the price modifications specific to the detained activities. In a hyperinflationist economy, the financial situations based either on the historical cost model, or on the current cost one, are useful only if they are expressed as the unity of current measure since the date of the balance sheet.

The sums of the balance sheet which are not expressed as against the unity of the current measure on the balance sheet date are conversed through the application of a general index of the prices. The monetary elements are not conversed, since they are already expressed as against the current monetary unity on the balance sheet date. The monetary elements are the pecuniary reserves and the elements to cash or pay in money.

The assets and the liabilities bound through a contract of price modification, the way the bonds and loans are, which are indexed, are adjusted in conformity with the contract for establishing the basic value on the date of the balance sheet. These elements are recorded at this adjusted value in the converse balance sheet. All the other assets and liabilities are non-monetary. Some non-monetary elements are recorded at current values on the date of the balance sheet, as, for example, the net achievable value and the market value, so they are not conversed. All the other non-monetary assets and liabilities are conversed.

The most non-monetary elements are recorded at the cost or cost minus depreciation: consequently, they are expressed at current values on the purchasing date. The conversed cost or the cost minus depreciation conversed for each element is determined through the application of the historical cost. The conversed cost or the cost minus depreciation for each element is determined through the application of the historical cost and of the depreciation cumulated to the variation of a general index of the prices to the date of the balance sheet.

As a consequence, corporal immobilizations, financial investments, stocks of raw materials and goods, commercial fund, patent, trademarks and similar assets are conversed since the date of their buying. The products stocks in course of execution and of the finished products are conversed since the date of the apparition of costs of acquisitions and processing.

The conversing value of a non-monetary element is diminished in conformity with the requirements of the Standards, when it exceeds the recoverable value from the future utilization of the element (inclusively the selling or other form of giving up). That’s why, in such cases, the conversed values of the corporal immobilizations, the commercial fund, the patents and the trademarks are diminished at the recoverable value, the conversed values of the stocks are diminished at the net achievable value, and the conversed values of the short term investments are diminished till the market value.

The impact of inflation is usually acknowledged in the costs of the leverage. The conversion is inadequate during the same period of capital expenses financed through borrowings and of the capitalizations of the part of the leverage costs which compensate inflation, during the same period. This part of the costs of leverage is acknowledged as an expense in the period in which the costs were supported.

In an inflation period, an entity which detains a surplus of monetary assets compared to the monetary debts loses purchasing power, and an entity with a surplus of monetary debts as compared to the monetary assets gains purchasing power, if the assets and the debts are not related to a level of prices. The gain or the loss of the net monetary position can derive as a difference resulted from the correction of the non-monetary assets, the shareholders’ equity and the elements of the profit and loss account, and of the adjusting of the assets and debts related by an index. The gain or the loss can be estimated through the application of a general index of the prices to the average of the difference between the assets and the monetary debts of the respective periods.

The gain or the loss of the net monetary position is included in the net income. The adjusting of the respective assets and debts bound through a contract by the variation of the prices is compensated with the gain or the loss of the net monetary position. Other elements from the profit and loss account, such as the incomes and the expenses from the interests and the exchange rate differences afferent to the invested or borrowed funds are, also associated with the net monetary position. Although such elements are separately presented, the presentation in the profit and loss account can be useful, together with the gain and loss of the net monetary position.

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APPRECIATIONS REGARDING THE FINANCIAL IMPLICATIONS OF THE IAS/IFRS ADOPTION ON THE ELEMENTS OF THE PROVISIONS TYPE

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The present paper contains appreciations regarding the contents and the effects of the IAS/IFRS adoption on the elements of the provisions type within the financial reporting carried out by the enterprises. Assimilated will be also the elements considered to have a contingent character: assets and liabilities (element of novelty for the Romanian accounting system).

Keywords: contingent assets, contingent liabilities, provisions, restructuring, financial position.

According to the Conform IAS 37 dispositions– Provisions, contingent liabilities and assets, the provisions are defined as being uncertain from the point of view of the exigibility or value. A provision will be acknowledged in accounting when, and only when:

- an entity has a current liability generated by a passed event;
- a coming out of resources might affect the economic benefits necessary to honour the respective liability; and
- one can give a credible estimation of the liability value. The standard states that only in very rare cases it is not possible a credible estimation of this one.

In rare cases, for instance, in the situation of a process, it is likely not to be obvious if there is a current liability. In these situations, a passed event can generate a present obligation if, taking into consideration all the available proofs, there might be a current liability on the date of the balance sheet. An entity acknowledges a provision for a present liability if other criteria of acknowledgement are fulfilled. If it is more likely not to exist than to exist a present liability, the entity will report a contingent liability, excepting the situation in which one eliminates the possibility of a coming out of resources generating economic benefits.

One must not acknowledge the provisions for future losses from the operation activity. The predicting of such losses indicates the fact that some operation assets can de depreciated. In this case, the entity tests these assets for depreciation in conformity with IAS 36 – the Depreciation of assets.

Within the financial situations one will find at the end of some reporting periods its financial position, so one cannot acknowledge those provisions for the categories of costs which will be supported by the entity – only during the future exercises.

The dispositions of the present standard are specific to provisions in general and to those for restructuring in special: the selling or the ceasing of the activity of a part of a business, the closing up of the headquarters in a region or a country, the movement of an activity from a country or region into another one, modifications in the structure of the board, fundamental reorganizations with significant effects in the nature and the aim of the entity activities (one also includes here the provisions for the interrupted activities). Also within the framework of the standard one defines and states regarding the contingent elements (assets and liabilities).

The standard defines a contingent liability as being:

- a possible liability which appeared as a consequence of some passed events and whose existence will be confirmed only by the apparition or non-apparition of one or several uncertain future events, which cannot totally be under the control of entity; or
- a current liability which appeared as a consequence of some passed events, but which is not acknowledged because: it is not likely that some resources comings out will be necessary, which incorporate the economic benefits for the solving of this liability or the liability value cannot be evaluated credibly enough.

The standard defines the contingent asset as being that potential asset which appears as a consequence of some previous events and whose existence will be confirmed only through the apparition or non-apparition of one or several uncertain future events, which cannot totally be under the control of entity (a debt which constitutes the object of a process in which the entity is involved, whose result is uncertain). An implicit liability is the liability which results from the actions of an entity in the case in which:

- through the establishment of a previous practice, through the written policy of a firm or from a declaration sufficiently specific, the entity indicated to its partners that it assumes certain responsibilities;
- as a result, the entity induced the partners the idea that it will honour those responsibilities.

The provisions distinguish themselves from other debts, as the debts from commercial credits or accounting obligations, due to the fact of incertitude related to the exigibility or the value of the future expenses necessary to the sinking of the debt. Unlike these ones:

- the debts from the commercial credits constitute payment obligations of the goods or services which were received or sent to by the suppliers and which were invoiced or whose payment was officially convened with the suppliers;
- the accounting duties are payment obligations for goods and services which were received from or sent to by the suppliers, but which were not paid, invoiced or whose payment was officially convened with the suppliers, inclusively the employees' wages (the sums afferent to the paid leave). Although it is sometimes necessary an estimation of the value or exigibility of these debts, the incertitude element is in general more reduced than in the case of the provisions.

Another factor of differentiation appears at the moment of presentation of these elements: the duties are presented as part of the debts resulted from commercial credits or from other activities, and the provisions are reported separately.

In a large sense, all the provisions are contingent because they are uncertain from the point of view of the exigibility or value. Although, the „contingent" term is used for liabilities and assets which are not acknowledged because their existence will be confirmed only by the apparition or non-apparition of one or more future uncertain events, which are not in totality under the control of the entity control. Besides, the „contingent debt" term is used for the debts which do not fulfill the acknowledgement criteria.

One makes difference between:

- provisions – acknowledged as debts (if the estimations are certain) being current obligations and some resources may be necessary which to incorporate economic benefits for sinking the obligations;
- contingent debts - are not acknowledged as debts, being possible obligations, but for which one has to confirm if the entity has a current obligation which can generate a reduction of resources which incorporate economic benefits or current obligations which do not fulfill acknowledgement criteria (either it is not likely the reduction of the entity resources which incorporate economic benefits for the sinking of the obligation, or one cannot achieve a sufficient credible estimation of the obligation value).

In case one estimates that a part or all the expenses necessary to the sinking of a provision will be reimbursed by a third part, the reimbursement will be acknowledged only when it is sure to be received if the entity honours its obligation. The reimbursement will be considered as a separate asset, and the acknowledged value for reimbursement will not exceed the value of the provision.

In the profit and loss account, the cost related to a provision can be presented at its value diminished with the value acknowledge for reimbursement.

Sometimes, an entity can request to another party to pay a part or all the expenses necessary to the settling up of a provision (in a contract of insurance, the clause of damage or of the offered guarantee). The other party can either reimburse the value paid by the entity, or effectuate the payment directly.

In most of the situations, the entity remains responsible for all the sum, so that, in the case in which from a reason of another the third party does not effectuate the payment, the entity is the one which has to pay. In such situations, the entity will acknowledge a provision for the entire value of the debt, and a separate asset for the foreseen reimbursement is acknowledged when it is certain that the reimbursement will be received in the case in which the entity honours the debt.

A provision afferent to the restructuring will include only the direct costs generated by the restructuring, i.e. those which are simultaneously generated in a necessary way by the restructuring process and are not related to the continuous development of the entity activity. A provision for restructuring must not include cost as those related to: re-qualification or the movement of the permanent staff, marketing, investments in new systems and distribution networks. These expenses referring to the future administration of the activity do not represent debts of restructuring on the date of the balance sheet. Such expenses are acknowledged on the same basis if they appear independently from restructuring.

In the case of the existence of an onerous contract (the unavoidable costs involved by the sinking of the obligations assumed through a contract exceed the economic benefits estimated to be obtained from the respective contract), the current contractual obligation is acknowledged and evaluated as a provision (it is about the minimal cost between the fulfillment of the contract and any compensation or penalty generated by the non-fulfillment of the contract). There is the possibility that when canceling such contracts no penalty is paid, from where no obligation results, but the existence of some events is possible, which to transform such contracts in contracts with onerous character, from where the applicability of the IAS 37 dispositions results.

In general, the value of a provision will represent the actualized value of the expenses estimated to be necessary for the sinking of the obligation. Thus, the provisions afferent to some comings out of the resources that appear after the date of the balance sheet, are of a high onerous level, compared to those afferent to the resources comings out of the same value which appear much later. So actualization is done when the effect is significant.

In the case of the utilization of the accounting value of a provision will increase due to the passing of the time, increase acknowledged as a cost of the leverage.

There are future events which can affect the sums necessary to the sinking of an obligation and implicitly the value of the provision (with the proofs necessary to the apparition of these events). One has to keep in mind that at the foreseen giving up of the assets, the resulted earnings will not be taken into consideration (they will not affect the value of the provision).

The revision of the elements of the provisions type will be done at each reporting date, and afterwards one effectuates their adjusting for offering the best possible estimation. In the case in which it is not probable the coming out of some resources concomitant with the obtaining of some economic benefits, with the view to canceling an obligation, the provision is canceled.

Regarding the provisions classes each entity will present the following categories of information:

- the accounting value at the beginning and at the end of the period;
- the supplementary provisions appeared during the period, inclusively the increases afferent to those already existing;
- the values used during the period which lead to the diminution of the provisions;
- the values non-used and retaken during the period;
- the modifications during the period, due to the time factor and reutilization of the updating rate;
- a short description of the obligation nature and an estimation of the period during which one will record comings out of economic benefits;
- the degree of incertitude regarding the value or the moment of appearance of these comings out;
- eventual predicted reimbursements.

Any provision will be used only on the purpose for which one initially made the acknowledgment. The expenses initially acknowledged will be used for the subsequent canceling (or respectively the value found according to the evaluations). A subsequent canceling of these expenses for a provision which was used on any other purposes than those established on the constitution, is an event of a distinct nature.

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NEEDS OF ADAPTING THE COMMITMENTS' ACCOUNTING SYSTEM OF PUBLIC INSTITUTIONS

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Throughout this work, the stages mentioned in Omfp (Order of the Ministry of Public Finance) 1792/2002 are presented. The attempt is to bring clarifications with respect to delicate aspects: delegating competencies, delegation incompatibility, specialty compartment, manner of processing the annexes to the financial situations, individual/global commitment, proper determination of the available resources before making the payments, calculation of the available resources in case of payments made in currency, the need of a budget for commitment credits.

Key words: Global commitment, Budget for commitment credits, Processing undertakings in the annexes to the financial situations, Green stamp fee.

Responsibilities on the organization of commitments' accounting

All public institutions, irrespective of the subordination and the manner of financing the expenditures, have the obligation to:

- - organize the accountancy of the legal and budgetary commitments;
- - observe the procedures for going through all the 4 stages of the expenditures' budgetary execution, respectively the commitment, clearance, authorization and expenditures' payment.
- - organize, run the accountancy and the report of budgetary and legal commitments starting with the budgetary year 2003, based on the normative act of the Order of the Ministry of Public Finance no. 1792/2002 for approving the Methodology norms on the commitment, clearance, authorization and expenditures' payment of public institutions, as well as the organization, clearance and report of budgetary and legal commitments.

The budgetary execution is based on the principle of ***separating the attributions*** of the people that have the capacity of credit release authority from the attributions of the people that have the capacity of accountants.

Credit release authorities for the budgets mentioned in art.1 para.(22) in Law no.500/2002 are authorized to commit, clear and authorize expenditures throughout the budgetary exercise, within the limit of the approved budgetary credit, while the payment of the expenditures is carried out by the people that, according to the law, bear the general title of accountant.

The specific operations of commitment, clearance and authorization of the expenditures fall in the competence of the credit release authority and are carried out based on the specialty compartments' permits of the public institution according to art. 53 para.(3) in Law no. 500/2002 regarding public finances.

According to the legal frame, the unit leaders/managers may delegate competencies to the people with whom they collaborate, may designate people within the respective unit to carry out certain tasks, with the observance of the legislation in force, of the organization and functioning regulations.

The need to have a clearer definition of certain aspects can be notices, especially regarding:

- *delegation of competence*

  this represents the transfer of competence to people in the organizational structure that may, based on the delegation act, commit the institution by legal acts with patrimonial consequences or may order the elimination of the obligations undertaken by the respective public institution by means of these legal acts.

- *the empowered/ designated persons , incompatibility situation;*

  the manager of the "economic directorate" cannot enter the category of "other empowered persons" because it is the leader of an operational organizational structure which in the process of the budgetary execution fulfills the attributions and competencies of a "specialty compartment" leader; the structure involved in certifying reality, regularity and legality of the created or asserted patrimonial operations, depending on the pertaining tasks from the Organization and Functioning Regulation

– *defining the specialty compartment:*

  “represents the organizational structure of the public institution where payment obligations based on public funds are created (in case of administrative acts or contracts) or are asserted (in case of laws, Government decisions, agreements, court orders)”.

In case of salary, benefits or corresponding contributions expenditures, the specialty compartment is the one that has attributions in calculating the salary rights and the corresponding contributions that draft the clearance documents (collective or individual payrolls), as well as Payment credit release.

Applicable in practice when the human resources service is divided in compartments/ offices/ designated to draft payrolls/personnel recruiting, filling out labor registers, etc., or this is carried out in crossed combination in case of small units).

It is necessary to have the involvement of the legal specialty compartment in controlling, in a preventive manner, the legal aspect of the administrative acts, by the prior consulting notice, both exclusively for certain administrative documents and before exercising the preventive financial control visa. The consulting notice is part of the category of documents prior to adopting the legal deed, whose request is obligatory, but it does not involve the obligation to comply.

With respect to the specification on the preventive financial control part, it is necessary within the Omfp.1792/2002 to replace the phrase “person empowered to perform the preventive financial control” with "the person designated to perform the proper preventive financial control" and to replace the phrase "preventive financial control visa" with "proper preventive financial control visa".

The budgetary authorization is not global. This requires a **specialty** of the credit based on expenditures’ categories.

Credit specialty is regulated by art.12 and art.2 in Law no,500/2002, according to which: "...budgetary expenditures are registered and approved in the budget by expenditures’ categories, grouped according to their economic nature and their end use, according to the budgetary classification”, provision harmonized with the Financial Regulation no.1605/2002 of the Council “the credits are specialized on titles and chapters, the chapters are subdivided in articles and positions.

The more detailed the budgetary specialty and the credit transfers are conditioned by prior authorizations of budgetary bodies, the more rigid the budget organization is and the resource oriented management.

Mutually, the more globalized the credit, and the interventions of a budgetary authority throughout an execution are more reduced, the more flexible the budget organization is and the more objective-oriented the management.

Committing expenditures

Commitment represents the stage in which the institution creates legal obligations to third persons (legal commitment) and reserves the necessary budgetary credits for covering these obligations (budgetary commitments). Committing any expenditure has two aspects: legal commitment and budgetary commitment.

a) The legal commitment represents, according to the definition included n Law no.500/2002 at art.2 para.(3),"...any legal deed resulting into or that could result into an obligation based on public funds"
b) The budgetary commitment represents the deed by means of which necessary amounts for covering certain expenditures are reserved from the budgetary credits. Consequently, the approved budgetary commitments cannot exceed the approved levels of budgetary credits.

   The budgetary commitments may be:

   - individual budgetary commitments;
   - global budgetary commitments.

For compliance with the approved annual credit limit, it is mandatory to reserve the committed budgetary credits for the payments that will be carried out in that budgetary year. The budgetary commitment by means of which the public funds were reserved for a certain use, within the limit of the approved budgetary credits, precedes the legal commitment. Thus, the value of the legal commitments **cannot** exceed the value of the budgetary commitments and that of the approved budgetary credits by the incomes and expenditures budget.

The *individual budgetary* commitment represents the operation of reserving the budgetary credits necessary to cover the expenditures generates by **new** operations that are to be performed during the budgetary exercise, which were not initially included in the provisional budget, and do not have a repetitive nature.

Salaries of the personnel included in the payroll positions annexed to the approved budget and their corresponding obligations, pensions and social assistance benefits established according to the laws in force, as well as expenditures with interests and other expenditures pertaining to the public debt are considered to be *individual* legal and budgetary commitments *at a global level* starting with the 1st of January of each year with the entire amount of the approved budgetary credits.

Reporting commitments of this nature is done each year, even from the first quarterly report.

The global budgetary commitment is used in case of operations that occur again during the same budgetary year and generate current administrative expenditures (repetitive operations).

Thus, in title II "Goods and services" commitment is carried out individually when the beneficiary or the exact amount are unknown.

- in case of utilities where there is **no** contract with a definite amount, the commitment is carried out individually, invoice per invoice,
- when the beneficiary of the contract is known, the amount, the commitments is carried out at the level of the contract.
- in case of direct acquisitions mentioned in the procurement plan, the order represents the basis for the budgetary and legal commitment,

The budgetary credit represents a payment authorization, and the commitment credit represents a commitment authorization which, in part, may generate payments in the future exercises as well.

It is necessary that the budget ceases to be a planning act strictly limited to a budgetary exercise, and to allow it to become of the commitment credits due to the existence of specific activity sectors, so as not to be in contradiction with the principles of commitments' accounting.

Thus, the specific activity sectors are envisaged, such as: the sanitary sector where, considering the provisions of art.250 para.(2) in the Law regarding the health reform no.95/2002 according to which "deducting the medical services and medical equipments pertaining to the month of December of the current year is done in January of the next year, estimating that the medical services and equipments cannot be considered expenditures in December unless these are made and, implicitly, committed before January in the next year (contracts for paying hospitalization days, medical analyses, etc.).

Because the law specifically states that payment of services and equipments pertaining to December are carried out in January of the following year, in the current year, practically, no budgetary credits can be estimated in order to cover the payments made in January for the medical services and equipments used in December.

Similarly, in December, salary commitments and the corresponding contributions can only be highlighted within the limit of the budgetary credits. These are registered in the corresponding expenditures accounts in view of observing the basic principles of the commitments' accounting, which leads to differences.

Clearing expenditures

Clearing expenditures is the phase in the process of the budgetary execution where the existence of the commitments is checked, the reality of the due amount is determined or checked, the contingent liabilities of the legal commitment is checked based on justifiable documents attesting the respective operations. The operations of clearing expenditures are carried out by the credit release authority.

A special aspect that occurs in case of clearing the global service provision contracts is that the invoice is issued for a global service without detailing it on types of activities, case in which there can no longer be an exact assertion of the strict observance of the contract, complying per budgetary articles. As a conclusion, it is necessary to draft an invoice offering the necessary information requested in art. 155 in Law no.571/203 regarding the Fiscal Code.

In case of drafting the deduction for plane travels, in case of issuing it electronically, it is necessary to present documents established by internal procedures (boarding tickets, activity reports, especially when accommodation is not provided by the unit).

Authorizing payment expenditures

Authorizing expenditures represents the phase within the process of the budgetary execution when there is a confirmation that the delivery of goods existed or that other accounts receivable were checked and payment can be carried out.

Authorizing payment is the internal documents by means of which the credit release authority orders the manager of the Financial-Accounting Compartment to draft the expenditures' payment instruments. This operation does not reflect in accounting, being strictly a managerial action.

On filling out the available resources in column 1 at the moment Annex no.3 "Payment Authorization" is drafted, it is recommended for the specificity of the data to take into account the budgetary commitments highlighted in account 8066 "Banking commitments" (former 950) but also the payment made in account 770 "Budget financing" (former 700) or in other available resources' accounts as the case may be; but also the expenditures that were committed, cleared and authorized before that did not appear as deducted in the bank statement at the moment of the draft, the amounts erroneously entering the account, the amounts undergoing clarification.

If the Payment authorization is drafted for buying currency necessary to make external payments, the amount in lei or the equivalent in lei of the currency payment obligation is calculated at the exchange rate set by the National Bank of Romania valid on the date of the transfer of the amount for buying currency, with an additional insurance margin covering possible exchange rate differences for the period starting from the day of the transfer and the date of the external payment to the suppliers and to the other creditors, as well as possible commissions and other due costs.

Expenditures' payment

Expenditures' payment is the final phase of the budgetary execution by means of which the public institution is free of its obligations to third parties-creditors.

The unit manager does not have attributions in this phase, it no longer grants the first signature unless in small units, only those financed from the local budgets [art. 54 para.(7) in Law 273/2006 regarding local public finances] No payments regarding several subdivisions of the budget approved in one payment can be included, even if it is made for a sole supplier.

The accountancy of the available resources before making the payment shall be affected by the provisions of Art.8 (1) in the GEO 37/2008 for regulating certain financial measures in the budgetary domain "The amounts coming from the budgetary financing of the previous years which is reimbursed under the provisions of the budgets' law they were granted from is highlighted in execution at a position other than budgetary expenditures".

Up to now – the amounts representing payments in advance that cannot be justified by delivered goods, works performed and services provided by the end of the year *were recovered* by the public institution that granted the deposits and were given back to the budget they were granted from, with the corresponding *interests and delay penalties,* according to the law. This aspect shall be clarified on entering into force of the application norms of GEO no.37/2008.

It is necessary to correlate the amount paid in lei with the committed amount, because it was made as the equivalent in lei of a currency, for exemplifying the application of Law 315/2006, regarding the incentive of books or electronic educational programs' procurement, necessary for improving the quality of the didactic activity, in the pre-university educational system.

Reporting Commitments

It is necessary to revoke annex no.4 in Omfp 1792/2003 because it is found entirely in annex 7 "Execution account of the public institutions' budget - expenditures" in Omfp 616/2006.

In view of eliminating confusions on filling out the expenditures' execution accounts (i.e., annex 7), the title was changed from "Initial budgetary credits" to "Updated budgetary credits" for quarterly reports, in view of accurately filling out with the last *approved* budget at the end of each quarter.

Highlighting and the legal multi-annual expenditures' commitments with the "environmental fee" which will be paid in full according to the Government decision no.448/2005 regarding the electric and electronic equipments waste with the subsequent completions, for the assets that will be removed from use in the following future, the correlation of these amounts with the registration in ct.1518 "Other provisions" completing the function of account 151 "Provisions"

Presently, the green tax paid one purchasing inventory objects, bought fixes assets, representing a non-recoverable tax is included in their costs.

It is recommended to perform a continuous analysis of the available resources that can be committed and to carry out the necessary remedies.

Draft for Check list in view of applying Omfp 912/2004 for amending and completing the General methodology norms in reference to the execution of the preventive financial control, approved by Omfp 522/2003 with the subsequent amendments.

CHECK -LIST

OF PAYMENT AUTHORIZATION GRANTED TO THIRD PARTIES

Crt. No.	Objects of the check	**Check at the level of the specialty compartment**	**Check at the level of the financial office**	**CFPP**	**CFPD**	**Check at the level of BBCI**
1	Existence of justification acts					
1.1	- Global/ individual budgetary commitment					
1.2	- Fundamental note					
1.3	- Supply/services/ works Contract					
1.4	- Request for granting the deposit					
1.5	- Document asserting the legal nature of the warranty					
2	- Existence of the visas, certifications, approvals, other legal signatures, as the case may be, for:					
2.1	- Justification acts in point 1					
2.2	- Payment authorization for the deposit	**X**				
3	- Accurately setting the amount to be paid					
4	- Compliance with the amount suggested to be paid in:					
4.1	- The level of the budgetary commitment	**X**				
4.2	- The level of the legal commitment					
4.3	- The available resources in the account					
5	Correspondence between the data in the deposit's payment authorization with the justification acts for:					
5.1	- The nature of the payment					

5.2	- The beneficiary of the amount	**X**				
5.3	- The bank of the amounts' beneficiary					
	Signature of the people performing the check					

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2. Current legal framework

THE IMPACT OF THE ENTITIES' BANKRUPTCY UPON THE ACCOUNTANCY FOR THE OWN CAPITAL

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Summary: We consider that the approach of the mentioned theme presents an interests for all the theoreticians and practitioners in the economic and financial domain for the fact that the activities of the nature of the bankruptcy know an ascending trend and they lead to accounting treatments and to specific insurance measures. We have considered that it is useful to debate the problems concerning the delimitation and the short definition of the bankruptcy situations, with national and European juridical references and especially, the implications of the operations that that they generate upon the accounting information. For the realization of the accounting registrations we have used the dates which are registered in the two obligatory balance sheets, the initial one and respectively the final one, this last one is essential for solving the examined problem.

Key words: accounting information bankruptcy, own capitals, specific procedures

Introduction

The economic and social factors, inclusively the market, normally influence the entities' activity, especially concerning their performance. As a reaction to these provocations, the entities use different reorganization ways which could allow the continuation of the activity, and in this case its cessation is produced as well as the realization of the liquidation operations.

From this perspective, in the practical activity we find many ways for the reorganization of the entities, determined by the decision taken by the competent organs concerning the continuation or the stopping of the activity. So, we use the fusion operations, in the situation when we decide the continuation of the activity, or the dissolution operations, in the case when we choose to stop the activities or to start the liquidation of the society. We mention that in the life of a society we can have some critical situations which generate the juridical reorganization and, finally, the bankruptcy.

Taking into consideration the complexity and the effects of such operations, we will further underline the connection between them and the entities' own capital and the operations of dissolution, liquidation and bankruptcy.

Definition of the bankruptcy

The bankruptcy is the juridical institution which is procedurally regulated with the aim of assuring the administration and the liquidation, in the interest of the common creditors, the patrimony of a juridical or physical person that has the quality of trader and that in the impossibility of paying his debts which have been assumed concerning the trade acts concluded in proper name. The procedure for the bankruptcy consists in certain rules for the forced execution of the goods from the debtor's patrimony for the payment of the debts towards the creditors, and its application has as an effect upon the cessation of the activity. In Romania, Italy or in Belgium only the traders- physical persons or trade companies can be declared as bankrupted, but in other countries, such as Germany and Netherlands, any physical or juridical person, without taking into account the nature of his activity, can be declared in a bankruptcy state, excepting the societies of public right. In Italy, for the insurance societies, for the societies of economies or for the cooperative societies, the is possible only the procedure of administrative liquidation. This diversity of solutions can lead to some conflicts of laws. So, the bankruptcy of a non-trader, admitted by his national law, cannot be declared in Romania, because the law of the forum is opposed, it reserves this procedure only for the traders.

Implications of the bankruptcy upon the accountancy of the own capitals

The bankruptcy of an entity supposes a different accounting treatment compared to the ones which have been presented before, because the money availabilities resulted after the liquidation can assure or not the payment of the debts. In case of bankruptcy the accounting operations are registered in the order settled by the liquidator and which is the one stipulated by the legal norms, with the difference that in the situation when, after the liquidation there has not resulted any profit, the operations of partition are not produced.

In order to take the operations on the total we finally take into consideration an example where after the liquidation there has resulted a satisfactory profit for the payment of the debts.

So, the situation of the tangible and intangible elements, according to the balance elaborated based on the dates from the accountancy and which have been agreed with the results of the inventory, are presented in the table below:

Item	Indicators	Details and determinations	Balance (in thousand lei)
1.	Immobilized assets		1.300,00
	Corporal immobilizations (ct. 212-2812)	(1.000.000-250.000)	750,00
	Non-corporal immobilizations (ct.208-2808)	(400.000-100.000)	300,00
	Financial immobilizations (ct.265)		250,00
2.	Circulating assets		700,00
	Stocks (ct.371)		500,00
	Debits (ct. 411)	(Sums which will be cashed after a period bigger than one year)	200,00
	Cash register and the accounts in the banks (ct. 5121)		0,00
3.	Debts (ct.401+404+419) which should be paid in a period of up to one year	(450.000+200.000+ 150.000)	800,00
4.	Debts (ct.162) which should be paid in a period of over one year		600,00
5.	Assets – Debts		600,00
6.	Own Capital		
	Subscribed and paid capital (ct. 1012)	500.000 shares x 1,00 lei /share	500,00
	Legal reserves (ct. 1061)		0,00
	Other reserves (ct 1068)	Made up of the repartition of the profit in the previous years	100,00

Table 1 The situation of the tangible and intangible elements corresponding to an entity entered in the bankruptcy procedure

In order to assure the money availabilities necessary for the realization of the specific operations of liquidation from the competence of the elder judge and of the liquidator, the computer programs have been sold with 250.000 lei compared with the net accounting value of 300.000 lei; the buildings with 900.000 lei compared to the net accounting value of 750.000 lei; the goods with cu 600.000 lei compared with the net accounting value of 500.000 lei; the participation tiles with 300.000 lei compared to 250.000 lei – as an acquisition cost. In the same time, the sum of 180.000 lei has been received from the clients, by offering a discount of 10% (18.000 lei); the loan with the sum of 600.000 lei and an interest of 100.000 lei has been paid; the sums towards the suppliers have been paid with a value of 450.000 lei, by receiving a discount of 5% (22.500 lei); the suppliers of immobilizations in sum of 200.000 lei and the advances received from the clients have been given back, being in sum of 150.000 lei.

For the realization of the liquidation operations there have been realized some expenses in a total sum of 800.000 thousands lei, from which for salaries 50.000 lei and as expenses for the auctions 30.000 lei.

These operations have been registered in the accountancy as it follows:

1. The capitalization of the computer applications

a) Sale of the programs

461	=	%	297.500 lei
		7583	250.000 lei
		4427	47.500 lei

b) Subtraction from the evidence of the sold computer programs

%	=	208	400.000 lei
2808			100.000 lei
6583			300.000 lei

c) Cashing of the value

5121	=	461	297.500 lei

d) Closing of the account for incomes

7583	=	121	250.000 lei

e) Closing of the account for expenses

121	=	6583	300.000 lei

2. Capitalization of the corporal immobilizations

a) Sale of the buildings

461	=	%	1.071.000 lei
		7583	900.000 lei
		4427	171.000 lei

b) Subtraction from the evidence

%	=	212	1.000.000 lei
2812			250.000 lei
6583			750.000 lei

c) Cashing of the value for the building

5121	=	461	1.071.000 lei

d) Closing of the account for incomes

7583	=	121	900.000 lei

e) Closing of the account for expenses

121	=	6583	750.000 lei

3. Capitalization of the goods

a) Sale of the goods

4111	=	%	714.000 lei
		707	600.000 lei
		4427	114.000 lei

b) Cashing of the value

5121	=	4111	714.000 lei

c) Subtraction from the administration

607	=	371	500.000 lei

d) Closing of the account for incomes

707	=	121	600.000 lei

e) Closing of the account for expenses

121	=	607	500.000 lei

4. Sale of the participation titles

a) Sale of the shares

461	=	7641	300.000

b) Cashing of the value

5121	=	461	300.000 lei

c) Subtraction from the administration

6641	=	265	250.000 lei

d) Closing of the account for incomes

7641	=	121	300.000 lei

e) Closing of the account for expenses

121	=	6641	250.000 lei

5. Cashing

a) Clients cashing

5121	=	4111	180.000 lei

b) Allowance of discounts

667	=	4111	20.000 lei

c) Closing of the account for expenses

121	=	667	20.000 lei

6. Payment of the creditors

a) Restitution of the loans

162	=	5121	600.000 lei

b) Payment of the interests

666	=	5121	100.000 lei

c) Closing of the account for expenses

121	=	666	100.000 lei

7. Payment of the suppliers

a) Payment of the suppliers of immobilizations

404	=	5121	200.000 lei

b) Payment of the suppliers

401	=	5121	427.500 lei

c) Registration of the discount

401	=	767	22.500 lei

d) Closing of the account

767	=	121	22.500 lei

8. Restitution of the advanced received from the clients

a) Restitution of the advance

419	=	5121	150.000 lei

9. Registration of the salaries and of other operations concerning the salaries

a) Registration of the rights

641	=	421	50.000

b) Registration of the tax

421	=	444	5.000 lei

c) Internal payment

581	=	5121	45.000 lei

d) Effective taking of the cash

5311	=	581	45.000 lei

e) Payment by the pay office

421	=	5311	45.000 lei

f) The payment of the tax

444	=	5121	5.000 lei

g) Closing of the account for expenses

121	=	641	50.000 lei

10. Realization of the auction expenses

a) payment of the expenses 6

628	=	5121	30.000 lei

b) Closing of the account of expenses

121	=	628	50.000 lei

11. Operations of VAT liquidation

a) VAT registration

4427	=	4423	332.500 lei

b) VAT payment

4423	=	5121	332.500 lei

The situation of the accounts 121 and 5121 before the realization of the partitions (in lei):

Account 121		**Account 5121**	
Debt	**Credit**	**Debit**	**Credit**

300.000	250.000	297.500	600.000
750.000	900.000	1.071.000	100.000
500.000	600.000	714.000	427.500
20.000	300.000	300.000	200.000
250.000	22.500	180.000	150.000
100.000			45.000
50.000			5.000
300.000			30.000
			332.500
Total		Total	
2.000.000	2.072.500	2.562.500	1.890.000
Sold	72.500	672.500	

From the facts presented above it results that from the liquidation operations it has been gotten a profit of 72.500 lei, which will be added to the social capital, in sum of 500.000 lei, and to the reserves that have been constituted before the liquidation, in sum of 100.000 lei, case when the assets resulted and registered in the account 5121 in sum of 672.500 lei will be covered. In the **partition balance**, the result of the liquidation, as an accounting information, is represented by the creditor balance of the account 121 „Profit and Loss".

After the confirmation of the balance, the liquidator realizes the operations concerning the restitution of the own capital towards the shareholders, operations which lead to the situation for the accounting registrations in the following way.

12. Operations concerning the social capital

a) Registration of the social capital

1012 = 456 500.000 lei

b) Restitution social capital

456 = 5121 500.000 lei

13. Taxation of the liquidation result

a) Registration of the profit tax

691 = 441 11.600 lei

b) Closing of the account of expenses

121 = 691 11.600 lei

c) Sending to destination

441 = 5121 11.600 lei

14. Registration of the dividends resulted from reserves and from the net result

a) Registration of the dividends

% = 456 160.900 lei

1068 100.000 lei

121 60.900 lei

b) Registration of the tax for dividends

456 = 446 25.744 lei

c) Payment of the tax

446	=	5121	25.744 lei

d) Obligation for the payment of the dividends towards the shares

456	=	457	135.156 lei

e) Effective payment

457	=	5121	135.156 lei

The conclusion that we considered to be motivated consists in the fact that the present work brings a plus of quality to the accounting information concerning the own capitals, by the fact that it allows a profound study of the problems of juridical nature and especially of the accounting problems concerning the bankruptcy and its financial and financial implications.

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TAX AND ACCOUNTING TREATMENT CONCERNING THE VAT RELATED TO COMPENSATIONS RECEIVED FOR DETERIORATED OR PARTIALLY DAMAGED GOODS

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The companies (registered as VAT payers) that receive compensations from insurance companies are faced with the dilemma whether to collect or not the value-added tax related to these amounts. In other words, we can put the problem this way: "to collect or not to collect?". In the following pages we'll try to solve this problem, both from a tax and accounting point of view.

Keywords: compensation, value-added tax, accounting treatment, tax treatment

Introduction

The companies (registered as VAT payers) that receive compensations from insurance companies are faced with the dilemma whether to collect or not the value-added tax related to these amounts. In other words, we can put the problem this way: "to collect or not to collect?". In the following pages we'll try to solve this problem, both from a tax and accounting point of view.

Short history

For a start a short history is necessary. Until June 1, 2002 the problem was regulated by the Government Emergency Ordinance no. 17/2000 and its application norms which stipulate that the compensations also contain the value-added tax. Implicitly, the taxpayers registered as VAT payers had to collect the VAT for the amounts representing compensations received from insurance companies.

Therefore, in taxpayers' accounting records, the collection of insurance compensations in the amount of lei 1.190 was registered as follows:

5121 "Cash at bank in lei"	**=**	**%**	**1.190,00**
		7581 "Claims and compensations, fines and penalties"	**1.000,00**
		4427 "Output VAT"	**190,00**

Considering that the company did not record in the administrative period other taxable operations as concerns the VAT, based on the VAT return (with a pro rata of 100%), the VAT adjustment is reflected as follows:

4427 "Output VAT"	**=**	**4423 "Payable VAT"**	**190,00**

and the VAT payment to the state budget, according to the payment order:

4423 "Payable VAT"	=	**5121 "Cash at bank in lei"**	**190,00**

Tax and accounting treatment after 1 June, 2002

After 1 June, 2002, with the repeal of the Government Emergency Ordinance no. 17/2000, the regulations on the VAT related to compensations received from insurance companies are made in compliance with the Law no. 345/2002 on VAT and then with the Law no. 571/2003 on the Fiscal Code as the tax treatment was radically changed.

Therefore, as from 1 June 2002, taxpayers who receive insurance compensations are the recipients of VAT exempt operations (whereas insurance companies make, in accordance with the law, VAT exempt operations) and therefore they do not have to collect the VAT related to the compensations received.

The reasoning seems simple and can be compared to the one applicable to the interests received by companies for the cash accounts.

However, in practice, the accounting and tax professionals translate differently the issue of the VAT related to the compensations received, proceeding erroneously to VAT collection.

Accounting treatment exemplification

Next we shall present the correct solution for a situation frequently encountered in practice[342], that is compensations received for goods deteriorated or degraded from various reasons, including reasons of force majeure or natural disasters and which require repair work before being used.

For instance, SC X SRL receives a compensation of 1.190 lei from an insurance company for repairing a damaged transport means (which makes the object of an insurance agreement previously concluded).

The situation can be solved by also taking into account the aspects related to the manner in which the repair work is performed, which is in the repair shop of the owner, of the user or of the leasing company, or in the repair shop of an automotive service facility (other than owner, user or the leasing company).

Therefore, if the repairs are performed by the owner (user or leasing company) in their own repair shop (by themselves), the latter will deduct the VAT related to the purchase of goods and services necessary to make the repairs, receiving from the company insurance the compensation, exclusive the VAT already deducted upon the input operations. In the same time, the companies that make repairs in their own repair shops do not have the legal possibility to invoice these repairs to the insurance companies since services to the insurance company are not performed like this (the settlement is made based on the repair list which will not include the deductible VAT related to the purchase).

From the accounting point of view, here are the things:

- ✓ The purchase of spare parts necessary to make the required repairs is reflected in the owner's (user's or company leasing) accounting, according to the fiscal invoice and to the acceptance and difference inspection report, in the amount of 1.190 lei, including VAT:

%	=	**401 "Suppliers"**	**1.190,00**
3024 "Spare parts"			**1.000,00**
4426 "Input VAT"			**190,00**

- ✓ The payment of the spare parts supplier is reflected, according to the statement of account and payment order:

[342] The examples are purely theoretical, meant to point out the accounting and tax treatment, making some abstractions, such as bank charges etc.

401 "Suppliers"	=	**5121 "Cash at bank in lei"**	**1.190,00**

✓ The spare parts previously purchased are given to consumption, according to the consumption note:

6024 "Spare parts"	=	**3024 "Spare parts"**	**1.000,00**

✓ There is registered the payment of the compensation through transfer made by the insurance company, based on the list previously made for the repairs performed in one's repair shop, list that does not include the VAT previously deducted, according to the statement of account and payment order:

5121 "Cash at bank in lei"	=	**7581 "Claims and compensations, fines and penalties"**	**1.000,00**

✓ The VAT adjustment is reflected, according to the VAT return (supposing there are no other taxable operations related to VAT in that period):

4424 "VAT receivable"	=	**4426 "Input VAT"**	**190,00**

✓ The VAT receivable is received (making abstraction from the dispositions on the level of the VAT receivable amount):

5121 "Cash at bank in lei"	=	**4424 "VAT receivable"**	**190,00**

We can notice that after closing the income and expenses accounts related to the repairs and compensation (6024 and 7581, equal amounts) the accounting profit and taxable profit are not influenced, and as concerns the cash flow statements, as the amount received as compensations (1.000 lei) and the VAT receivable (190 lei) is equal to the amount due to the spare part suppler (1.190 lei), the operation is neuter (the account 5121 is balanced, balance 0).

The same reasoning is used if repairs are made in the repair shop of a specialized service facility (other than the owner, user or leasing company) and the latter invoices the repairs to the owner or to the user.

✓ The repairs invoiced by the service facility is registered, in amount of 1.190 lei, including VAT:

%	=	**401 "Suppliers"**	**1.190,00**
611 "Maintenance and repair expenses"			**1.000,00**
4426 "Input VAT"			**190,00**

✓ The service facility payment is reflected, according to the statement of account and payment order:

401 "Suppliers"	**=**	**5121 "Cash at bank in lei"**	**1.190,00**

✓ There is registered the payment of the compensation through transfer made by the insurance company, based on the invoice received from the service facility, according to the statement of account and payment order, if the insurance company accepts a copy of the service invoice; the compensation does not include the VAT which is deducted by the owner or user:

5121 "Cash at bank in lei"	**=**	**7581 "Claims and compensations, fines and penalties"**	**1.000,00**

The other operations related to VAT adjustment, payment of the VAT receivable from the budget, closing of the income and expenses accounts are identical to those presented for the case when repairs are made in the owner's repair shop (user's or company leasing), with the same effects.

You should notice, if the insurance company requires the service invoice in original, considering that the owner or the user will not be able to deduct the value-added tax related to repairs because it cannot be accounted for with the original invoice, the compensation will also include the VAT:

5121 "Cash at bank in lei"	**=**	**7581 "Claims and compensations, fines and penalties"**	**1.190,00**

and in the same time, the input VAT becomes non-deductible (it cannot be accounted for with the original invoice):

635 "Other taxes, duties and similar expenses"	**=**	**4426 "Input VAT"**	**190,00**

Therefore, the account 4426 "input VAT" is balanced and the VAT adjustment operation remains without object. Therewith, the effects are the same (the account 5121 is balanced, as liquidities are not influenced, the accounting and taxable profits are 0 and the expense accounts 611 and 635 compensate in amount the income account 7581).

If the insurance company pays the repair work directly to the third specialized service facility, without settlement and through the company which holds or uses the damaged/deteriorated good, then the latter shall not register any operation in its accounting, related to the damage and repairs performed.

Conclusions

In conclusion, currently in Romania, regardless whether the compensations received from the insurance company include the VAT (1.190 lei or 1.000 lei for the example presented), the recipient of the compensation (owner, user or leasing company) does not have to collect the VAT related to insurance (the account 4427 "Output VAT" will not be used).

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CONCEPTUAL DIFFCULTIES AND THE FEASIBILITY OF POLICIES FOR THE COMPANY'S GOODWILL

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Abstract: Goodwill represents a financial indicator which serves as an evaluation tool for the quality of the company's production structures. The evaluation and the recognition of the Goodwill raises may controversies, as for example: Is the Goodwill an asset or not? Is it kept within the assets part or is it subtracted out of the company owner's equity? Is it depreciated or it is sufficient to be included in the provisions? Therefore, the stakes for choosing one solution, or the other, should not be neglected. It is necessary to analyse the factors that influence the managerial decisions, when choosing a way to record the Goodwill. In this analysis we may use the theory of the Contract Costs. In its own path to eliminate the manipulation options for the published information, the international referential has supported within the past years, numerous revises and modifications regarding the Goodwill accounting treatment. Goodwill in the context of the international accounting convergence processes.

Keywords: Goodwill, accounting referentials, controversies, accounting convergence processes.

Theoretical Issues regarding the nature of the Goodwill:

Goodwill represents a financial indicator that serves as an evaluation instrument for the quality of a company's production structures. It is „the only asset that the competition cannot depreciate or destroy".[343] The specialty literature presents various methods for computing the Goodwill and the most important ones are as follows:[344]

A. Goodwill is determined as a difference between the real global value of an enterprise and the fair value of all its net quantifiable assets. This subtractive method, preferred by the accountants, is rather simple to be used, but has the major inconvenient that it does not explain the intangible components of owner's equity.

B. Goodwill is computed with the additive method, starting with the direct valorisation of its own components (registered marks, licenses, brands, distribution chains, s.o.). The additive method ignores though the interdependence of the asset component elements and its effects on the enterprise capacity, reasons for which it has been rarely utilised by the accountants.

C. Goodwill is determined on the basis of the estimations regarding the company's capacity to generate a result superior to the one which may lead to a non-risk participation of the invested capitals. From a practical perspective, this method imposes identifying the asset-generated cash flows, the upcoming cash flows for the shareholders (under the form of dividends), and the extra-added value brought by the company's sale.

C. Collette and J. Richard³ analyse the subtractive method for determining the Goodwill, through the light of the dynamic and actuarial accounting procedures.[345] Within this vision, the Goodwill represents the difference at a certain point in time, between the actuarial value of the owner's equity and its dynamic accounting value. In other words, the Goodwill is the difference between the linear cumulated results (according to the actuarial accounting procedures) and the cumulated „dynamic" results. Beyond the difficulties for evaluating the Goodwill, it is asked whether this represents a feasible indicator for measuring the intangible capital of a company. Obviously, the answer is negative. One of the main

343 "To goodwill, the one and only asset that competition cannot undersell or destroy." Marshall Field, Goodwill, web page.

344 P. Epingard

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characteristics of the intangible capital is its indirect relationship with the enterprise performance in terms of profit or market share, and its value is linked to the qualitative characteristics of the organisation, its competencies and flexibility. Such aspects cannot be measured and quantified using the Goodwill, an indicator built to estimate the market value according to some financial logistics on the short-term that sustain the shareholders' rights.

Accepting the fact that Goodwill actually measures the immaterial capital of a company, means giving credibility to the market when it estimates the value of that company. In real life, the market-estimated value is based (as Keynes said in 1936) more on a „conventional evaluation, the result of a collective psychology belonging to a large number of ignorant individuals", rather than on a long-term performance measurement. In other words, as an asset-evaluation issue, one cannot be right if he opposes to a multitude of individuals, no matter how ignorant or blind those persons are.

The recognition and the evaluation of the Goodwill – Controversies:

The arising problem is whether Goodwill represents an asset in the legitimate context of this word. Briefly, it can be easily stated that within the specialty literature it has been demonstrated that the experts' points of view are far from being convergent in all the aspects. A first argument against recognising the Goodwill is the fact that this „element" does not satisfy the definition of the „intangible" assets, as it has been presented in the IAS 38 standard, as follows: it cannot be separately sold form the acquired enterprise, therefore it doesn't have a separable character, and being identifiable only as a remaining part. Also, incurring an expense is not automatically translated into the process of creating an asset. W.P. Schuetze offers an example as to illustrate the above mentioned issue – an example about the business managed by his sister in a small Texan city. We quote: „She has recently bought a concurrent society, paying an extra 100,000$ over the purchased identifiable elements of the net assets. In return for the extra 100,000$, the seller accepted not to be concurrent with her business for the next 5 years. I explained to her that this represented acquired Goodwill and that, in conformity with the General Accepted Accounting Principles (US GAAP), it should be recorded as an asset. She started laughing and replied: try to pay with this asset all the wages, the rent and the electricity bills, or the dividends. The 100,000$ is actually just an expense."[346] It should not be neglected that, within the international vision, an asset represents a resource controlled by the enterprise that was generated by past commercial events and which is susceptible to bring future economic benefits to the company. Obviously, the Goodwill generates future economic benefits (positive cash flows), because it has the capacity to create, together with other assets, cash flows, and further the economic entity controls these economic advantages (as a result to a past transaction, the operation of enterprise grouping).

Another argument against recognising the Goodwill notion, is the fact that this „element" cannot be feasibly evaluated, excepting the moment when grouping the enterprises. In other words, Goodwill satisfies the criteria for being recognized as an asset, at the moment of purchasing a company, but not also after that point in time. Consequently, it has been stated that, in the case when the Goodwill is recognised as an asset, afterwards it must be subtracted from the owner's equity. Therefore, the practical procedures for treating the Goodwill, is equivalent to rejecting the Goodwill's status of an asset.

We consider though that there are similar difficulties to be encountered in the case of other tangible assets, for which there is no active market (for example the highly-specialised equipment market). And, despite all these, the mentioned type of equipment is recorded as an asset, according to the transaction amounts (acquisition cost). The question raising from here would be: why Goodwill is not treated in the same way? Also, ignoring the Goodwill, allows the future recognition of some non-realised revenues. For example, selling an enterprise for the sum of 100 mil. m.u., that has been previously acquired for the same amount, through a sale of titles – recorded in the accounting journals, at the value of only 60 mil. m.u., due to eliminating the Goodwill part), will generate a sale revenue of 40 mil. m.u., in the conditions in which the selling price and the purchase price are equal as value. Moreover, if the enterprise is to be sold at the value of 90 mil. m.u., a 30 mil. m.u. gain would be recorded, while in real facts this transaction is translated in a 10 mil. m.u. commercial loss.

[4] Schuetze, W.P., *What are assets and liabilities? Where is True North? (Accounting that my sister would understand)*, Abacus, volume 37, no. 1, 2001.

In the case in which the Goodwill is recognised as an asset, questions are raised on how it will be depreciated along the time. The accounting practice and theory generally sustain four divergent solutions for the Goodwill accounting treatment, as follows:

- maintaining the Goodwill as an asset, without any amortisation or provisioning;
- subtracting the Goodwill from the owner's equity;
- the capitalisation of the Goodwill and making provisions for it - in the case in which the acquired assets have depreciated;
- the capitalisation of the Goodwill and its amortisation.[5]

a) Maintaining the Goodwill as an asset, without any amortisation or provisions. There are experts who sustain the fact that the value of the Goodwill does not decrease in time, but on the contrary it maintains its value or even grows along its economic life. In other words, „the Goodwill represents an investment and must be kept in the Balance Sheet without any amortisation"[347]. C. Collette and J. Richard both consider that such a solution is not acceptable because the Goodwill represents a virtual asset that leads to the misrepresentation of the real and net status of the assets and of the result.

b) The imputation of the Goodwill from the owner's equity. The creators of this solution had as a starting point the fact that a company accepts to pay an extra-price for acquiring the assets belonging to another company, when it is estimated that, by purchase, they will obtain future economic benefits under the form of future superior incomes. Because these future extra-revenues will affect the owner's equity, then they may be compensated through the extra-payment made at the acquisition moment. This solution is though contested, because it creates a false image of a higher profitability of the company group, than the real state of facts.

c) The capitalisation of the Goodwill and creating provisions for it, in the case in which the purchased assets have been depreciated. Such a solution leads to a similar image with the one generated by the first one.

d) The capitalisation of the Goodwill and its amortisation for a period equal to the useful life of the bought or consolidated assets, at the moment of acquiring an enterprise. Some specialists plead for the necessity of depreciating the Goodwill, due to its own elements' economic nature. Therefore, the Goodwill may contain identifiable intangible assets that support depreciation, and which are not separately recorded, because their value cannot be feasibly determined. Also, some components of the Goodwill, as for example the „managerial team" or the „collective intelligence of the team" do not have a definite economic life. Consequently, not amortising the Goodwill does not allow the creation of a real image of a company's financial status and economic performances.

C. Collette and J. Richard sustain that the only rational solution is to amortise the Goodwill during its investment period. The amortisation of the Goodwill significantly influences the prepared an disclosed financial results of the company. Consequently, most of the enterprises take advantage of all these ambiguities belonging to the various types and incertitudes of theoretical issues, in order to develop an opportunistic attitude that serves their own perspectives and targets. That is why B. Martorz and F. Verdier criticize the following situation (considered by us representative for this issue): „When IBM acquired, in 1995, the Lotus Development Corporation, with the total sum of 3.2 billion $, the amount of 1.84 billion $ (that is 57% out of the acquisition price) has been allocated to the R&D expenses still in progress. IBM recorded this issue into its own Profit and Loss Account, by applying the rule which states that the R&D expenses represent expenses for the current financial year. Why this artificial method? Well, the answer is that the immediate recording of the R&D expenses within the Profit and Loss Account, allows the elimination of a big part of Goodwill, which further leads to the ability of diminishing the future amortisation and significantly increase the published financial result for the company. Also, this operation decreases the total value for both the owner's equity and the total assets, creating the illusion of a higher profitability".[348]

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[347] Venkatesan Sundararajan, *Accounting for Goodwill*, 1995, web page.

[348] Martory, B. și Verdier F., *Comment traiter le goodwill? Pratique d'une théorie, théorie d'une pratique*, Comptabilité, contrôle, audit, tome 6, volume no. 2, september 2000.

Our opinion is not though the same with the one belonging to Professors C. Collette and J. Richard. Using a linear amortisation system, may lead to the creation of a false and deformed image of the enterprise, due to the fact that the Goodwill is a special asset with a relatively stable value on the short-term, and with potential spectaculars drops on the long-term. Most of the companies record the Goodwill in the Balance Sheet and treat it in the same way as for the Tangible Fixed Assets. Here, we must mention that while the value of the Tangible Fixed Assets rarely incur fast depreciation processes, on the contrast, the value of the Goodwill may disappear in only one second, if we reach the conclusion that the company paid too much on the Intangible Fixed Assets (for example, a registered mark is not „that original" as it has been considered at the beginning, or the demand for a new technology is very low). As an example, it is sufficient to offer the case of Financial Corporation of America (FCA), that paid in 1983, an extra 1.1 billion dollars in order to acquire also the company's Goodwill advantages. The duration for amortising the Goodwill has been settled at 30 years. In 1984, the FCA has recorded a 600 million $ loss, which in turn diminished its owner's equity with 75%. Between 1985 and 1986, the same company had profit, but again in 1987 it recorded a 470 million $ loss, generating a negative value for the owner's equity (minus 170 million $). At the end of 1988, American has been sold to another enterprise. At that moment in time, the FCA Balance Sheet presented a non-amortised Goodwill of 950 million $, not covered by the sale transaction. The need for transparency and avoiding the utilisation of an arbitrary accounting system, both represented reasons which laid the foundations for giving up to the Goodwill amortisation procedure presented in some performant accounting referentials.

The stakes for choosing one solution, or the other, previously analysed, should not be over passed. This is the reason for which it is absolutely necessary to analyse the influencing factors for the managerial decisions when choosing the accounting method as to record the Goodwill. In this analysis, we shall utilize the theory of *Contractual Costs.* Watts and Zimmerman have studied numerous case studies on the contractual costs. Some of these studies worth our attention, especially the *Agency Costs* matters.[349]

The analysis for the agency costs, worth identifying the agency relationships susceptible of influencing the accounting policies to be chosen. It is about settling relationships between: a) the managers and the shareholders; b) the shareholders/managers and the creditors; and c) the company and its external environment. Through the procedure of including within the contracts some compensatory plans, or some additional liability restrictions, the managers actually accept to link their interests to the ones belonging to the shareholders and to the ones of the creditors. Positive researches have emphasized that managers tend to have an opportunistic behaviour, that is to choose those accounting policies and procedures which maximise their remunerations, reduce or avoid the contractual restrictions and minimise possibilities of political interference. Using such results, within the Goodwill accounting analysis, intuitively leads us to the following conclusions:[350]

- in the case of the companies that already have such managerial compensation plans, it is preferred to apply an accounting method with no adverse effects upon the accounting financial result: i) maintaining the Goodwill in the assets part, with no amortisation or provisions, or ii) subtracting Goodwill out of the owner's equity side of the patrimony.
- in the case of those enterprises having no restrictions concerning the additional liability, or balance rate restrictions, it is preferred to apply a method which doesn't diminish owner's equity: i) the capitalisation and the amortisation of the Goodwill; or ii) the capitalisation and provision-making for the Goodwill.

Goodwill and the International Standards:

At international level, the treatment for the Goodwill is the object of the IFRS 3 accounting standard – *Groups of Enterprises.* This standard provides rules for recognising the Goodwill (positive or negative), generated from the acquisition of other enterprises. In the case of company-acquisition operations, any over passing of the acquisition costs, beyond the limit of the assets' fair value and of the acquired quantifiable liabilities, must be described as part of the Goodwill, as an asset.

[349] R.L. Watts, J.L. Zimmerman, *Positive accounting theory*, Prentice Hall International Inc, 1986.

[350] Also relevant is the 1998 analysis of P. Gore, F.M. Taib and P.A. Taylor, *"Accounting for Goodwill: what factors influence management preferences?"* – the web page. This paper represents an investigation of the British stock exchange companies, between 1993-1995, and tries to identify which one of the six mentioned accounting treatments foreseen within the project "Goodwill and other intangibles", is the best for managing the Goodwill.

The Goodwill generated through an acquisition process represents a payment made by the buyer, as a consequence to anticipating future economic benefits. These future economic benefits may result form the merger between the identifiable assets acquired, or from individually analysed assets that do not meet all conditions for being in the financial statements, but for which the buyer is willing to perform a payment within the acquisition transaction. There are situations in which the apparent existence of the Goodwill indicates the fact that the fair value of a significant identifiable asset, hasn't been correctly determined. For example, we may choose a company that has as object of activity the minerals extraction and their sale on a market with continuous price changes/quotations. In order to determine the value of the non-extracted minerals, there are evaluation methods based on the current market prices. Due to the aspect that the minerals reserves represent the only important/significant asset of that company, which in turn has its activity limited to the minerals extraction, then the value of those reserves essentially determines the value of the company. In the case in which a potential buyer would accept to pay for this enterprise a higher price than the conventional value of the reserves, then it means he estimates a greater value for the reserves than the conventionally-settled value. The payment excess, over the real value conventionally determined, must be added to the value of the reserves.[351]

At the purchase date, the acquired Goodwill, within a group of enterprises, is evaluated at its acquisition cost and also recognised as an asset. After its initial recognition, that Goodwill must be evaluated as a difference between its acquisition cost and the cumulated losses generated by the depreciation. In other words, the Goodwill is non-amortisable, but it bears a depreciation test which may lead to the recognition of some value losses.[352] If the share owned and controlled by the buyer, out of the total net asset at its fair value, overpasses the titles' acquisition cost, then the buying company must re-identify and revalue the assets, liabilities and potential liabilities of the acquired enterprise, as well as the revaluation process for the acquisition cost. The negative difference of acquisition may have one of the following causes:

- errors in the revaluation of the assets' fair value, of the liabilities and potential debts of the acquired company (for example, the future potential costs haven't been correctly emphasized within the fair value of the assets, liabilities and potential liabilities);
- revaluation errors for the titles' acquisition costs;
- the obligation provided by some accounting standard, as to revaluate an asset at another value than the fair one;
- an acquisition at a good price.

If, as a result of the revaluation, a negative purchase difference is still kept, then the Profit and Loss Account will be definitely affected. On the 10th of January 2008, IASB – International Accounting Standards Board has published a revised and modified form of the IFRS 3 standard, which becomes compulsory starting the 1st of July 2009. The revised accounting standard, allows an economic entity to choose on how it evaluates the minority interests (non-controlling interests), as follows: either using the *entire Goodwill method* – at the fair value; or by using the proportional *corresponding part out of the total net asset* of the purchased company. Under these circumstances, the Goodwill becomes measurable as a difference between the following items:

- the sum of: i) the transferred titles' fair value, at the acquisition date, ii) the value of minority interests, and iii) in the case of a company grouping operation, the fair value of the buyer's previously-held shares within the bought company's total social capital;

AND

- the net value at the acquisition date, for the purchased identifiable assets and liabilities, valued in conformity to IFRS 3.

Goodwill is measured at the date when the buyer gains full control over the acquired company.

This situation held a slight change comparatively to the current in-use-method, according to which the buyer separately evaluates the Goodwill for each transaction, by comparing the acquisition cost with the percentage of fair value belonging to the net identifiable assets, at the date of each acquisition.

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[351] Pricewaterhouse Coopers, *Understanding IAS*, 2001, web page.

[352] In order to perform the Depreciation Test for the Goodwill, one should use the policies and procedures presented within IAS 36 – *Depreciation of Assets*.

To sum up.....

Summing up the analysis upon the accounting principles and practices regarding the treatment of the Goodwill, leads us to the following main conclusion: when the different types of regulations are ambiguous, with difficulties in settling frontiers, then the accounting rules become insufficiently developed and therefore the companies have an opportunistic type of behaviour.

Inevitably, under such circumstances, there is a continuous race between the authorities (wanting to develop and implement very detailed rules) on one side, and the enterprises that wish to explore those rules as to maximise their own utilities, on the other side. The Goodwill represents a residual value with extremely ambiguous characteristics. All theoretical considerations, avoid to compare between the computing the depreciation or the amortisation, while the stock exchange companies try to minimise the financial impact of their value losses. For this reason, some of the accounting referentials (including the Romanian one), provide the Goodwill amortisation solution, as a substitute when there's no better alternative.

The solution given by the international accounting referential seems to reconciliate the theoretical vision, with the accounting practice for the Goodwill issue, regulating both the transparency matter for the grouping operations towards their shareholders and creditors, and the future expense effects linked to this asset, over the company's financial result. The above described solution creates major inconvenients with some of the national accounting standards, in the matters of the initial recording of a group of enterprises, and also in the depreciation/amortisation issue for the Goodwill. It is very likely though, that most of these incompatibilities will disappear once the international accounting convergence processes are further developed.

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THE RECOGNITION OF THE DIFFERENCES IN THE EXCHANGE RATE GENERATED BY THE IMPORT-EXPORT OPERATIONS CARRIED OUT BY THE ECONOMIC ENTITIES FROM ROMANIA IN THE FINANCIAL STATEMENTS

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ABSTRACT: Nowadays the participation of all states in the world economical circuit is an objective necessity. The complexity of global economy, the extremely strong incidence of technical progress, the diversification of the economic processes, the emphasizing of the interdependences between national economies, the extremely important advantages that can be obtained from international specialization (or the dangers to which those that prefer autarchy are exposed), are just a part of the causes and factors that have led to the generalization – at a planetary scale – of the international economical exchanges. In this field we include our study of analysis and presentation of foreign transactions, which have as a main characteristic the expressing in a foreign currency, can generate differences in the exchange rate between the time of the appearance of the external debt/liability and the time of recording or presentation in the financial statements of the unaccounted for until the end of the financial period.

KEYWORDS: import; export; accounting information; external price; risk (currency); financial statements; currency.

1. Introduction

1.1 Motivation and methodology

"Through the development of foreign trade and international economic cooperation – writes Ph. D, Professor. Alexandru Puiu – each country can increase its economical potential, respectively the possibilities capitalizing its material and human resources in the direction of the development of production forces, promoting technical progress, superior capitalizing of natural resources, creation of new products, raising work productivity, higher qualification of the work force." [1:715]

Given the complexity and importance of the foreign trade operations, they represent, for accounting as well, an extremely important special field of research and application. This much more because in import – export operations partners from different countries are joined together, consequently the sphere of accounting information users grows larger. In these conditions, obtaining and transmitting relevant, credible and comparable information that utilizes a common accounting jargon enabling communication between all users categories is vital to the business environment.

The content of the present paper will be based on the deductive approach, starting from theory to practice, with some tendencies of inductive research which consist of practical case studies meant to verify the degree in which certain theoretical aspects, mentioned earlier are validated from a practical point of view. Practically, the tools of the deductive research used are case studies, through the descriptive/narrative method, but also the work tool materialized in the analysis of documents, especially of synthesis accounting documents. We can specify in this case that we used the quantitative method simultaneously with the qualitative on in the investigation. And, for the gathering of data, the main method used was the observation method.

1.2 Literature review

The complexity of the problems that are raised by external trade and especially the quantification of its importance for the economy of each country, have led to numerous analyses and conclusions, which, although in large terms differ one from another, being hard to find a common denominator applicable in practice, still they constitute the support of a fundamental direction in the development policy and strategy of an economy and of its external commerce. In this way, in the national literature, among the main authors preoccupied with the importance of external commerce for the Romanian economy, we mention: Ciobanu G. [2], Popa I.[3], Popescu G.[4], and of the ones that gave attention to the risk that these transactions are subject to in the currency fluctuation conditions we notice Vişan D., Buruda C., Burtescu C., Luță D.[5]. These authors have started, however, directly from the premise that the currency fluctuations in which the import-export operations are expressed affect their efficiency and have suggested solutions for diminishing or even eliminating this currency risk. In the international literature, remarkable studies on this theme have been written by the following authors: Williamson J [6], Shapiro A. [7], Bartov E., Bodnar G. M.[8], Halpem L., Wyplosz C[9].

Financial instability is an international public bad, but not a classical one. Instability is not purely a technical by-product of the production of financial services. Rather, it is the outcome of market failures, for reasons not yet fully understood. [10:156] The Gordon M. Bodnar and Richard C. Marston model's demonstrates that foreign exchange exposure elasticities should be largest for pure exporting and importing firms, especially those with low profit margins. Exposure elasticities should be smaller for multinational firms that match their foreign currency revenues and costs [11:107]. Söhnke M. Bartram and G. Andrew Karolyi show that the reductions in market risk were concentrated in firms domiciled in the Euro area and in non-Euro firms with a high fraction of foreign sales or assets in Europe. The Euro's introduction led to a net absolute decrease in the foreign exchange rate exposure of nonfinancial firms, but these changes are statistically and economically small.[12:519]. In conclusion, Muller A. and Verschoor W.F.C said that „Assessing the sensitivity of firm value to exchange rate changes has been one of the most challenging issues in international financial management over the last two decades" [13:385].

2. The recognition of the differences in the exchange rate generated by the import-export operations in the financial statements

Preparing financial statements, as periodical reporting documents, mark the final stage of the annual data processing through which the activity of an economic entity that performs import – export operations is expressed. They are the result of applying hypotheses, assessment bases and principles specific to accounting and destined to reflect as precise as possible the financial position and the performances of an entity in order to serve the interests of a large scale of users of the accounting information. In economic literature, in order to reflect "the enterprise in financial terms" [14:22] at the end of the exercise different tools are used: balance sheet, accounting documents of synthesis, annual accounts, and financial statements. In the general sense, the documents of synthesis notion are used in accounting, to mark the fact that these statements assure the synthesis (syntax) of accounting information. [15:433]

At an international level, we find the problem of financial statements in the provisions of the international accounting norm IFRS 1"Presentation of financial statements", but also in other international accounting norms. Irrespective of the title under which we discover them in accounting or the normative act that regulates them, financial statements as accounting documents of synthesis represent for the users of the accounting information, the "data base" necessary in decision taking.

Thus, taking into account the users objectives and the decisions that these must also substantiate, financial statements demonstrate their utility through the following [16:386]: they represent a method of leading and analyzing, named as "the mirror" of the economic entity; they represent the main method of information of present and potential investors, business partners and the wide public, interested in the activity of the entity regarding the operations and transactions made in the reporting period and their effect on the financial equilibrium, on the registered financial results respectively; they constitute a calculation basis of the macroeconomic and sectorial indexes and of elaborating forecasts through the statistical date that it supplies regarding the patrimony and results of all economic entities.

In this paper we do not intend an exhaustive presentation of all the elements of an economic entity that can be comprised in the financial statements, but we will follow only those aspects relating to the specific of the import-export operations, to the modality of presenting them in the main components of the financial statements, respectively. As main components of the financial statements, we included, unarguably, the Balance sheet, Profit and loss account, and, also, the Cash flow statement.

The Balance sheet presents the balance of cash and cash equivalents of an entity at the end of the period. By examining the balance sheets referring to two consecutive periods, we can state if the cash and cash equivalents have risen or fallen within a certain period of time. However, the balance sheet does not indicate why the balances of the cash and/or cash equivalents have varied on the course of the exercise. The profit and loss account presents information of the incomes, expenses and results emitted from different activities types – "keys" regarding the sources and uses of cash and cash equivalents, but not even this financial statement explains why the respective elements have risen or fallen. Moreover, not few times, behind significant profits, the profit and loss account can hide critical cash problems of the economic entity.

The table of cash flows presents such flows, known under the name of cash receipts and cash payments, in the course of the period. In other words, it shows where the cash came from and how it was spent, explaining in this way the causes of their variation. [17:80] The Cash flow statement belongs to the flow tables family, extremely useful tool for financial analysis, business assessments, diagnosing the situation of the enterprise, forecasts and other papers of economic-financial facture that are based in a large extent to the data from the financial statements. The cash flow table must present the cash flows of the exercise classified into operating, investment and financing activities. This synthesis document together with the Profit and loss account represents two fundamental elements that indicate the accurate dimension of performance of the company.

An import-export operation carried out in a foreign currency must be registered, when it is initially registered in the national currency, by applying the exchange rate between the two currencies, at the date of the transaction, to the value of the operation. Afterwards, at each date of the balance sheet, according to O.M.F.P no. 1.752/2005, the balance sheet accounts shown in foreign currency are treated as follows: the monetary elements (liquidities and assimilated elements, such as the letters of credit and bank deposits, accounts receivable and accounts payable) shown in foreign currency must be estimated and reported using the exchange rate established by the National Bank of Romania at the end of the financial year. The advantageous or disadvantageous differences between the exchange rate at the date of the recording (initial account) or the exchange rate at which the foregoing financial reports were put forward and the exchange rate at the end of the financial year, are accounted for as financial gains or losses according to the case; the non-monetary elements purchased in a foreign currency and accounted for/registered at the historical cost (non-current assets, inventories) must be reported using the exchange rate from the date of the transaction; the non-monetary elements purchased in a foreign currency and accounted at the fair value must be reported using the exchange rate form the date of the related estimation.

Due to this stipulation exchange rate discrepancies can thus appear in the following situations: *At the foreign currency liabilities' and receivables' maturity*, when exchange rate differences appear be they advantageous or disadvantageous, according to case, between the "historical" exchange rate[353] and the exchange rate at the time of payment. These differences are considered financial gains or losses according to case. When the foreign currency receivable or liability is paid during the same financial year it appeared, the whole exchange rate difference is acknowledged in that year. When the foreign currency receivable or liability is paid during the following financial year, the exchange rate difference acknowledged in each financial year that appears until the year of payment is determined by taking into account the modification of the exchange rates from each financial year; a*t the end of the financial year* when the unpaid *foreign currency receivables and liabilities* are *updated* to the exchange rate at 31.12. The exchange rate differences generated by this update are treated, like in the previous case, as financial gains or losses, according to case. In this way "the historical exchange rate" of the unpaid receivables/liabilities until the end of the year becomes the exchange rate as of the 31st of December; a*t the end of the financial year, the update of the foreign currency liquidities* is made, compulsorily, at the exchange rate from the end of the year, so that a correct piece of information is shown by the financial statements. This update also generates exchange rate differences, hence financial gains or losses, according to case.

[353] The "historical" exchange rate is considered, according to the new approach of the prudence principle, the exchange rate from the date that the receivable or liability in the foreign currency appeared, if this happened in the same financial year, respective the exchange rate from the end of the latest financial year, in case the receivable/liability, or a part of it, appeared in the previous financial year.

From all of the requirements mentioned above it clearly results the way in which financial statements for the foreign currency transactions are presented. Thus, the monetary elements must be presented in the Balance Sheet at the exchange rate from the end of the financial year, and the non-monetary ones at the exchange rate from the latest registration. In the Profit and Loss Statement/Account, the differences resulted from the update of the monetary elements, or payment of foreign currency receivables/liabilities, are presented as foreign exchange gains and/or losses at “Other financial incomes” or “Other financial expenses” respectively. In the elaboration of the Cash Flow Statement tough, there is the issue of exchange rate differences like the ones mentioned above that can or can not be acknowledged as cash-ins respective payments.

The cash flows do not contain the change in liquidities or liquidity equivalents because they are part of the economic entity’s treasury management and a cash flow statement must show the incomings and outgoings of funds generated by the operational, investment and financial activities. Considering this we state our opinion that exchange rate differences that appear in the situations mentioned above can be viewed as unaccomplished according to the requirements on which the Cash Flow Statement[354] is based. . Of course that if the link with the transactions that generated them is considered, the differences may be accomplished, if they correspond with the payment of the transaction, or can be unaccomplished if they correspond with a transaction unpaid until the end of the year when the update of the foreign currency receivables, liabilities and liquidities takes place at the exchange rate from that time. However, we believe that no matter what transaction they are linked with (paid or not) the financial gains and losses from exchange rate differences do not generate cash and so they needn’t be recorded in the Cash Flow Statement.

For the operations of an economic entity made in a foreign currency, all the three situations generate an unrealized profit or loss. However, only the third situation, i.e. the update of cash and cash equivalents at the end of the year using the exchange rate from that time, is shown distinctively in the Cash Flow Statement. This is due to the fact that the other two situations (the payment of foreign currency liabilities and receivables and the update of the unpaid liabilities/receivables at the end of the financial year) do not influence directly, through the registrations, the treasury accounts. Even if they are not distinctively reported in the Cash Flow Statement, foreign exchange losses and gains related to these two situations do not influence the Statement because, through the way in which it is presented based on its logic, they and their equivalents are indirectly eliminated.

Conclusion

The distinct presentation of the exchange rate variation effect on the cash and cash equivalents group is needed for bringing together these elements at the end of the period, and it is done as follows:

- When applying the *direct method of reporting* the operating flows, but also the investment and financial flows that are usually presented on a gross basis, the cash-ins and payments generated by foreign currency transactions will be presented at the exchange rate at the date of the cash flow. In this way we directly consider the exchange rates from the date of the cash flows for foreign currency transactions, disregarding the other balance sheet accounts and the implicated results, and also the exchange rate differences that are incorporated. Thus the cash-ins and payments related to the foreign currency transactions during the period are obtained.
- When applying the *indirect method of reporting* the operating flows: the losses and gains that reflect the exchange rate differences related to the update of the cash and cash equivalents group are annulled from the net book result. In this way the exchange rate differences generated by the update of cash and cash equivalents are eliminated from the operational flows group; the liquidities are recorded in the last group of the Cash Flow Statement for their initial and final balance accounts, including, for now, the exchange rate differences that have no connection with cash (generated by the update of liquidity); these differences must be annulled for the respective balance accounts to reflect the cash existence. The way in which

[354] There are opinions that state the fact that the foreign exchange differences related to the transactions paid during the year must be considered accomplished when the Cash Flow Statement is made because they generate payments or returns.

this is done is presented in the standard, on a distinct line, in the cash and cash equivalents group, under “Exchange rate variation effect”.

Thus, the unaccomplished gains and losses that result from the variation of the exchange rate between the date of the flows and the end of the year are not cash flows. However, the effect of the exchange rate variations related to liquidities and liquidity equivalents owned or owed is presented in the Cash Flow Statement, in order to allow the comparison between the liquidities and the liquidity equivalents related to the beginning and the end of the year. They are presented separately from the cash flows generated by the operational, investment and financial activities.

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QUALITY COSTS, AN IMPORTANT DIMENSION OF BUSINESS

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Abstract: Nowadays, many company leaders erroneously perceive quality assurance as a rule imposed from outside and as an administrative act .Quality is regarded as a socially desirable objective, but its contributions to the profitability of the company are considered marginal. In order to cope with the strong competition present in a market companies are forced to continuously manufacture high-quality products at prices as low as possible to create the conditions necessary to obtain benefits. It is not sufficient just to manufacture high-quality products. The costs necessary to achieve these goals must be carefully monitored, so that the long-term effect of quality costs on the company should be the intended one.

Key words: quality costs, evaluation, monitoring

Foreword

Quality costs are not different from the other types of costs. Much like the maintenance, project, production, sale costs and the costs of other activities, they too can be measured and analysed.Quality costs appear in each of the stages of the product life cycle, as well as at all the operational levels of the company.Traditionally, poor-quality costs are correlated with scrapped goods, rework, excessive effort spent on tests and trials. These costs are easily understandable but little reference is made to them in the account books of the company. Moreover, the poor management of quality costs leads to other costs that could be avoided.

Nowadays, several studies reveal that the non-quality costs as well as the prevention and appraisal costs amount to an average of 25% of the turnover of a company and to approximately 5-15% of the production cost. In Crosby's opinion, they would amount to a much higher percentage, up to 40% in the case of the service companies. The level of the quality costs represents an important instrument of quality valuation, a potential source of increasing the profit of the company. There is a possibility of identifying the ineffective activities and the critical points of the processes through costs thus providing a more reliable basis for corrective or improvement actions necessary in a certain sector of the company and the evaluation and monitoring of the effectiveness dynamics of the adopted measures. However, they do not represent an absolute measure of the performance of a company. They must be appropriately integrated into the management performance evaluation system.

1. Quality costs conceptual approaches

Quality costs represent one of the main topics debated in the specialized literature, being an important instrument that allows for the financial evaluation of the measures adopted in order to ensure performance. In his paper "Quality Control Handbook", Juran widely approaches the problems of quality costs, specifying that 11 categories of costs are necessary for the manufacture of products "fit for use".

In his approach of quality costs problems, Feigenbaum considers that four categories of costs are needed: prevention costs, appraisal and control costs, internal defect costs and external defect costs

Internal defects are defined as defects identified before the product delivery, while external defects are defects identified after the product shipment to the receivers (traders, dealers, customers).

In Crosby's opinion, quality is free, and he approaches quality exclusively through two categories of "prices": *the price of conformance and the price on non-conformance*. He prefers the word "price" instead of "cost", in order to highlight the fact that this price that is paid is not unavoidable; in fact, on the contrary, it can be reduced and even eliminated. He includes into the price of conformance all the expenses necessary to provide the product conformance with the requirements and into that of the non-conformance, the expenses incurred because the product is not in conformance with these requirements.

Kelada criticizes the traditional approach of quality costs, mainly because it only takes into consideration direct, tangible costs, and proposes the following distinct categories of costs:

– *direct quality costs* that are quantifiable and non-quantifiable;
– *indirect quality costs* that are, in their turn, also subdivided into quantifiable and non-quantifiable costs.

According to Tkaczyk, S. (2001) quality costs represent the main indicators on the basis of which the performance of the quality management systems can be evaluated. Quality cost (c_c) could be defined (Rusu, C. and others, 2001) as the difference between the actual cost (c_R) of a product or service and its reduced cost (c_r) if no service below standards and no failure or manufacturing defect would have occurred into the product manufacture.

According to international standard ISO 8402, quality costs represent the costs incurred to ensure the quality level of the products and services as well as the losses that occur when the satisfactory level of quality is not reached. To summarize, a typology of these costs can be made (Rusu, C. and others, 2001) so that they could be analyzed in the clearest possible way (figure 1). This typology is established by norm AFNOR X50-126 France. Nevertheless, this is not the only typology available on the market. Inspiring himself from Juran's and Deming's papers, Harrington proposes a slightly different approach (an approach adopted by ASQC) where we can find the same categories of costs.

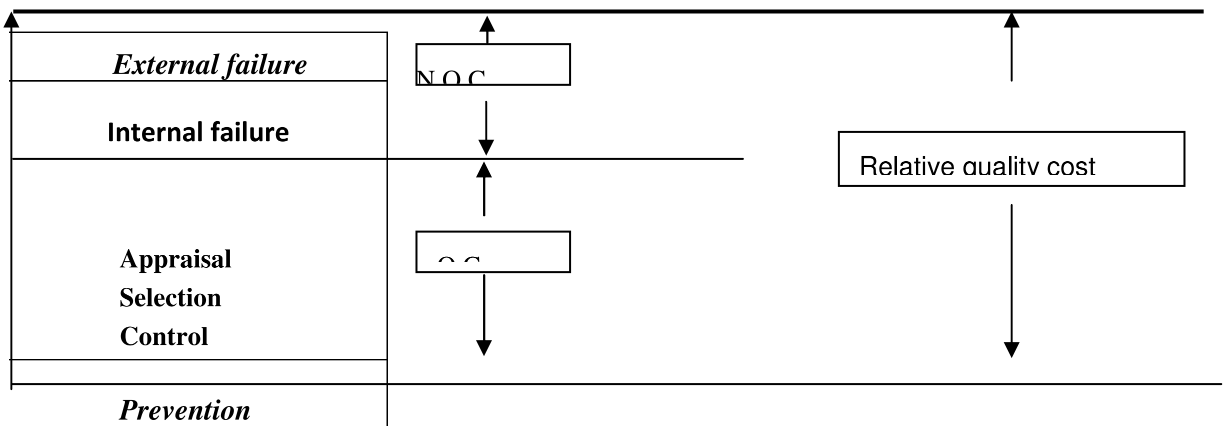

Fig. 1 Typology of quality costs (Rusu, C. and others, 2001)

NQC – non-quality costs; QC – quality costs/costs necessary to achieve quality.

2. Practical approaches of quality costs

Currently, the classic approach of quality costs, with its delimitation of the four categories of costs (prevention, appraisal, internal and external failure), is the most unanimously accepted one in the specialized literature, and especially in the economic practice. The European Organization for Quality – EOQ defines quality costs as costs representing *"the costs implied by the prevention and appraisal activities and by the loss caused by the internal and external failure ".*

The German Society for Management Systems (Deutsche Gessellschaft fur Managementsystemen) gives a similar definition: "quality costs represent the costs implied by the measures adopted in order to prevent defects, the quality appraisal and the internal and external failures ".

For a more convincing suggestion that these costs are avoidable, and that, in fact, quality "is free", lately, the usage of the expression "quality-related costs", instead of "quality costs". The new expression was also accepted in the 1994 amended version of the ISO 9000 family of standards.

Prevention costs represent the costs incurred with the efforts made to prevent the occurrence of defects. Costs implying the following are part of this category:

– product and process engineering;
– drawing up the quality management system and the quality system documents (quality planning, quality manual, quality system procedures, etc.);
– quality improvement programme;
– employee quality awareness and training;

- supplier evaluation;
- a comparative analysis of the quality of the company with that of the competitors;
- quality audit;
- process control (for example, by applying the statistical control methods);
- calibration of equipment;
- quality system implementation;
- other quality assurance measures.

The appraisal costs represent the costs incurred with tests inspections and checks performed to determine whether the specified requirements are met. A more suggestive definition of these costs is given by Vachette: "the appraisal costs represent all the costs incurred so that a non-conform product should not reach its internal of external client". This category comprises costs implying: inspections and tests of purchased materials and products, in-process inspections and tests, finished product acceptance, test equipment purchase and maintenance, laboratory tests, inspection and test documentation, inspection and test employees' wages, analysis of the inspection and test results, materials and products destroyed during tests.

The internal failure costs represent the costs incurred to correct all the non-conformities found prior to the product supply to the beneficiary. The costs determined by the following fall into this category:

- the volume of scrap;
- performing remedy, rework and repair operations;
- costs of reprocessing, re-treatment, repeating the tests;
- product downgrading costs;
- failure analysis, with the purpose of finding the cause;
- idle time (for example, downtime),
- non-conformance of raw material that was not found at its acceptance,
- additional operations to sort components in order to eliminate the non-conform ones.

The external failure costs represent the costs incurred for the remedy of the non-conformities found after the product supply to the beneficiaries.

The costs determined by the following fall into this category: customer complains , customer returns, product liability insurance premiums paid by the companies, damages, penalties for delays in deliveries, providing service and after-service, warranty replacements.

By definition, failure costs are caused by the non-conformance of products to the specifications, so they only represent material loss, but lately, there is an ever-increasing tendency of taking into account the immaterial losses even if they are more difficult to quantify.

3. Monitoring quality costs by means of key performance indicators

Monitoring quality costs is an essential prerequisite for the introduction of an efficient quality management system. They represent an important instrument for the improvement of the quality and efficiency of the organization because they are the fundament of the strategic decision-and have a direct influence on the profit size. For the evaluation of the performance of the quality management systems, a system of quantitative indicators based on quality costs and on the economic and financial results of the company should be developed. A comparative analysis of the main models of evaluating the performance of quality management systems is presented in table 1.

Table no. 1
Comparative analysis of the models of evaluating the performance of quality management systems

It. No.	Aspects	Deming Model	M. Baldrige Model	EFQA Model	Juran Model
	Purpose of development	Japanese industrial reorientation towards quality	Recognition of the American organizations with outstanding quality management achievements	The orientation of European organizations towards *excellence* sustainable by the systematic identification and promotion of the best practices	Promoting the Romanian organization competitiveness through quality
	Common objective	Continuous organization performance improvement			
	Accessibility degree	Limited	High	High	High
	Conformance with a certain model	It does not require that candidates should conform to a certain model	It requires that candidates should conform to a certain model	It requires that candidates should conform to a certain model	It requires that candidates should conform to a certain model
	Model type	Two-dimensional: TQM bases ; TQM purposes	Three-dimensional: strategy and action plans; system; information and analysis	Two-dimensional: determining factors; results	Two-dimensional: determining factors; results
	Number of criteria	10	7	9	9
	Criteria quantification	It is not standardized but depends on the importance, extent and role of each criterion	Definite	Definite	Definite
	Orientation towards clients	A very important objective. (undefined percentage)	A relatively high orientation towards clients as compared to the orientation towards the other business results (210 points)	Strong emphasis (200 points out of 1000 possible points)	Strong emphasis (200 points out of 1000 possible points)
	Orientation towards the business results		Very strong emphasis (325 points out of 1000 possible points)	A lower emphasis than the one of client satisfaction (150 points out of 1000	A lower emphasis than the one of client satisfaction (150 points out of 1000 possible

				possible points)	points)
	Dependence on Benchmarking	Less dependent	Dependent	Relatively strong emphasis	Compulsory
	Feedback	The evaluation report is only given to qualified candidates	The evaluation report is given to all the organizations taking part into the competition	The evaluation report is given to all the organizations taking part into the competition	The evaluation report is given to all the organizations taking part into the competition

Source: www.efqm.org, www.quality.nist.gov, www.asq.org

Table no. 2.

Performance indicators structured with the help of quality costs in Romanian companies

It. No.	Designation
1	*Customer returns, expressed in physical terms (units/100 sold products).*
2	Customer returns, expressed in financial terms, (lei / turnover of 1000 lei).
3	Repairs performed on in-warranty products, expressed in physical terms (no. of units / 100 sold products)
4	*Downtime expressed in financial terms (lei/ production costs of 1000 lei)*
5	*Cost due to unusable supply expressed in financial terms (lei/ production costs of 1000 lei)*
6	Product downgrading costs (products the price of which was reduced as a result of their non-conformance with the customers' requirements or due to an excessive quantity of manufactured products (cost of the downgraded product in lei / production costs of 1000 lei)
7	Repairs performed on in-warranty products, expressed in financial terms (lei / a turnover of 1000)
8	Inspection activities expressed in physical terms (min / shift).
9	Client losses expressed in financial terms (loss in lei / a turnover of 1000 lei)
10	*Inspection activities expressed in financial terms (inspection costs in lei / production costs of 1000 lei).*
11	*Scrap expressed in physical terms (units/100 manufactured products)*
12	Marketing and research related costs (marketing and research related costs in lei / total costs of 1000 lei)
13	Scrap expressed in financial terms (lei / production costs of 1000 lei)
14	Costs related to audits to suppliers (costs related to audits to suppliers in lei. / total costs of 1000 lei)
15	Rework of defective products expressed in physical terms (units/100 manufactured products)
16	Employee training costs (employee training costs in lei / total costs of 1000 lei)
17	Rework of defective products expressed in financial terms (lei / production costs of 1000 lei)
18	Insurance premium related costs (insurance premium related costs in lei / total costs of 1000 lei)
19	Downtime expressed in physical terms (ex.: min/shift).

One can notice that the vast majority of indicators are constituted on the basis of the internal failure related costs (scrap, unusable supply costs). This fact proves once again that Romanian companies are focused on eliminating the found failures, which is characteristic of quality control systems, and are less focused on their prevention through the identification and elimination of their root causes (which is characteristic of modern quality management systems).

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THE MULTI-ANNUAL PLANNING, A CONNECTION BETWEEN THE STRATEGIC PLANNING AND THE OPERATIVE PLANNING

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Abstract: The operative success of a company results from the use of success potentials. If a company intends not only to react, but also to structure its evolution consciously, then the entire company has to be oriented to the success potentials. Thus the company plans strategically a vision of its superior objectives for the following years. In addition, the strategic planning includes the ways through which these objectives have to be attained.

1. Conceptual delimitations on budgets, budgetary systems and related principles

Designing budgets is a management technique which allows the management board to set objectives and to define strategies. The budgetary process is used in the European organizations (especially in the French ones) since the 30s and has reached a large use and diversification based on the fact that the budget is a way of rationalizing expenses. In the US, the budget has a contractual reasoning as base and it represents an important control management tool.

The function of forecasting the management process could not provide enough orientation capability to the managers without the creation of budgets and programmes. The budgets draw the directions to achieve the objectives, in terms of financial and efficiency terms, and they also set clear competences and responsibilities regarding resource allocation and use. Budgets ensure a management style which creates coherence, decentralization, and subsystems control. Along the forecast function, budgets also have a function in control and financial balance. Budgetary control compares results of budgetary forecasting to identify the causes of differences and to implement various corrective measures for various hierarchy levels. The budgetary system ensures a change from strategic planning (long term) to short term management. For some organizations, the budget is only a management control tool, as for others serves as management control. The budgetary process is intended to define the objectives and action plans to achieve these objectives with the existing means whereas the budgets quantify in an accountable and financial manner the way an organization will obtain and use its resources in a given period. The budget as an instrument of financial planning has a series of advantages, such as:

Coordinates the efforts of functional departments involved in the budgetary process to obtain the most advantages in the overall activity;

Favours an efficient control system by comparing the achievements against the forecast and by taking corrective measures at the right moment;

As a control and work tool, it guides the organization to achieve economic management;

To take advantage of all its attributes of economic-financial management tool, the budget must evolve into a network of budgets, to take into account every responsibility centre to determine the points with negative influence over the results of the organization.

The budget is a figure forecast of resource allocation and of responsibility setting to achieve the organizational objectives in an efficient way. The budget is a fundamental component of control management but also an important short-term planning instrument.

Traditionally, budgets are linked to the establishment of responsibility centres and of functions, therefore being called functional budgets. Some budgets (administration budget, investment budget) have an imperative character as they prevent financial responsible and organizational management team from going over the budgeted limits. The operating budget and the treasury budget are orientational budgets.

The organizational budgetary system reunites two main components: a system of budgets and a budget control procedure. In theory and practice, the general principles of budgetary management correspond to their objectives.

The coherence of the budgetary system is achieved by ensuring the following principles are respected:

- The principle of overlapping the budgetary system with the organizational authority system: the budget is always under the authority of an operation responsible who has a role in the overall context (forecast, organization, command, control). For example, the commercial manager is responsible for the sales budget; the chief engineer is responsible for the operating budget.
- The principle of totality which states that the coordination of the overall activity of the organization must ensure the balance between various functional and operational services. The totality of budgets represents the engagements of budget responsible to the management of the organization, according to the operating objectives of the organization.
- The principle of flexibility states that a budget must adapt to changes, to new information regarding the evolution of hexogen economic variables.
- The principle of maintaing solidarity among departments and the principle of correspondence with general organizational policies. The budgetary system must eliminate the tendency of over evaluating the importance of certain departments compared to other departments and to contribute to achieving the strategic objectives of the organization.

2. Defining the information flows between the multi-annual planning and the annual planning

The multi-annual planning, also named the medium-term planning has to make a connection between the strategic planning and the operative planning. This transposes the strategic planning that often operates with qualitative sizes with operative standard values. Therefore it represents the framework of a detailed annual planning.

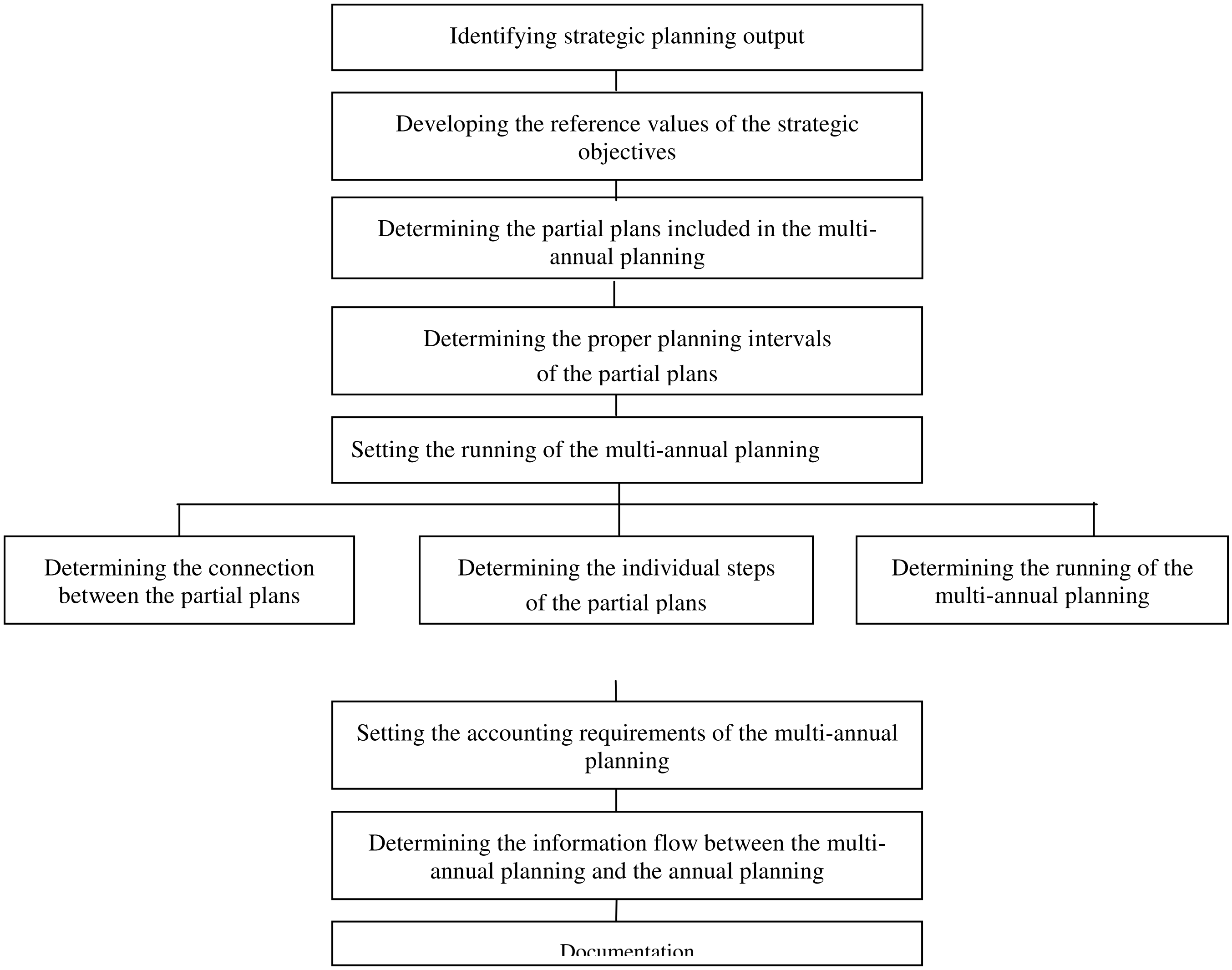

Figure 1. The stages of the multi-annual planning

The type of *output* provided by the strategic planning has to be established during the first stage. It does not refer to the so-called content, but to the form of the strategic plan, to be exact: if the strategic planning provides *hard facts*, as the standards of business records for five years, or limits to sensitive objectives, as to improve *Corporate Identity*. The first offers better approaches for the multi-annual planning.

The strategic planning *output* has a rather qualitative nature, so that the quantification process of the strategic objectives should be considered even since the multi-annual planning system is structured.

The third stage refers to choosing the respective partial plans and not all the responsibilities have to planned on many years. The multi-annual planning is necessary mainly for investment planning, turnover, research and development, staff. Purchase and stock planning is usually made for one year.

The planning intervals do not have to be similar for all partial plans, though the three year multi-annual planning is often used in practice. The proper planning intervals vary from company to company. For example, a pharmaceutical company with long-term research and development processes should use a five year plan of research-development.

The precise running of the multi-annual planning is determined during the fifth stage. This is about the data flows between the partial plans and the multi-annual plans, and the individual processing stages for each partial plan. The terms, references, the decisional bodies and information transfer have to be settled. Moreover, the adequacy period has to be determined, that is the period between plan processing and its transmission.

To define accounting requirements and the information flows between the annual and multi-annual planning means to assign responsibilities. The controlling function should consider them permanently due to their major importance within the structure of the multi-annual planning system and its application.

When concluding the procedure plan, the documentation of the multi-annual planning system results and integrates usually in the annual planning manual.

The result: the annual planning has been extended to a multi-annual planning on medium-term.

A comprehensive planning system may be achieved only when the strategic procedures mentioned in the procedure plan for the multi-annual planning have a structured order, also known as the strategic planning process.

3. The connection between strategic planning, multi-annual planning and annual planning

The operative success of a company results from the use of success potentials. If a company intends not only to react, but also to structure its evolution consciously, then the entire company has to be oriented to the success potentials. Thus the company plans strategically a vision of its superior objectives for the following years. In addition, the strategic planning includes the ways through which these objectives have to be attained.

An integrant part of the strategic planning is to define the company model. It shows how to understand the company and represents a guiding line for the company's members and their behaviours. For example, if a company's model is to offer trade mark products of high quality, than the operative planning almost excludes the sale of mass products. The strategic objectives determine the elements the company intends to insist on in his operative activity. If the objective is to reach a 10% market share in the USA for the next five years, the strategy may result in establishing a branch in the USA. Strategies are ways to achieve objectives. They settle the development direction which should be structured in the multi-annual and annual planning with precise individual stages.

The strategic planning means also to establish the premises to start planning. They are very important because the entire planning structure and the company's activities are based on them. Therefore the strategic controlling should supervise them.

The main objective of the strategic planning is to establish the company's future framework of development. Secondly, the strategic planning has to identify the new success potentials, in order to develop and secure the existing potentials. This may influence the future success and liquidity at the time the company still has numerous possibilities to action .Thus it provides the company's main objectives of development which are structured and materialized in the following planning steps:

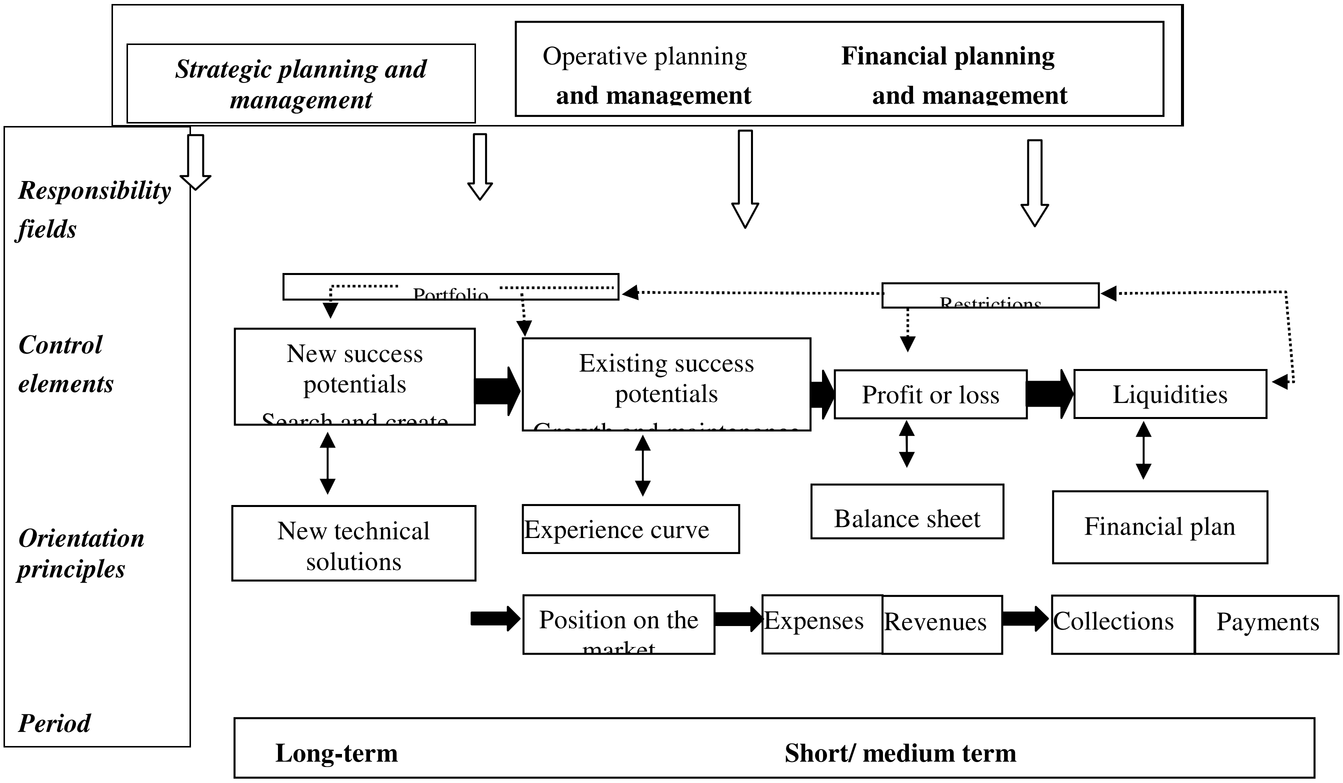

Figure 2. The strategic planning of the company (Galweiler, 1990)

The strategic planning turns into achievement stages through the multi-annual planning. The multi-annual planning turns the strategic objectives into operative key values, whose achievement leads gradually to strategic objective achievement. Therefore it is obvious that the strategic objective development and the consequently the multi-annual planning are useful in controlling the strategic planning.

A multi-annual planning is usually structured as a rotation planning. This means that the planning is processed yearly and the planning period leads to updating yearly the planning values and ensures that the planning corresponds to the latest information.

1The multi-annual planning shows the strategic objectives in precise programs and responsibilities as key sizes. For example, one of the objectives of the multi-annual planning would be to introduce a new special line of products in the USA by the year N+3. Therefore the development process must be completed by the year N+1 and the performing resources must be available by the year N+1.

A detailed annual planning should be derived during the nest stage, since the first year of the multi-annual planning. Thus the multi-annual planning becomes the liaison between the strategic planning and the annual planning. Its objective is to turn the strategic objectives and the key sizes into precise sizes on medium-term for the next financial period. By deriving the annual and the long-term planning for strategic reasons, the strategic objective achievement comes to be included in the operative activity of a financial year.

The annual planning assigns precise objectives for each person in charge precise for the following financial period. The annual planning is an estimate that corresponds to the superior levels that will turn into precise values. The expected results for the financial period are also precisely stated.

There is a *feedback* process between the different planning stages. The strategic planning shows whether the annual planning is approved by the management. In addition, the annual planning shows whether the strategies are achievable and are not mere visions. An important component of the annual planning is the financial planning. Differences may occur here because the precise values show clearly that the strategic objectives cannot be achieved or they will not be achieved so soon as planned. The annual planning may also show a necessary revision of the strategic planning. The objectives should be watched retroactively or covered with the new strategies.

4. The multi-annual planning based on investment planning

The multi-annual planning for investments represents the connection between their strategic planning and the annual plan of investments. The entire process is described below. The framework of available means is the strategic planning of investments. As part of the strategic planning, it shows where the company's resources should be implemented. The objective is to reach a competitive advantage as high as possible. Beside the investment framework, the strategic plan of investments establishes important investment projects. The multi-annual planning records the strategic plan of investments in individual objectives. They are planned from the point of view of the individual stages and the necessary means to achieve them. Planning the achievement stages and the payment moments after the financial periods are very important here. The larger investment objectives usually run as projects. Therefore they are fundamental in planning the project, from its beginning to its end.

The annual planning specifies the partial investment projects that have to be made within the planning period. The investment needs are presented in the annual budget. In addition to the annual budget for the investment individual projects, one may provide partial budgets for certain stages of the project.

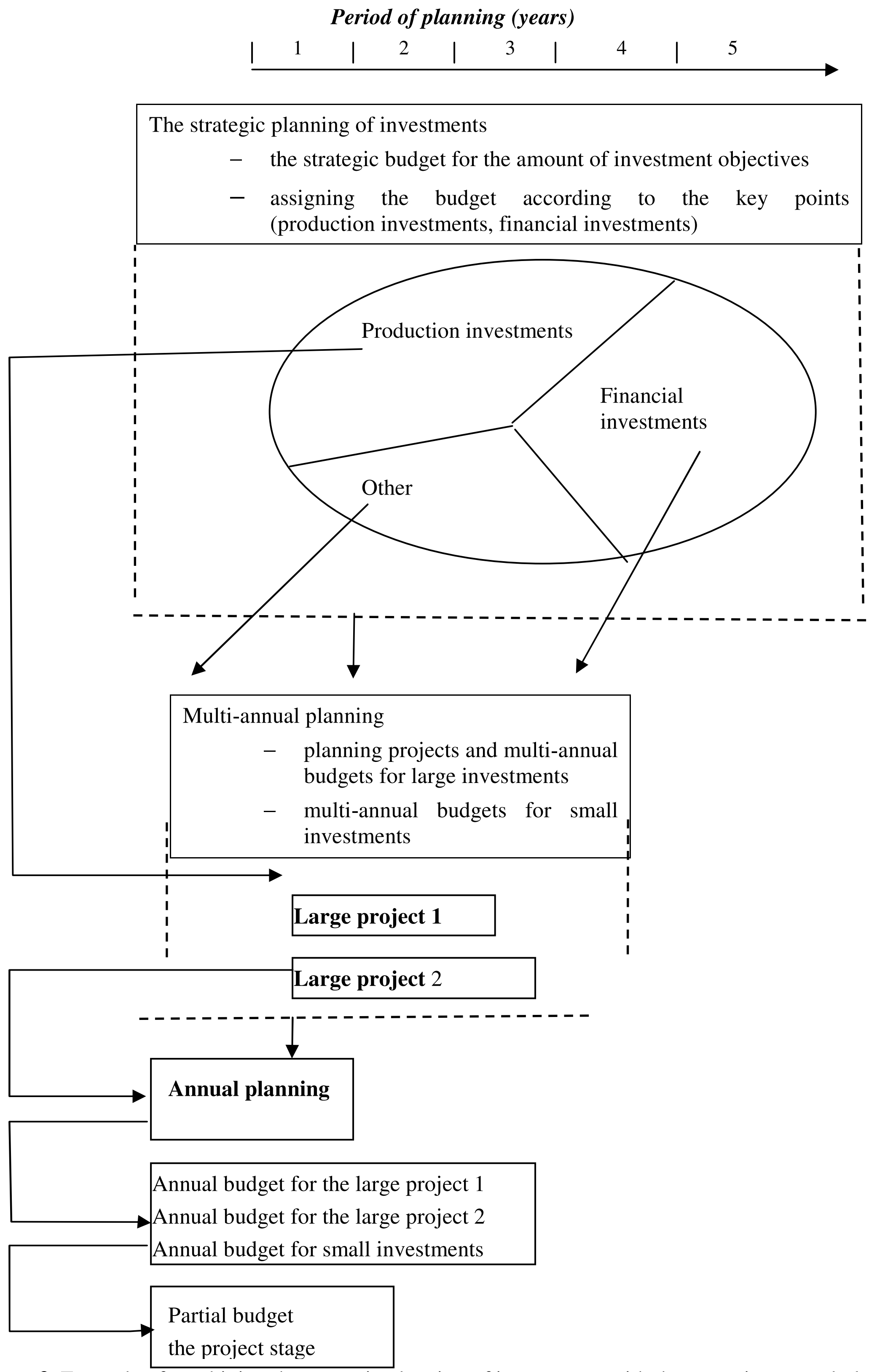

Figure 3. Example of combining the strategic planning of investments with the operative annual planning

Source:Horváth & Partners, Controlling:Sisteme eficiente de creştere a performanței firmei, Publishing House C.H. Beck Bucuresti, 2007

Conclusions

Combining the approach of the leadership strategy with regards to costs and the differentiation strategy makes the organization aware of the importance that is has to grant to product innovation, to creating product features which are appreciated by clients, to constantly reduce costs by investing in production equipment, to rigorous control of fixed and total costs, to sale costs reduction.

Achieving all these objectives is imperative as a series of factors operate on the competition: increase in competition among organizations, new emerging organizations, new replacement products, buyers and sellers' business power.

An organization which learns, has the following traits:

- quality improvement processes as a result of gaining new knowledge and new insight;
- transforming the lessons learned during the organizational evolution into routines which guide behaviours;
- it is an organization able to create, achieve and transfer knowledge, and to adapt its behaviour depending on the new knowledge it has gained;
- doubting the past and transforming result into knowledge which is accessible to the entire organization and adapted to its objectives;
- ability to gain new knowledge based on own and others' experience and ability to transform the way it acts according the new perception;
- the organization is a place where people continuously improve their ability to get results, where new and stronger learning patterns continuously develop, where common inspiration is stimulated and were people continuously learn.

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THE IMPLEMENTATION OF THE „STANDARD-COST" METHOD IN THE FURNITURE INDUSTRY: A WAY OF INPROVING THE MANAGERIAL ACCOUNTING

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Abstract. The information regarding the production costs has a central role, determined by their implications on the actual status and on the future evolution of the company. The value of the information regarding the production cost justify its use on the decision taking process for the current activity, as well as for the company's strategy.

The use and the superior exploit of the resources in order to increase the competitive capacity of the organisation impose the wide-scale use of the advanced cost management methods, which sustain the performance, the significance and accuracy. The efficiency of the selected method depends on the speed it provides the information to the board, in order to allow the fast-taking decision process.

The standard-cost method guides the future activity of the company through acquiring long term standards, which will guarantee a efficient technological process and the implementation of a modern management.

Key words: method standard cost, cost of production, direct and indirect costs, decision

In order to operatively supply the information on manufacturing costs on the one hand, and to develop the estimated side of the managerial accounting on the other hand, there is a need to promote various methods of cost calculation based on estimated expenses. In this regard we can take into account the standard – cost method.

The history of standard cost calculation is marked by numerous evolution stages; a direct impact on plan cost calculation had *„Estimated Cost System")* and *„Standard Cost Accounting"*.

The standard-cost method (also known in literature as the standard cost method) underwent throughout time a permanent improvement, which allowed its use in many countries.

If the used methods were based on the concept according to which cost is being calculated after the completion of the manufacturing process, the standard-cost method aims at anticipatedly establishing direct production expenses (raw materials and direct materials) and indirect production expenses (common expensens of the section and general expenses of the unit), which we hereby call standard costs or standards.

These estimated costs are deemeed normal, typical and in the same time real and they stand as standards of measure and comparison of the level of effective production costs. Any difference between the effective costs and the standard ones is deemed as an exemption from the normal (estimated, anticipated, schedules) situation, which influences the financial results of the organization.

The forecalculated cost system mainly refers to the annual antecalculation of production costs on product unity, separately for the cost of materials and separately for the processing cost, that is the production in quantitative units is monthly multiplied by the forecalculated costs on unit product, and the result should be compared to the effective costs. To simplify, the effective costs are globally calculated for the whole production and not analytically for each cost bearer. The only analytical calculation is that of forecaculated costs.

The anticipated determination of resources needed to realize the product allows the management to fastly evaluate the production, the identification of exemptions and of the corrective measures of the differences between effective and standard costs.

The typical structure of a standard-cost contains the following main calculation articles:

- Raw and direct materials;
- Direct wages (labour cost);
- Common expenses of the section (or common direction of the section) and
- General expenses of the unit (or general direction of the unit).

The first two calculation articles make up the direct standard costs, while the last article in the presented structure stands as indirect standard costs, also known as cost budgets.

Standard cost calculation stimulated the concern of European authors as to develop and to improve the calculation procedures. Such a concern resulted, in Germany, in the transfmoring of *rigid calculation of normal costs* in *rigid calculation of plan costs..*

As part of this transformation, two problems effectively contributed to the passage from normal costs to plan cost. The first is the elaboration of standard measures, respectively plan measures, for common costs. The adopted solution referred to the determination of common costs planned on proportional reference measures, determined analogically with those used, for a long time ago, as standard for the dimensioning of wages planned direct costs. It has been remarked that, in most cases, common costs are in a direct proportionnally relation with manufacturing time. Therefore, through the calculation of quotas of common costs on time unit (hours-production, hours-equipment) ponderated, in their turn, by the planned manufacturing time, the determination of common planned costs on each cost place could be achieved.

The second problem, the approach of cost calculation through the analytical methods of the science of enterprise organization and management, respectively, the admission of the fact that production cost is a function of numeruos influence factors, led to the conclusion that standard-costs calculation implies:

The specification of dependence relations of costs against the influence factors:

- the determination of standard-measures or of reference measures which to indicate the degree of influence of each factor;
- the transcription of the dependence relations of costs as liniar equations, by taking into account the degree of influence of each factor.

Also, the acceptance of the thruth according to which cost is depending on many factors has transformed cost calculation in the decisive pivot to realize the central objective of enterprise efficacy planning; under these terms, the only variant able to supply a solution proved to be plan cost calculation.

The standard cost method refers to the anticipated determination against the entry in production of products both of direct expenses and indirect ones as well, included in the production costs as forecalculation. Exemptions from standard costs should be registered as distinct costs. Through their addition or their deduction, as the case may be, the effective costs of the production obtained will be calculated upon the standard costs.

The restructuring process undergone by the enterprises in the furniture industry entails a diagnostic analysis and an objective evaluation of the a performances of the methods of cost scheduling, record and follow-up of the quality of information supplied to the decision-making factor, but also of the manner in which the decision-making factor uses the information supplied by the accounting department in general, and in the managerial accountiling specifically.

The need of the enterprises to operate with scientifically established and controllable production costs stands as a fact admitted in practice, while the calculation methods based on fore-established standards in order to calculate the costs meet the needs of the technological processes and organization structures in the enterprises from the furniture industry.

The concern to find calculation methods which to ensure the operative determination of a production cost and the establishment of ratios with enhanced information power as required by the fundamentation of decisions for the efficient management of the activity of enterprises in the furniture industry and in order to oppose the more powerful competition environment have influenced the multinational companies in this field so to evoluate throughout time towards the standard-cost method.

The standard-cost method has the advantage to allow the enterprises from the furniture industry to determinate some previsible costs, deemed as normal, which are used for the fast evaluation of the production obtained in relation to which one can operatively determinate the variations of the expenses during the production process and, therefore, the leadership by exception, the management control through the analysis of exemptions from the pre-established costs, inclusively through the determination of sub-activity costs, the separation of expenses according to their dependence in volume of production, in variable expenses, fixed expenses and mixed expenses, which allow the determination of each enterprise's rigidity degree.

The problems had in view within the method proposed to the enterprises from the furniture industry should be:

- standard cost calcultion, record and analysis of exemptions and effective cost calculation. The standard cost calculation involves the determination of maximal limits for the expenses required by the achievement of the scheduled production. Standards for direct expenses, indirect production expenses, general administrative expenses and delivery expenses should be set upon. Based on the calculated standards, budgets for indirect production expenses, administrative expenses, auxiliary activity expenses and delivery expenses should be set upon;
- the calculation of the standard cost on product will include the summing up of standard direct unitary expenses with the standard indirect expenses of the respective product. The calculation of standard costs on product should be made before the start of the management year, whereas important changes in the standard expenses should occur, the calculation made at the beginning of the year should be updated ongoingly.

The use of the standard cost submits, at an enterprise level, the following advantages:

- it ensures an operative and efficient control on costs, by offering the decision-makers, at brief intervals of time, information on exemptions from standard costs;
- it supplies the decision-makers with operative, pertinent and efficient information on the evolutions in cheapconditions of the production process;
- it stands as an efficient means to exercise preventive control on production costs;
- it enriches the material needed for cost analysis, the determination of causes that have generated the possible overfulfilment;
- it offers the possibility to take measures in order to achieve previsions and to determine and signal exemptions ongoingly;
- it considerably cuts the time for cost calculation, the activity taking place almost all the time in relation to exemptions;
- the projection and standardization of the production costs entails some changes in the work og the financial-accounting and administrative department, that is efforts concentrate during the stage before the management period.

This information help managers to evaluate if a workshop or a production process is efficient; it also shows if prices can be adjusted to face competition. During the periods of trade regress, the information shows the price on which work can be done to ensure an activity enough to cover fixed expenses.

When standard costs are settled, it is necessary to determine the performace level targeted by the said enterprise. Therefore, there are three levels to take into account, namely:

- that suggested by previous achievements. This level can be deemed satisfactory, as is easily reachible, but the management could indulge in it;
- the level to imply the highest possible efficacy. This level is not a realistic one and will invarriably lead to negative exemptions, due to the too high standards required. Exemptions can stimulate the management, but they can have frequently a discouraging effect on the personnel;

- the level made possible by leadership and efficient work. This level is satisfactory, since it's a realistic one. Any negative exemptions will provide possible ways to save. The management will realize that, through a optimal effort, standards could be met.

However, in order to achieve the purpose had in view for the superior valorification of the information used in the standard - cost method, a peculiar attention should be given to the objectives set out in the budget. The standardization of the production costs should be based on scientifically fundamented quantitative and valorical standards with technical-economical motivation. This is necessary, since exemptions of effective expenses from the standard ones, concomitently determined with the development of the production process, have a larger significance than in case of the exemptions calculated at the end of the management period, which in many cases lead to tardive decisions or as compared to the effective data considered isolately, which only shows what was achieved, but not the way of its achievement. The said exemptions necesarily involve the operative determination causes, since these are elements required by decision-adoption and future actions to revise exemptions in the achievement of the objectives set out for the improvement of activity.

The indicated weight of raw materials consumption and direct materials expenses in the total of production expenses necessarily requires the permanent follow-up of their efficient use in order to cut the cost of the products achieved and the increase on this ground of the enterprise rentability.

In this regard, the improvement of the management accounting appears necessary in terms of operative identification of the exemptions of the effective expenses from the standard ones with raw materials and direct materials comsumption, the analysis of the respective exemptions on cost centres where causes were also located and their discount in order to calculate the effective cost of the al production achieved.

These exemptions falls upon two types: exemptions from standard consumption, also known as quantity exemption or consumption and exemptions from price difference.

As regards the operative identification of quantity exemptions, these can be determined within the enterprise on cost centres, and within their limits one can divide on types of raw materials and direct materials, by using the following ways, namely:

1. During the delivery of the preventive control visa, after the drawing up of the respective documents by the organs of the scheduling during the start of production. The control visa is delivered by the preventive control department, only on those consumption documents to observe the necessary referred to in the production internal program. The respective necessary must be in keeping with standard expenses, also taking into view the necessity of the material required by the cost centre, should there be no similar materials supplied for the said production, and also if materials similar to the requested ones cannot be found in the section or cost centre where the respective product is being manufactured
2. Be it through the non-supply of already launched consumption documents. These can be used only in case that consumption tickets may be used as primary documents for the delivery of materials from the warehouse.

   According to this modality, consumption tickets are launched for all the materials necessary for the execution of the production prescribed in the internal monthly manufacturing programme. When taking over the materials from the warehouse, the head of section and the responsible of the cost center submit the delivery visa, according to necessities, for each delivery in turn, until the achievement of the planned production. Therefore, a series of consumption tickets stay unpaid, since the materials prescribed there are no more necessary to manufacture the planned production. These materials stand as economies, there favorable exemptions, and the respective tickets will be applied on a distinctive sign to signal economies. In case of consumption exceed, there will be issued additional consumption tickets, to stand as unfavorable exemptions.
3. Be it through the inventary of the pending raw materials and direct materials at the work places in the section. This modality refers to the inventory (daily or on brief intervals) of the materials at the work places within each cost centre, to be then substracted from the total of the materials issued by the respective centre, while the difference should stand as the effective consumption of materials from the same centre. This one should be compared to the standard consumption of materials for the said centre and the difference on plus should stand as surplus, then unfavorable exemptions, and on minus, economies, then favorable exemptions.

This procedure can be successfully applied on these sections and cost centres where the production process is not deprived of the inventory operation. The control is also recommended if until the end of the month the pending materials in that section were recorded on the documents of restitution.

The causes to enable such exemptions from the standard consumptions of raw materials are multiple: for example, the use of non-standardized materials or of those with different output during the manufacturing process, the use of other equipment or machinery than the standard ones, the defeciency of the equipment or tools, the failure to update standards in the same time with the change of the constructive solution of the products etc.

In the case of the second category of exemptions, therefore at raw materials, price exemptions can be calculated either according to the materials received, when the material accounting is organized at the delivery standard, or according to consummed materials when material accounting is organized at the proper said supply price.

Exemptions from the price difference at raw materials include: change of purchase prices, change of the transport fees, change of suppliers from those taken into view when elaborating the budgs etc.

The calculation and analysis of exemptions can be effectuated both concomitently with the development of the production process, according to irts evolution, and at the end of the management period, when the manner of observance of the production cost budget can be controlled post-factum.

In the first case, the analysis aims at discovering the causes that have led to the respective exemptions, so as to enable the direction to take, in keeping with these, a series of correction decisions to those previously taken.

As far as the second case is concerned, this aims at grounding and taking over certain perspective decisions based on the previsions made on production cost.

The calculation of exemptions from standard costs for raw materials is being made on cost centres and on types of materials, totally (globally) and on causes, by comparing the effective costs to the standard ones.

The application of the standard cost method in the enterprises fromthe furniture industry requires the improvement of primary documents and of their circuit, of the operating record, as well as of the automated processing data systems.

The improvement of the primary document system in order to monitor exemptions will be achieved starting with the drawing up of sheets of standard costs for each product. Standard cost sheet should contain both quantitative standards and standard prices for raw materials and the cost of labour, as well as standard direction expenses.

At the line of calculation of raw materials, the comparison of data in the consumption data referring to the materials delivered from the warehouse with the situation of the manufactured production will define the observance of the limits of the standard consumption.

Exemptions from standard costs will be covered in the reports dealing with from standard costs for materials, labour cost and direction expenses. For am easier follow-up of these exemptions the use of automated data processing appears necessary.

The follow-up of production costs through accounting in the case of standard-cost method can be organized in one of the following variants: partial standard-cost, unique standard-cost and double standard-cost. The differences between these variants mainly refer to the manner of cost reflection in the calculation costs and in the manner of calculation and record of exemptions from standard costs.

Taking into account the benefits and minuses of each of the three variants of organization of standard cost accounting, it is certain that the variant to mostly meet the needs of the enterprise's management is the unique standard cost variant.

This variant allows for the definition of exemptions from effective costs from the standard ones during the development of the production process oth on cost and order centres, as well as on calculation and cause articles, which ease the budgetary control of costs and the adoption of efficient conclusions on a management level at all the hierarchy positions.

Exemptions from standard costs for raw materials, as well as for labour cost, will be established based on primary documents as for material and labour consumption; these should be followed-up and operatively raported.

Exemptions for materials resulting from a price difference will be established during the supply or when consumpted during production. These will be recorded in the accounts opened with each calculation article and analytically described on expenses sectors (sections).

The use of primary documents to establish the exemptions of materials and cost of labours provides the possibility to inform the management about the troubles occured during the manufacturing process.

The operatively reported sums will be confronted with those periodically written in accounting. Even an additional effort is required to establish and operatively report exemptions, these effort will be balanced with the fact that the unique cost-standard method should not require a mandatory inventary of the unfinished production.

In order to obtain better results, the management of the enterprise must make decisions based on a complex, operative and accurate information. In this respect the production cost must be known as complete, precise and timely as possible.

The use of automated data processing systems as part of the concept of the standard method will result in: the ease of the circuit of primary documents, work speed acceleration, information circulation speed acceleration, reduction of the information cycle, of the time to obtain situations, all these necessary to the management; the operative, precise and complete grounding of the decision-making process at all the hierarchy levels; increase of the decision-making process and not in the least a better operativity and precision when achieving internal control.

Taking into account that a management due for an enterprise be conceived without a cost conceived as a complete system of operative internal management based on standardized costs, a few directions of cost calculation improvement in the furniture industry can be mentioned: The anticipated establishment, before the start of the management period, as a rule at the beginning of the year, of some standard costs, to stand as all the maximum admitted expenses for the obtainance of a certain production, separated on homogenous types of expenses (calculation articles and their inventory); expense places (cost centres); finished or half-finished products (the standard unitary cost).

In times of economical stability, unitary standard cost can be percieved as the only calculation of the unitary cost of finished (half-finished) products, therefore eliminating all the post-calculation works typical to absorbing methods.

Under this conception, the very center of the current work moves from the sphere of the most detailed follow-up of expenses on calculation articles and on places generating expenses, by ignoring the finished (half-finished) product that generated it. If during certain periods the effective calculation is had in view for finalization also on the units of finished (half-finished) product, this should be made starting with the calculation on expenses places that do not eliminate cost calculation on product. As a result the standard – cost method gives a new orientation to the record of the expenses of production and work analysis of production costs, therefore: post-calculation works as well as the analysis retrospective become secondary.

The follow-up and quantification of exemptions from standard costs, by delimitation

of the place of production, of the type of expense, as well as of the cause of exemption as part of the expense to which it refers. If using electronic technique, exemptions can be followed-up, at least on the level of direct expenses established starting with specific consumption for each finished or half-finished product. Under the conception of the standard-cost method, the calculation, follow-up, analysis and report of exemptions stand as the centre of cost calculation activity. This means that the identification and revision of all that ignores the pre-established program will be had in view, by taking into account that the rest of the phenomena and processes always falls within the desired limits to ensure the purpose had in view, or otherwise said, the idea of a management through excellence as a material form to apply the basic concepts of the modern management of an enterprise.

As stated by many specialists in this field, that we approve without the slightest reserve, the information supplied by the record of exemptions must be organized according to the selection (pyramid) system, therefore the causes of exemptions must be detailed accurately from the level of sections and installations, in order for their management to take operative measure, while the management of the enterprise should be supplied with synthetic information as regards the volume, structure, frequency, tendencies, the manner of behaviour of the exemptions during larger periods of time, places which generate expenses locuri etc.

The structure of expenses and the adaptation of calculation so as to meet the current demands of increase of the information potential of costs, through the elaboration of calculations based on the grouping of production expenses in direct and indirect expenses, but also their grouping according to the relation with the volume of production, fixed expenses, variabile expenses and mixed expenses. As regarda the first grouping, the structure of expenses on articles of calculation specific to enterprise in the furniture industry should be considered.

Within this second grouping, the estimation of indirect expenses should be made only after a previous comparison of their level to the volume of production, which supposes the previous update or “flexibilization” of the indirect expenses budgets, in order to bring them in the perfect comparison state in relation with the real volume of the activity. According to the recognized accounting rules, the charge of fixed production expenses on cost is based upon the need to use the normal production capacity. In order to observe the principle of non-inclusion of costs in the sub-activity cost, these expenses must directly reflect themselves in the result of the exercise.

In this context, there must be had in view the improvement of the allocation criteria of indirect expenses through the development of pluri-criteria proceeding, which should take into account the causal relation between these and the places generating expenses and cost bearers as well.

Due to the significant volume of works entailed, the effective application of the standard-cost method in the practical activity of the enterprises from the furniture industry can be made only when calling on the facilities only provided by the IT technique.

The new conception that underlines it and the advantages it has offered to the scientifical management of production has resulted in a fast dissemination and evolution of this method which has succesively took the forms of flexible calculation of standard cost (Standard cost Accounting) and flexible calculation of standard costs based on full costs etc.

The managerial decision-making oriented "Standard-cost" system is perceived as a control instrument and provides the possibility to obtain a number of basic advantages:

1. Standard consumption has a special meaning when drawing up budgets, since they stand as a means of evaluation of the activity efficacy and of ensurance of control on the cost level. In the case of existence of the respective control system, which aims at identifyng the operations that are not in keeping with the plan, managers are warned in due time in terms of the creation of unpleasant situations, which may require rectifying measures.
2. Norms (standards) contribute not only to the accumulation of information referring to effective consumption on a unit of finished product, but also to the elaboration of forecast as for future consumption, which may be used upon decision-making.
3. The application of standard consumption simplifies the accounting of the good and material stocks and of the costs of sales. All the entries in the current accounting are based on standard consumption, which may be obtained by multiplying the quantity of each type of materials, components or products from the warehouse at the respective unitary standard price of the product or material. Such a system significantly decreases the time of data collection and processing. All the more stable works the enterprise and all the highest is the level of production process standardization, the cost of labour for the record and calculation works consequently decreases.

As part of the "Standard-cost" system, practically all the management services of the enterprise need standards to be calculated not only to establish the production cost, but the cost of other expenses as well: trade, general and administrative etc. Therefore, the administration requires such standards in order to establish the predictible budgetary consumption and of the resources neede by the enterprise on the whole; the marketing service – to establish product prices, decision-making on the acceptance or refusal to fulfill a specific order; the production section – to control consumption by means of the analysis of exemptions in order to submit the report on the results of the activity and charge of responsability; accounting – in order to calculate production cost and the evaluation of stocks of goods and materials.

Generalizing those mentioned ahead, we remark the existence of two modalities of approach that can be applied to calculate standard consumption. In the first place, the record of the foregoing years are being used to evaluate the need of consumption. In the second place, standards are set out through calculation, based on a technical analysis, but it is necessary to mention that, when using the first modality, there is a danger to reflect by means of standards the previous inefficacy of production. The use of the second modality based on engineering investigations provides a much consistent follow-up of the evolution of each operation, and this allows for the clearer record of exemptions (variations), the analysis and the exercise of influence upon these.

The objective of the method is the alert of responsibilities when an anomaly occurs, which supposes the comparison of pre-established costs to the effective ones and the definition of exemptions, allowing therefore for the evaluation of internal performances of trade agents during a given period. When applying the standard-cost calculation method, accounting becomes integral part of calculation, during all its stages, with a highly active role.

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CONTRIBUTIONS OF THE ABC METHOD IN THE FIRM MANAGEMENT

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Summary. The information about cost provided by the ABC method can be used for various purposes in the enterprise by the administration of the activities or ABM (Activity Based Management). The most interesting contribution of the ABC/ABM model is the horizontal dimension of the administration of the activities and, beyond that, the administration of prices. The model supplies a representation of the activities which allows an identification of the cause-effect relationships that connects the activities. The analysis of these relationships of causality allows an operational and strategic administration of the costs. The ABC accountant information provides the manager with the information he/she needs to administrate the activities and to practice the programs of leading and reducing the costs. In practice there can be multiple applications of the administration of the activities to the enterprises that develop an ABC system. In this article the most important of them were shown, which constitute contributions of the ABC method to the management of the firm.

Key-words: ABM, administration through activities, portfolio of products, the map of the activities.

The information about the cost provided by the ABC method can be used for different purposes in the enterprise by the administration of the activities or ABM (Activity Based Management). The administration of the activities aims at the assembly of actions that can be practiced by the enterprise by improving the efficiency and the efficacy of the activities and the processes by using the information related to the prices of the activities, processes, products, clients and other calculation objects, provided by the ABC calculation method. Figure 1 schematically presents the articulation of the ABC/ABM model on the one hand with a vertical model of the allocation of the cost of resources on activities and the cost of activities on calculation models and, on the other hand, with a horizontal level of administration of the activities based on the knowledge of the inductors of cost of the activities and on the dimensions of the performances in their fulfillment.

RESOURSES

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COST INDUCTORS → **ACTIVITIES** → **EVALUATION PERFORMANCES**

↓

CALCULATION OBJECTS

Fig. 1 ABC/ABM Model

The most interesting contribution of the ABM/ABC model is the horizontal dimension of the administration of activities and beyond, the administration of costs. The model provides a representation of the activities, allowing an identification of the cause-effect relationships that connects the activities between them, and the analysis of these relationships of causality allows an operational and strategic administration of the costs. The ABC accountant information gives the manager the information he/she needs to administrate the activities and to practice programs of leading and reducing costs. In practice there can be multiple applications of the administration of activities in the enterprises that develop the ABC method. Further, a few of them will be presented without the details of the analysis that would exceed the object of this article.

The analysis of the profitability of the portfolio of products.

The first enterprises that acted to the calculation of the costs after the principles of the ABC method acquired a very different profitability of their product. To emphasize this, we consider the following example: The ALFA society presents the situation from table 1 regarding the production manufactured and has a classical system of cost calculation, where the assembly of the indirect expenses of the products is gathered in a single analysis center and is assigned on the products by a single work unit, respectively hour-worker (system I).

Explanation	Product A	Product B	Product C	Total
Production volume	80.000	11.000	65.000	156.000
Unitary sale price	91	95	65	-
Raw material/ unit of product	35	28	16	4.148.000
Direct labour/unit of product	16	8	12	2.148.000
Hours worker/ unit of product	2	1	1,5	265.500
Hours/unit of product	2	3	1	258.000
Total indirect expenses	-	-	-	5.253.100

Table no.1

The progressive automatization of the production process reduced the pertinence of the accountant information regarding the complete costs of the products. To consider this in the calculation of the costs, the unit of work hour-worker was replaced with the unit of work hour-machine (system II). However, the conditions of homogeneity of the costs are no longer respected in the classical calculation system of the costs from the ALFA society, where the human resources and the equipment are not consumed in the same proportion by all the products that use the services of the only analysis center. That is why, the society decided to introduce an accounting system based on activities, respectively the ABC method.

The full costs calculated by the ABC method are very different from the costs calculated in the classical accounting system, resulting from table no.2, especially as far as the B product is concerned.

Explanations	**Product A**	**Product B**	**Product C**
1.Sale price	91,00	95,00	65,00
2.Cost I (hour worker basis)	90,12	55,56	57,34
3.Net I (1-2)	0,88	39,44	7,66
4.Cost II (hour-machine basis)	91,72	97,08	48,36
5.Net II (1-4)	-0,72	-2,08	16,64
6. ABC full cost	87,84	107,61	51,35
7.Net ABC (1-6)	3,16	-12,62	13,65

Table no.2 The comparison of the full costs acquired through different accounting systems

Analyzing the data from table no. 2 we notice that at product B, the full cost and the profitableness are very different in the three ways of cost calculation. The B product seemed very profitable after the first calculation system, but it becomes inefficient if the hour-worker is replaced with the hour-machine as a single work unit, or if the ABC method is put into practice. The difference between the costs of the B product is explained by the fact that the product is not a consumer of activities to a greater extent than the working hours lapse or machine working hours, that are work units appropriate for working level activities units. The exclusive use of the single working units for assigning the indirect costs of the B product triggers the underestimation of the costs of the B product because wasting the resources in activities of a higher level than that of the unit is proportionally more important than the consumption of activities of level unit, measured by single working units. As far as the A product is concerned, the change from the classical accounting system to the ABC method modifies equally the image profitableness of the A product that, from the position of the outsider (system I) or lean (system II), becomes profitable with a differential measure of profit of 4%. Regarding the C product, the three accounting systems point that it is profitable, but the net differential measure is doubled when we pass from system I to system II or ABC system. Table no. 3 shows the variation percentage of the full cost for the three products when we gradually pass from a system to another taking as a reference point the full costs of system I, that has at its base as a working unit, the hour per worker.

Products	The hour per working system	The machine working hour	The ABC system
A Product	90,12	+1,7%	-2,5%
B Product	55,56	+74,7%	+93,7%
C Product	57,35	-15,6%	-10,4%

Table no. 3 The compared evolution of the cost of the products

The results from table no. 3 can be placed on the same line with the majority of the results published in the accounting administration literature, relatively to the impact of the introduction of the ABC method on the full costs. They can be synthesized in the following way:

- the full costs of the products manufactured in large quantities, like the A and C products, regarding the ALFA society, are easily overevaluated in the administrative accounting classical systems, but in an increasing order, that rarely exceeds 10%. So, the profitableness is easily underevaluated. After the ABC analysis, we can notice the fact that the products which do not get too much credit from the management, insufficiently profitable, have a normal profitableness percentage for the large products on the strongly competing markets;
- the full costs of the manufactured in small quantity products as the B product, for the ALFA society, are strongly underevaluated in the classical accounting system and often in an increasing order, going up to 100%, even more in some extreme cases. Their excellent seeming profitableness most often conceals a failure of the sale prices, practiced to cover the assembly of costs of batch activities and of the sustaining of the product, that are done for the production of these small quantities. The example shown emphasizes the fact that the introduction of the accounting through activities generates a different image of the contribution of the products to the profitableness of the enterprise. Regarding the ALFA society, the products can be classified based on their contribution to the profitableness, resulting from table no. 4

Products	**Unitary differential measure**	**Sold quantity**	**Total profit**	**% of the total profit**
C Product	13,65	65.000	887.250	88,6%
A Product	3,16	80.000	252.800	25,3%
B Product	-12,62	11.000	-138.820	-13,9%
TOTAL			1.001.230	

Table no. 4 The relative contribution of the products to profitableness

Table no. 4 indicates the fact that a single C product contributes with almost 90% of the total profit of the enterprise, that two products, A and C, contribute with more than 100% of the total profit (almost 115%)

and B, the third product, involves a damage of the profitableness of the enterprise. Different studies made on the profitableness criteria of the products had similar results, even striking ones. Many times, 20% of the products of the enterprise generate profit and 80% of the products, which represent only 20% of the total amount business, hardly reach the balance or are easily lean- this is the case of the B product in the given example.

The administration of the activities based on the assembly of cause-effect relationships that connects the assembly of activities will allow the evaluation of different alternative solutions that aims at improving the profitableness of the products that are not profitable for the moment. Different solutions are considered , such as: the increase of the sale price, the analysis of the product concerning the reduction of its consumption of activities that have a high cost of production, the improvement of the production process etc.

The analysis of the clients` portfolio and the marketing politics

In the last 15 years the weight of the commercialization, distribution and marketing expenses in the structure of the costs has continuously increased at many enterprises, often succeeding in representing 15% up to 20% of the total costs. These expenses cannot be taken into account in the calculation of costs to evaluate the stocks. However, it is possible for them to be ascribed to the objects of calculation, the clients or the products that consume these activities.

The commercialization, distribution and marketing activities can be the object of the same type of analysis, like the support activities of the production. There is, at the same time, a hierarchy of the costs of these activities:

- the unit level activities;
- command level activities, similar with the production lot: all the activities connected by the taking and the treatment of the order, independently of the commanded products;
- activities of level of sustaining the client: assembly of one time realized administrative activities for every client;
- activities of level of sustaining the sign: an enrolling or publicity company.

Different clients can consume these activities differently. The scheduled politics, based on the application of a different measure equable to all clients to cover the commercialization, distribution and marketing expenses, can create great distortions in the clients` contribution to the profits of the enterprise. The ABC analysis will allow the establishment of a map of the assembly of the marketing activities, of the costs, of the inductors and of the dimensions of the performance. Based on this accountant information, it will be possible to establish a classification of the enterprise's clients, based on their contribution to the profitableness of the enterprise. The first enterprises that made this analysis acquired very surprising results, where 20 % of the clients had 300% profit, 75% of the clients were in a dead point and easily in loss and 5% of the clients had significant loses.

The administration of the activities will allow the analysis of different options to try to make the profitable clients that generate important loses. The map of the activities, combined with the ABC accounting information, will allow the imaging of alternative commercialization and distributions of the products scripts, to improve the profitableness of some clients that consume more activities without paying their price.

The analysis of the relationships with the suppliers

Another application of the approach of the administration of activities is to make a detailed analysis of the assembly of activities that are involved in the supplying policy of the enterprise and in the administration of the relationships with the suppliers. The objective is no longer to reduce the acquisition price of the suppliers, but to decrease the total cost of the suppliers and of the assembly of interfacing activities, regardless of their position in the organization of the enterprise. The map of the activities allows the identification of the assembly of the activities that occur in the supplying policy and the accountings through activities indicate the cost of the resources involved in these activities. An important part of the activities of the supplying process, like the commands, the reception, the control of the quality at the entrance, the payment of the suppliers, are activities of lot level. Their taking into consideration in a classical accounting administration system, based on the percentage of the increase of the suppliers, risks to trigger important distortions in the cost of the products, as there are important differences of production volume between products.

The disposal of ABC information on the supplying activities and of the consumption for different products of the enterprise allows the management to reconsider the assembly of the supplying system, to modify and negotiate the commitments with the suppliers that would reduce the cost for the two partners, through the electronic transfer of the funds for the deliveries on time and/or the suppressing of the quality controls at the reception. The approach is to optimize the assembly of the process, by using the available accounting information about the cost of different activities that make up the supplying process.

The outlook of the new products

It presents importance the solution chosen in the moment of the conception and the developing product for the future cost of the production. The technical conception choices, the choice of the components of the product conditions more than 80% of the total production costs on the assembly of the cycle of life of the product.

Two accounting innovations, the ABC method and the "Target costing" one, made possible the control of the costs in the moment of the conception stage of the new product. The accounting information supplied by the ABC system can be used to give the engineers of conception and of the developing the new products information on the consequences of their choices, about the future production cost of the product they are just making.

The map of the activities and the suitable cost for every activity allow the engineers to compare the cost of different technical solutions that are possible in the moment of the conception of the product. The ABC analysis allows seeing that the multiplication of the different components increases the cost with the supporting activities of the production and that the referring to common marks would allow the drastic reduction of the costs of the supporting activities. A strategy of differentiation will be less expensive for the enterprise when the solution of the conception of the product aims more at the using of standard marks and the postponement, as much as possible of the personalization of the product.

Conclusions

The ABC method has two complementary orientations: one which concerns the calculation and the analysis of the costs and another one which aims it as an instrument of measuring the performances of the enterprise. The superior quality of the accounting information about the costs, acquired through the ABC method, allows making the best decisions concerning the conception and the manufacturing of the products, the externalization of some products or components, the orientation towards the client, the relationships with the suppliers, as shown above. The map of the activities supplied by the ABC method allows the redressing of the managers` attention towards the elimination of non-productive valueless activities, which leads to the diminishing of the costs of the enterprise, without a reduction of the value of the product offered to the clients. The suppressing of these activities assumes solving the problem upstream and downstream.

Also, the ABC method allows the comparison of the performance level reached by different organizational structures to accomplish an activity with an internal or external reference level of the enterprise.

Besides the shown advantages, the ABC/ABM can be the object of criticism. The main disadvantage of the ABC/ABM model is that the administration through activities doesn`t help to the increase of the competitiveness but has to be filled with the orientation to the final consumer. On the other hand, the orientation of the enterprise towards the satisfaction of the client no matter what leads to the privilege of a more external orientation of the accounting administrative system. However, this external orientation doesn`t remove the necessity of disposing the accounting information about the development of the processes and the phenomena inside the enterprise, to compare with the competition. The accounting through activities does not have as objective the supplying of an accounting information in time to sustain the current administration of the operations, but the supplying of a pertinent information in making the medium and long term strategic decision.

Another problem that the representation of the enterprise assigns as an assembly of activities and processes is that of its articulation with the structure of responsibilities that correspond most often to an organization through functions rather than through processes. In some cases, the structure of the accounting re-grouping centers through activities that ensure a relative precision of the costs does not correspond to the structure of the accounting re-grouping centers through responsibility centers. The replacement of the traditional system, based on responsibility centers, through an ABC system would risk paralyzing the administration of the enterprise because the ones to blame would not have an information on the responsibility they have.

In practice, the ABC systems, in the majority of cases, were developed simultaneously and remained independent of the traditional accounting system, even if it inspired them for part of the information that they needed. The traditional accounting system was not modified and continued to work as before. This fact maintained the articulation of the system of accounting information with the authority system and allowed the comparison with past data and assured the continuity in the analysis of the accounting information. The ABC system that works independently is used for the analysis of the costs of the cost objects, once or twice a year, and for the analysis of the strategic decision concerning the policy of the product, the decisions of externalization, etc.

In conclusion, a stage of the cost of the cost objects, calculated after the ABC principles, updated once or twice a year, can generate pertinent information to guide the making of a strategic decision.

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GLOBALIZATION IMPACT ON THE DEVELOPMENT OF NEW DIRECTIONS AS RELATED TO ACCOUNTING

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This paper explores the idea of globalization in economy in general and its role in that process in order to develop new directions for the accounting concepts. Globalization is a reality in today's world. As globalization intensifies the need for complex financial information becomes obvious. Expanding capital markets require analysis of financial statement prepared under diverging accounting standards. Investors believe that the lack of common financial statement increases the risk of an investment and affects the free flow of world capital. A single set of accounting standards would bring great benefits to the investors and would reduce the cost of accessing capital markets around the world. The convergence of accounting standards would assure enhanced comparability, greater reporting transparency, more efficient capital markets.

Keywords: *globalization, convergence, fair value, international accounting*

The accounting evolution has always been triggered by the phenomena occurring at the level of the real economy. The economical progress has led to the evolution of the technique and the development of civilization in general. Therefore, the big scientific and technical discoveries have had an impact on the economic evolution, and all this reflected in the evolution of accounting, as subject within the information system of the economics. Even from the oldest times, a lot of initiatives have been identified relating to organizing the accounting, in countries which have managed to establish solid and stable organizations. Thus, accounting has taken shape once with the need to organize a certain evidence in Economics, evidences in Economics, and the economic evolution has always imposed and asked for a higher level information on the economic status.

The present is governed by globalization, a phenomenon that defines the global economy. The globalization effect consists in implementing international financial reporting standards across the world. By contrast more and more countries try to benefit from using cultural values and tradition of accounting.

1. The globalization phenomenon and the implications on the economical – political and accounting level

In the last part of the 20th century and in the beginning of the 21st century, a popularized and equally controversial phenomenon has marked and has had a great impact on the economies existing on the global level: namely the globalization.

The term of globalization was proposed for the first time in 1983 by Theodor Eleviu, meaning the convergence of the markets all around the world, which would operate as a sole entity. Starting from this definition, in practice and the special literature there have been issued a number of opinions on globalization.Wikipedia, the free online encyclopedia defines globalization as „a series of economic, social, technological, cultural and political changes seen as increasing interdependence, integration and interaction between people and companies in disparate locations". The International Monetary Fund defines globalization as the "growing economic interdependence of countries worldwide through increasing volume and variety of cross-border transactions in goods and services, free international capital flows, and more rapid and widespread diffusion of technology".

From an economic point o view, globalization is identified with a series of trends:

- Increase in international trade at a much faster rate than the growth in the world economy
- Increase in international flow of capital including foreign direct investment
- Development of global financial systems
- Increased role of international organizations that deal with international transactions

Supporters of globalization pretend that this process offers great benefits to the economies of the world such as raising living standards in developing countries, development of new markets and new jobs creation, removing obstacles to international flow of good and capital. Although there are also a lot of opponents, the effects of globalization on the world economy cannot be denied (Gorgan & Gorgan, 2006).

On the international level, the present phenomenon is controversial, and there a various for and against opinions. An interesting overview of the reasons in favor and against as related to globalization, is accomplished by Barna in 2003, (as quoted by Ristea et al., 2006). Presented below, for the purpose of creating a picture of the said phenomenon, we shall present a synthesis of the said arguments. The arguments in favor of globalization are:

- Globalization is a stable support of the economic growth;
- Globalization is a stable support of the global trade;
- Globalization and competitiveness are complementary;
- Globalization enables the getting of all scale advantages, the capitalization of the synergic advantages, the turning into account of the geographical advantages and of those corresponding to its own market power.

The arguments against globalization are:

- The existence of a tendency to increase the inequality of incomes, at the global level, but also inside the countries;
- Globalization causes asymmetric shocks, of the type: social break between the rich and the poor, the duality of work - unemployment, the duality: lack of power in interdependency;
- Globalization is a potential process of disappearance of the state - notion;
- Globalization, through the transnational companies has suppressed and even eliminated some of the national markets.

The strong and weak points as previously present are capable to enhance the significance of this phenomenon in the contemporary period and the implication exercised by the latter within the most different areas: the environment, technologies, culture and communications, economy etc. Globalization in the economical field has also implications on the accounting level, a fact which triggers the following questions: which is the trend to be followed by the accounting in the future? (Calu, 2005).

The international accounting standards (financial reporting) and the European accounting directives, are results of the efforts made by the representatives of various countries for the purpose of attenuating those differences caused by the specific character of the application of the several national accounting regulations. Yet, the common view on the drawing up of the financial standings is a desideratum of all those involved in the process of the supply and demand of accounting information. From a linear perspective, an approach of accounting from the point of view of the globalization phenomenon generates a reply which seems to be unequivocal: the implications on the accounting level of the phenomenon of the economic globalization are represented by the process of implementation of the international standards for the financial reporting on the global level.

2. The analysis of accounting concepts evolution

Identifying and analyzing the relationships between economical and political mutation across history and the accounting evolution have been a permanent concern for researchers in the last decades. Most of them conclude that the economic development was the factor that propelled the accounting evolution (Collase, 1995, Richard, 1996, Dobroțeanu, 2005). The specific of every historical age (the Antiquity, the Middle Ages and Modern Times) has determined the appearance of accounting mutation, the appearance or disappearance of some concepts.

The historiographic researches reveal the fact that in Antiquity there were a lot of accounting notes, which were present in a primitive form, especially at old peoples having an ancient civilization and economy. From this particular period, there is information from the field of public accounting (the state role), agricultural accounting and bank accounting. In the period of Middle Eve there begins the systematization of notes, an accounting technique is shaped and even a theory elaboration is tried by some. Thus, „In may Italian cities there has been used, even from the 13th century, the single – entry bookkeeping, and in the other cities, the double – entry bookkeeping" (C. G. Demetrescu, 1972, as quoted by Calu, 2005). The first published work presenting the „Venetian art" of the double – entry bookkeeping is the Accounting Treaty of Luca Paciolo (Pacioli), as included in Summa de arithmetica, geometria, proportioni et proportionalità. The latter has appeared in 1494. But the double – entry bookkeeping system shall be generalized, in West European Countries, as of the second half of the 19th century, due to various causes such as: the increase of competition, the increase of the administrators' information needs, as well as of the new model capacity to calculate the outcomes of the activities and not just the monetary overplus. As related to the evolution in this particular period, Stevelinck (as quoted by Dobroțeanu, 2005) believes that „the phase of the commercial capitalism has inserted in the accounting the patrimony – related concepts and that of the protection of wealth with the help of the accounting books, be the latter either public or secret, the agent accounting, but also the concept of an artificial person, a concept which has imposed itself within the subsequent stage, that of the industrial capitalism, each of the aforementioned phases requiring more and more complex accounting techniques". The analysis of accounting in the period of the corporatist capitalism (after the years 20-30 of the 20th century) should be done within the existing economic, social and political context. From the accounting point of view, this period is mainly marked by: all the initiatives existing on the global level, for the purpose of creating a plan of accounts (in the West Countries), respectively all the initiatives relating to the improvement of the financial communication, given the fact that, „the 1929 crisis has made the public aware of the lack of any accounting information" (A. Naciri,1986, as quoted by N. Feleagă, 1995). At the same time, the concept of „true and fair view" has been introduced; more precisely this concept has replaced the previously existing one, namely, „true and correct view".

Although from a historical point of view, *cash accounting* preceded the *accrual accounting*, nowadays only a few small economic entities from developing countries use the cash accounting. On the other hand the accrual accounting is used by most world businesses. Even if some speclialists support the confidence offered by cash accounting (they know exactly when pays occurred), developing financial statements useful in making decision canot be done without accrual accounting. The IASB conceptual framework states that "in order to reach their objectives, the financial statements must be prepared on an accrual basis".

Within the context of the remarkable development of economy, accounting specialists face a dilema as related to assessment in accounting: is the classic model of the historical cost still adequate for the display of the reality within the financial standings or does the model of the fair value have to be enforced?

It is indeed true that accounting based on *historical costs* is one oriented towards the past, which it describes through the distinction between flow and stock (profit and loss account – balance sheet). The historical cost presents, as compared to other bases of assessment, a series of advantages but a large number of limits as well. The main advantage as related to the other bases of assessment is given by its fiability (credibility). Using this basis of assessment enables the offering of objective and checkable information. But during the periods of inflation and deflation, the use of the historical cost is harsly criticized, leading to a series of deformations in the financial standings. The limits of the historical cost are also represented by the its approximate and subjective estimations, especially when it is about the assets depreciation, which estimates are strongly influenced by the interests of those drawing up the financial standings.

For a couple of years, certain courts for accounting normalization (FASB, IASB etc) have consecrated the practice of the fair value in an extensive way, which tends to cover all the balance sheet assets, starting with the financial instruments, investments in real estate assets and ending with the agricultural products (Ionaşcu, 2003). The American standard no. 157 Fair Value Measurements, issued by the Financial Accounting Standards Board (FASB) on September 15, 2006 provides enhanced guidance for estimating the fair values of assets and liabilities reported in financial statements. The supporters of *the fair value* bring arguments to the fact that the latter represents a highly superior basis for assessment from the economic point of view than the historical cost. Most of the times, the fair value is not checkable, is not exact, is not faithful and moreover, there is the risk to be misrepresented through subjectivity" (Ristea & Dumitru, as quoted by Lapteş).

The conclusion is that the economical and political evolution influenced the accounting and concepts development. If at the beginning of the Middle Agea cahs accounting was appropriate, the development of commerce and banking, the industrial revolution, the transition towards an economy based on services have lead to the need of using accrual accounting. Having analyzed the relation between advantages - inconveniencies we may clearly find the supremacy of advantages. It is obvious and without any doubt that the investors represent the users, if not the main ones, at least the ones appointed as those who need to be privileged, as related to the requirements and the offer of financial information. In this respect, they wish to get informed based on the fair value. Nevertheless, the near future won't bring the abandon of historical cost. In other words, we are heading towards *a mixed model* of balance sheet assessment: the fair value for the negotiable assets and liabilities, respectively the historical cost for the rest of the elements. The future of the fair value needs to be mainly searched in the construction of the consolidated financial standings and not as a singular model for assessment, that replaces the historical cost, but more as a solution for the adjustment of the historical cost, considered by the European Accounting Directives as being the fundamental basis for assessment (Lapteş, 2007).

3. The globalization effects over accounting environment

It is clear that nowadays the entire world is affected by *globalization.* Under these circumstances, attention has been paid to the need for the *international harmonization* of the accounting practices. Harmonization stands for the agreement between the national, the European and the International in accounting, by limiting the variations between the accounting systems. This term is especially used as related to the agreement upon the accounting regulations from the European Union member states, through the European Accounting Directives. Harmonization is a process for the increase of the compatibility of accounting practices through delimiting a degree of variations. On the European level, for the purpose of harmonization of the accounting, the European Directives have been gradually adopted by the European Union member states (Ristea et al., 2006). Moreover, the European Commission with the hope to improve transparency, comparability and quality of the financial standings, has approved the international accounting standards, which are applied for the financial years as of January the 1st 2005, this way compelling all the companies quoted on the European markets, to present their consolidated financial standings in accordance with the said standards. Such an action determines the parallel use in the European Union countries of two sets of accounting standards: both the international and the national ones. The accounting directives shall remain the basic accounting legislation for those companies which are not quoted and shall continue to regulate those fields which are not covered by the IFRS standards.

Through the decision taken by the European Union, which decision has been followed by various similar methods in Russia, Australia and the New Zeeland, the trust in the international accounting standards has increased, just as their role as standards for the global economy also increased. The tendency to create a common language in which the financial standings of the companies from many countries of the world should be presented, has also manifested through the signing of an agreement regarding *the convergence* between IAS/IFRS and US GAAP in 2002 between The council for the international accounting standards-IASB and The council for the financial reporting standards-FASB. Within the said agreement, both signatories have undertaken to make best use of their efforts in order to: make it possible for the already existing financial reporting standards to be fully compatible as soon as possible and to coordinate their future working schedules, so that once obtained, the compatibility shall be maintained.

Not all the countries walk at the same pace and with the same speed on the road of the convergence with the international accounting reference. The national accounting standards of the countries with a slower pace usually cover less problems that the international accounting standards (Ding, Jeanjean, Stolowy, 2005).

CONCLUSIONS

The globalization, the harmonization and the international accounting convergence stand for the phenomena which tend to be more and more present at the level of the entire world. The application of the international accounting standards has become a necessity in order to ensure the quality of the accounting information. However, many of the world’s countries are at present trying to maintain thei domestic identity, through the capitalization of the latter’s cultural values and of the tradition as related to accounting. This thing can especially be noticed at the level of the individual accounts of the national companies, which apply their own national standards, the latter being the result of the legal, economic, social and cultural particularities.The international harmonization, followed by the international convergence are significant factors for the development of various new directors regarding the accounting concepts.

For as long as the globalization phenomenon shall remain a reality, the tendency in accounting shall be represented by the implementation of the international standards for financial reporting (IFRS), doubled by the reconciliation, through the accounting convergence, between the opinion as expressed within the American standards for financial reporting as issued by FASB and the IFRS’s. Just the implementation of the international accounting standards does not automatically stand for the amelioration of the national accounting system, if at the same time there are no deep changes occurring as related to the policies of economic development, the mechanisms of corporative governance and the operation of the financial market (Ding, Hope, Jeanjean and Stolowy, 2007).

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CONSIDERATIONS REGARDING IFRS 3 – BUSINESS COMBINATION

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Abstract: IFRS 3 describes and defines the accounting treatment for the Business Combination, so- called method "purchase method" that imposes the purchase price allocation to the assets and the liabilities identifiable by the society that makes the acquisitions object and the accounting of the operations that take place. Business combination means a fusion of distinct societies that are in one economic unity or derived from the fusion of one company with another one, either by obtaining the control over the net assets and over the administration of a company. This standard defines "business" as a whole system of tangible, intangible and financial assets involved in the development of an economic activity; if a company acquires a set of assets or even another entity, but it does not respect the definition of "business", the transaction cannot be accounted as a Business Combination.

Keywords: International Financial Reporting Standard 3(IFRS 3), business combination," purchase method", fair value

According to the international conceptual frame, a reporting entity is represented by „companies for which there are certain users defined that rely on the financial statements as an important source of financial information for them." Practically, a group of companies consists of bringing together separate units or businesses, in one reporting unit. The objective of the IFRS 3 standard is to obtain a superior quality and unification on an international level of the accounting of the groups companies' trying to focus in the same time on the analysis of the following main issues:

- the accounting method used by the groups of companies;
- the initial assessment of the identifiable assets.

Within the contemporary economy we can notice a phenomenon of development and flowering of many groups of societies that have sometimes one fixed purpose or other times, multiple and diverse objectives. The consequence of this phenomenon is that in the modern society, there is no activity sector of activity where there are not present multinational groups with a world or even globalization attempt. In order to accomplish the development strategies, these societies create a real network of multilateral relationships, that vary from the most simple to the more complex ones, from the most profound to the most superficial, their organizational chart being, most of the times, not intelligible or even to difficult to read by a beginner.The groups of societies omnipresent in all the sectors of activity have imposed themselves as an economic reality hard to neglect, although from a juridical point of view they are not considered to be a juridical reality. The entity groups manifest as an economic entity formed by a group of societies, each having its own juridical personality, brought together by different connections, in virtue of which one of them holds the unity of the decision and has an influence or a control over the others, determining them; so to say the decision unity of the determination society can manifest only if there is a relation of dependency of the other societies towards this one. So this difference can be: a financial difference- as a consequence of the majority of the voting rights in the General Assembly, the majority obtained directly by owning more than 50% of the voting rights, or indirectly through one or more societies having the right to control over another one; the directorial dependency of having the majority of the persons in the management level; the contractual dependency- as a consequence, either of renting together with a society an exclusivity contract or the designation of the administrators, or as a consequence of some statutory clauses; the economic dependency – resulted from the detaining of a group of the monopole of the activity.

The specific forms of the group of companies are:

- *the holding* – society that either has as jointures the majority of the assets or of the social parts of some or more societies; either is controlling the composition of the administration council of other societies;
- *the trust*- is a legislative creation of the English and American Law and designates an independent patrimony affected to one interest. The number of founders and of the beneficiaries of the trust is unlimited. According to the existing regulations, the trust can be used in various domains, but especially for the organization of the interests and of the groups in already made collectivities. As far as the connection between the trust and the group of societies if concerned, on one hand, the group of societies is not formed always for a monopoly interest, and on the other hand the idea of monopoly is opposed to the free and loyal competition encouraged and protected by the legislation and the contemporary doctrine;
- *the industry group* – is a concept introduced by the European economists and legal advisers, which, unlike the trust, which is founded on the idea of monopoly, if based on the idea of productivity. The industrial groups have been created for the purpose of reaching the maximum productivity, with the purpose of stimulating the competitors, opposed to the trust;
- *the concern*- is a variant of the industrial group, being regulated since 1973, being also completed with a part that regulates the subordinated societies and define the concern as being one of the group of societies quoted grouped under the unique direction of a dominant society. The society subordinated is the society that is juridical independent, found in subordination to another dominant company that can exert a direct or indirect influence. The difference from the group of societies lies in the nature of the domination relation that can appear and from a contract existing between the two companies, that has clauses in this sense, by which the dominant society is authorized to give directives to the dominant society and to make the group interest manifest;
- *the group of economic interests*- is a notion of French origin, but which has been adopted by all the community countries. The idea on which the constitution of these groups lies is that to allow the members to develop common actions and to face competition, respecting the independence of each of them;
- *the joint ventures group* – is one of the oldest forms of groups and it is based on a contract of association of the societies. It has no juridical personality; but it is a reality in fact. This type of group is made on the free consent expressed voluntarily, in a written interest, the purpose of the group being to obtain and share benefits. In order to reflect the nature of the control, it is necessary to calculate the percentage of control held by the dominant society, taking into account the dependency connection between the dominant society and the rest of the societies; that is the voting rights detained. This connection of power must not be mistaken for the financial dependency power, which results from the detaining of a part of the equity ownership of the 12511251society, dependency which is measured with the help of another instrument named interest percentage.

The control percentage - is calculated by summing up all the voting rights held directly or indirectly through a society placed under the exclusive control of the dominant society.

The interest percentage - taking into account the practical existence of different types of actions, we can found out that between owning a fraction of the capital and the rights that are attached there might exist a gap. While obtaining a right to vote reflects the exertion of a power, holding a share as a part of an equity ownership reflects the financial implication of a society in the high society. The financial implication is measured with the help of the interest percentage, calculated by multiplying the parties held directly with those detained indirectly in the equity of one society, gathered on each branch. The utility of the interest percentage results from the fact that it allows the calculation of the rights of the society that belong to the whole to assemble, for the distribution of the equity ownership and of the result between the interests of the group and the interests of those outside the group.

A lot of economic operations take place within the context of a group structure that includes companies and entities that interrelate one with the other. The general frame IFRS for the approach of the equity ownership and of other investments in custody accounts are presented as follows:

Accounting approach of various acquisitions of custody account

Joint percentages according to IFRS 3 are as follows:

Under 20% - they are evaluated at their just value according to IAS 39;

- between 20-50% they are evaluated by the method of putting in equivalence according to IAS 28;
- over 50% - consolidation and business combination according to IAS 27;
- Others – joint association's business combinations evaluated according to IFRS 3.

The aspects taken into account in the IFRS 3 standard refer to:

- accounting treatment at the date of the acquisition;
- for all the business combination, it is accounted by applying the method of the acquisition;
- the initial assessment of the acquired assets and of the liabilities, including the contingent ones, assumed, identifiable in a company at the just value;
- recognition of the liabilities for the closure or reduction of activities;
- the accounting for the goodwill and of the intangible assets acquired in a business combination;

In the same time, this standard does not apply in the following cases:

- the business combination that imply entities that are under common control;
- business combination that imply two or more mutual entities;
- business combination that have been gathered in order to build an entity that reports just in one contract without obtaining an interest in jointure;

The accounting treatment applied by the IFRS 3 standard stipulates the identification of the acquiring part in any business combination that is under its incidence; the acquiring part is that part that obtains the control over the other entities within the business combination. The acquisition must be accounted using the acquisition method. Since the date of the acquisition the acquiring part must integrate into the profit and loss account the results of the acquired entity's activities and to recognize the assets in the balance sheet, the liabilities and the contingent identifiable liabilities of the acquired entity as well as the goodwill generated by the acquisitions. Applying this method involves taking the following steps: identification of the acquiring part; evaluation of the cost of acquisition; allocation at the date of acquisition of the combination cost on acquired assets and liabilities, including assumed contingents.The acquisition cost supported by the acquiring part represents the sum of the just value of the transferred assets, of the liabilities taken and of the instruments of shareholders' equity issued by the acquiring part, in exchange of the control over the entity acquired, at the date of the transaction. This includes the costs that can be direct, but not the professional fees or the emission costs of the shareholders' equity investments or liabilities used for the payment of the obligations.

The assets, the liabilities and the identifiable contingent liabilities that have been acquired must be the ones belonging to the acquired entity and that existed at the date of the acquisition. The intangible assets must be recognized as acquired assets in the case which they correspond to the definition of the intangible asset according to the IAS 38. In the case which, for the accounting of a business combination, the values can be determined only provisory, the acquiring part must account the combination using the respective provisory values. The acquiring part must recognize the adjustments of the provisory values as a result of finalization of the initial accounting in term of one year from the date of the acquisition. The assets, the liabilities and the identifiable contingent liabilities that have been acquired must be evaluated at the just value of the assets and identifiable liabilities are described as goodwill and are recognized as asset. The goodwill is annually tested through depreciation and it is not amortized.

The positive difference between the interest of the acquiring part from the just value of the assets and the acquired identifiable liabilities and the cost of acquisition represents an earning and it is recognized in the profit and loss account. This difference is not recognized in the balance sheet as negative goodwill. However, before recognizing any earning, the acquiring part must reassess the cost of the acquisition and the just values allocated to the assets, the identifiable contingent liabilities belonging to the acquired entity. By acquiring significant package of shares we can notice the fact that a society can acquire control over the other societies by forming groups of societies, but also between independent entities there could be developed operations of gathering for the formation of groups of societies.

Within the contemporary economy we can notice a phenomenon of development and flowering of many groups of societies that have sometimes one fixed purpose or other times, multiple and diverse objectives. The consequence of this phenomenon is that in the modern society, there is no activity sector of activity where there are not present multinational groups with a world or even globalization attempt. In order to accomplish the development strategies, these societies create a real network of multilateral relationships, that vary from the most simple to the more complex ones, from the most profound to the most superficial, their organizational chart being, most of the times, not intelligible or even to difficult to read by a beginner. The groups of societies omnipresent in all the sectors of activity have imposed themselves as an economic reality hard to neglect, although from a juridical point of view they are not considered to be a juridical reality. The entity groups manifest as an economic entity formed by a group of societies, each having its own juridical personality, brought together by different connections, in virtue of which one of them holds the unity of the decision and has an influence or a control over the others, determining them; so to say the decision unity of the determination society can manifest only if there is a relation of dependency of the other societies towards this one.

So this difference can be: a financial difference- as a consequence of the majority of the voting rights in the General Assembly, the majority obtained directly by owning more than 50% of the voting rights, or indirectly through one or more societies having the right to control over another one; the directorial dependency of having the majority of the persons in the management level; the contractual dependency- as a consequence, either of renting together with a society an exclusivity contract or the designation of the administrators, or as a consequence of some statutory clauses; the economic dependency – resulted from the detaining of a group of the monopole of the activity.

Conclusions:

If an entity wants to obtain the control over a net asset (Net asset = Total assets - liabilities) belonging to another entity, there are a series of modalities through which we can accomplish this control from the juridical point of view, fusion, consolidation, offer. Through an acquisition of net assets, part of the assets and liabilities of an entity are directly acquisitioned by another entity or through the acquisition of participation to the equity ownership, an entity mother acquires the control over 50 % of the ordinary shares with right to vote of another entity. Both entities can continue exist as separate juridical entities, each one producing an independent set of financial statements, or they can fusion in a certain way. The interest percentage is different from the control percentage – the first represents the part that goes to the society mother, directly and indirectly from the equity ownership of the controlled society, obtaining them through the multiplication of the interest percentages held directly or indirectly on each branch that finally are gathered. The interest percentage lowers as there are more societies in the chain of participation. The just value of the long term debt taken from a combination of companies is the value up dated of the equity ownership and the interest on the period left until the settling day, the updating being made at the current rate of interest existing on the market. The acquisition cost of the long term acquisition is compared to the just value of the assets, the liabilities, the contingent liabilities of the entity acquired, and the positive difference is recognized as goodwill. If the just value of market of the assets, of the liabilities and contingent liabilities of the entity acquired is bigger than the cost of acquisition, IFRS 3 foresees that the positive difference should be reported as earning.

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COST CALCULATION CONSIDERED FROM BOTH THE POINT OF VIEW OF THE PROVISIONS OF ACCOUNTING REGULATIONS AND OF THE NEED FOR INFORMATION OF THE COMPANIES

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Abstract: The idea of providing financial balance that would lead to long-term, sustainable development of the companies gathers more and more ground in economy. A state of financial balance means a company is capable of conducting its business effectively and in normal conditions. „Normal conditions" mean the company conducts its activities according to its productive potential without employing any uncontrolled and unplanned for capital infusions. In our opinion "effectiveness" means establishing a relationship with the external and internal sphere (internal conditions of practice) of the company through the products and services it offers, a relationship which could lead to the possibility of reproduction on an enlarged scale, while shareholders, staff, managers and all the other factors participating to the production process can be adequately remunerated. We claim there is a close relationship between financial balance, costs and results which managed properly will provide investors the benefits they planned for.

Key words: company, costs, cost calculation, effectiveness

1. Introduction

Within a market economy economic units have to fulfill consumers' needs as effectively as possible. However the latter cannot decide by themselves what goods and services are needed on the market, because there are two great restraining factors at work: economic resources and existing technology. Thus economic units and consumers are at the center of the market economy system and once there is a balance between demand and supply they solve the three great economic problems: what is being produced, how it is being produced and for whom is being produced.

Since economic resources are limited and an economic unit needs to consume some resources in order to produce goods and supply services to its clients these expenditures generate expenses which as a whole make up **costs**. First the economic unit has to have some resources in money or in some other assets, then it has to ensure these resources are used as effectively as possible so that the finite products and services can be sold on the market at a higher price than the cost of their production. Therefore **production costs** are one of the main issues the management of economic units should be concerned with. In our opinion it is a mistake to take into consideration only the level of expenses and to say that the amount of expenses is adequate and therefore the activity of the company is effective, since costs and cost analysis has to be related to the gains the company has, i.e. to the profit.

In the theory of economics there have been two main principles regarding the objective of the financial function of an economic unit: *maximization of profit* and respectively, *maximization of the economic unit's value*. The former objective has been formulated by the neoclassical school. They considered the objective to be fulfilled when the volume of production in an economic unit reached a level where the enterprise's marginal income and marginal cost was equal. However this objective is impossible to reach in a competitive economy and the objective also fails to take into account market requirements and the uncertainties and risks present in the economic and social life. Considering all these today it is an accepted fact that *maximization of the economic unit's value* should be the fundamental objective of the financial function of an economic unit. Obviously reaching this objective is closely linked to making a profit, an indicator of the dimensions of the economic effectiveness of the company which adds to the value of the company. *"Setting the maximization of the economic unit's value as an objective has as a consequence the fact that the company is evaluated according to its ability to make a profit in the long-term, according to* *the perspectives for progress in its activity and according to its ability to diminish incorporated financial risks." (Mironiuc M., 1999).*

In market economy costs are dealt with inverse to the way they are treated in centralized economy. In a centralized economy costs define and justify the selling price. In market economy the price is the one defining the costs (Ghiță M., 2000). The selling price is set by the correlation between demand and supply and no economic unit will produce a certain type of good unless production costs for that good are less than its price in order to make a profit. Moreover, in our opinion the difference between costs and the selling price has to be such as to provide the minimum return expected by the investors who invested capital in the company. Indeed, it is important what the market the company tries to sell its goods on is like. Price for a good is formed in a different way on a market with many producers and buyers and on a monopoly market. Still in a functional market economy there is a great competition between producers, the market is very active and thus price becomes a variable which can be little controlled by the companies. Therefore follow up and control of production costs becomes a major concern of the management of any economic unit, since cost is the only factor the company can influence so that it would be diminished and thus the economic effectiveness of the company increased.

Having a proper knowledge of the production costs and expenses, including the relationship of these two is therefore a vital information for the management of the companies in their attempts to increase their economic effectiveness.

2. Definition and classification criteria of costs

Production cost is the main indicator of a company reflecting the activity of a productive economic unit and its economic effectiveness. Etymologically the concept of **cost** comes from Latin, from the verb *constare* meaning to determine, to define. From this verb the term *costa* was derived, which was used to name the expenditure rendered necessary by the production of an object. Later this term was derived into the term *cost*, used with the same meaning ever since in the literature and practice of economy.

The Romanian Thesaurus defines costs as „a sum of money spent to produce or purchase a good, to carry out of a work or to have a service supplied". Another work defines costs as „a sum generally expressed in money of the expenses needed to acquire or produce a good or to supply a service” (Bernard Y, Colli J.C., 1994).

According to other specialists „costs are the expression in money of the effort a company has to make in order to reach its objectives (Glautier M., Underdown B., 2001). The main features of the concept of „costs” are (Ristea M., Possler L., Ebbeken K., 2000):

- Resource consumption – costs are created as a result of the consuming of the factors of production;
- Links to achievement – these are the cost-bearing goods obtained or services supplied intended for sale or internal consumption;
- Evaluation expressed in money – both resources consumed and achievements are expressed in monetary units.

In our opinion costs means all the production expenses a company has by consuming limited resources in order to produce goods and services usually intended for sale on the market. Consuming of unlimited resources (e.g. air) is not included in the production costs, since despite of the fact that they have a great inherent value, they do not have any economic value.

Information regarding „costs” is indispensable to the management of the company in order to ground well their decisions. As all the other pieces of information regarding accounting information regarding „costs” has to have the following features in order to be useful; it has to be:

- *relevant* – a piece of information is relevant when it influences the economic decisions of those who use the piece of information helping them to evaluate past, present and future events and to confirm and correct their former evaluations. A piece of information has both a retrospective and a predictive value. It is retrospective by the analysis of the differences between real and predicted costs and the actions taken by following up on that information. It is also predictive, since production can be obtained using many variants in combining the factors of production to be consumed. Thus any avoidable cost is relevant. Any costs included in one variant of the manager's decision and missing (completely or in part) from another is considered an avoidable cost. Costs already had, which cannot be altered no matter what decision variant the manager decides to follow are not avoidable costs. As far as future events are concerned these costs are irrelevant, which means these costs have to be eliminated from the process of decision making leaving us only with avoidable costs also called *differential costs*;

- *credible* – it means pieces of information on costs should not contain major errors and the person who uses them should trust them;
- *intelligible* – this can be excluded, since it is assumed the pieces of information regarding costs are addressed to managers who have sufficient knowledge to understand them;
- *comparable* – this feature is valid mainly in the case of the analysis of the difference between real and predicted costs.

As in the case of production expenses we are going to present a few classification criteria of costs in order to make the reader understand better the importance and the place of information regarding costs within the process of decision making (Ionaşcu I., 2003):

According to the time and goal of their calculation:

- Real or actual costs – defined on the basis of real production expenses;
- Pre-established or pre-calculated costs – defined on the basis of estimated expenses.

According to the content and economic features of the calculated cost type:

- Complete (integral) costs – defined on the basis of capital expenses registered in the financial accounting; sometimes a distinction is made between traditional complete costs and economic complete costs;
- Partial (proportional) complete costs – formed out of expenses that can be directly attached to the produced goods or the supplied services; these partial costs have two forms of manifestation: variable costs and direct costs.

According to their influence in the process of decision making:

- Pertinent costs – meaning future costs which can still be decided upon and which are used as alternatives in the decision making process, i.e. avoidable costs;
- Indifferent costs – costs already had which can no longer be decided upon and which can no longer be used in the decision making process.

According to the level of the analysis:

- Unit cost – reflecting all the production expenses for a product unit;
- Global costs – containing all production costs for the entire quantity of manufactured products.

According to the extent the management can influence costs (Epuran M., Băbăiță V., Grosu C., 1999):

- Reversible costs and irreversible costs – the costs become irreversible when the manager can no longer withdraw his decision to have that cost;
- Controllable and imposed costs – in case of the controllable costs the manager can fully decide whether to have it or not, imposed costs are imposed by external factors;
- Fixed costs and variable costs – a cost is considered fixed if the cost and the production are interdependent with each other and variable if not;
- Visible costs and hidden costs – hidden costs are expenses of the company which are usually accounted, but cannot be singled out and identified as costs (e.g.: employees failing to come to work, work accidents, quality defects, etc.);
- Internal costs and external costs – external costs are costs the company transfers to third parties (depolution costs paid for by the community, but produced by the company), while internal costs are made up of production expenses necessary to the company activity.

So decision making capacity is limited in the case of internal costs and controllable costs, and is less restricted in the case of visible, reversible and fixed costs. Since competition is getting ever harsher the companies have to pay more attention to the quality of the products they manufacture in order to increase their economic effectiveness. Thus every productive company has to follow closely the relationship between *quality and economic effectiveness*, which means manufacturing increasingly competitive products at prices accepted by the market, while expenses are kept lower and lower in order that the targeted economic effectiveness can be reached. The quality level of the product determines its costs and price, thus there is a close relationship between costs and price which helps define the extent to which increase in value produced by the increase in quality justifies higher costs. In this respect the relationship between the effort invested in obtaining quality (costs of quality) and the results achieved (economic influence of quality) has to be closely watched in order to find an optimal ratio both for producers and consumers. In principle economic literature divides quality related costs into four categories:

- Costs of prevention – costs of studying, preventing and reducing defects;
- Costs of evaluation – costs of attempts, inspections and examinations intended to establish if specified requirements are being met;
- Costs of internal damages – costs for correction of unconformities detected before the product is shipped to the beneficiary;
- Costs of external damages - costs for correction of unconformities detected after the product is shipped to the beneficiary.

In our opinion the accounting system has to provide information also regarding quality costs, since excepting the case of discarded goods most of the economic units do not care about the costs implied by repairs, by customer complaints, by visits made in order to investigate the complaints etc. The ISO 8402 standard defines total quality management as "a management system of an organization focused on quality, based on the participation of all its members and a tool in providing long-term progress by satisfying the customer and obtaining advantages for all the members of the organization and society."

3. Opinions and conclusions regarding cost calculation considered from both the point of view of the provisions of accounting regulations and of the need for information of the companies

The financial management of an economic unit paid close attention to production costs in order to establish a starting point in negotiations for the selling price and in revealing the effectiveness of the economic unit. It can be said that the company gains a profit if production costs are lower than the negotiated transaction price. However this does not naturally mean it is profitable, too, since there are certain expenses that, according to standards of accounting, are not part of the production costs.

In principle, production costs contain all the expenses necessary for the company to manufacture a product, carry out a work or supply a service. At first sight everything seems simple, but still within a company there are certain expenses that are not at all connected to the manufacturing of a product (e.g. fines and penalties). Put it in another way we could say production costs have to contain all expenses necessary for manufacturing a product and being directly or indirectly connected to the manufactured product.

According to the international accounting standards (IAS 2 „Reserves") adopted also by Romania, „reserve costs contain all costs necessary for the acquisition and processing and other costs had in order to bring reserves in the form and place they are at present".

Acquisition costs of reserves contain purchase price, transportation and handling fees, taxes and other non-recoverable costs. Processing costs contain the following:

a) Direct costs;
b) Indirect production costs detailed as:

- Fixed expenses: indirect expenses which stay relatively the same regardless of the volume of the production. These kind of expenses can be as follows:

1. Assigned expenses, which contain the part of fixed expenses proportional with the production capacity actually used by the company; Assigned fixed expenses are included in production costs;
2. Unassigned expenses, which contain the part of fixed expenses brought forward by not using the production capacity at hand of the company at the usual parameters. Assigned fixed

expenses are not included in production costs and they are considered as an expense within the financial year and are offset directly from the income statement.

- Variable expenses: production expenses altering proportionally or nearly proportionally with the volume of the production.

Within the production costs the following items are included: acquisition costs of raw materials and resources used in obtaining the products, direct expenses of processing, assigned fixed expenses and variable expenses. Therefore, in principle, production costs do not contain: unassigned fixed expenses, general management expense and sale expenses. This means expenses which are offset directly from the income statement have to be covered first from the margin resulting from the difference between selling price and production costs and only then can the amount remaining be considered the profit of the company.

In order to meet the provisions of accounting regulations (as a consequence of the standardization of the accounting information produced by financial accountancy) and also to the internal needs of the company management we believe it is necessary to build up a cost calculation and result establishment system based on the following principles:

- Production cost calculation according to existing accounting standards;
- According to accounting standards general management expenses and sales expenses are offset directly from the income statement, but in case the management needs the pieces of information for internal purposes these can be allocated to goods produced by the company (general management expenses and sales expenses are offset directly from the income statement, but the income statement is formed when the company goes out on the market, when its products are being sold and not when the products are manufactured, which means general management expenses will be offset from the income statement only after the products which have attached some general management expenses have been sold);
- A proportionate sum of the general management expenses and sales expenses will be subtracted from the “margin” resulting from the difference between the selling price and the production cost and thus we obtain the result for each product. Then we eliminate from the calculation unproductive expenses (unassigned fixed expenses, fines, penalties, etc.), since these need to be analyzed separately.

In this context, we started out from the following hypotheses in order to demonstrate the algorithm presented above:

- Let us suppose a company produces products A and B and they are registered within financial accounting at the delivery price, distinctly highlighting the differences of price compared to the actual production cost calculated according to the IFRS;
- Sales expenses and general management expenses will not be included in the production costs, but for internal need of information two levels of defining the income statement will be established:

1. *At the first level* a „gross margin” as a difference between the delivery price and the production costs, calculated according to the IFRS is calculated;
2. *At the second level* a result for one product unit taking into consideration general management expenses and sales expenses for each product unit is established;

The basic rule is to connect expenses with income thus an actual result per product unit being established. Thus delivery expenses made in month "X" will be referring to products sold in that month (delivery expenses usually come up at the same time products are delivered and this fact justifies such an approach; however if delivery expenses are created after selling, they will no longer be registered as referring to the respective products). General management expenses made in month “X” will be considered for the month the respective products have been sold in. Thus two accounts are created:

- **The account of products made in month „X”**, by which the production costs are calculated, according to the IFRS;

The account of products sold in month „X”, by which the gross result for a product unit is obtained by deducing production costs (production costs referring to the sold products are taken over from the first category that has already been drawn up), general management expenses and sales expenses referring to the sold products from the selling price.

Accounts drawn up based on our example are as follows:

1. Account of products made in month X:

Serial number	Product	Produced quantity (kg)	Production cost per product unit (lei/kg)	Production costs (lei)	General management expenses (lei)	Total costs (lei)
0	**1**	**2**	**3**	**4 = 2 *x* 3**	**5**	**6 = 4+ 5**
1.	Product A	100	14	1.400	28	1.428
2.	Product B	100	26	2.600	52	2.652
3.	**Total**	**200**	**x**	**4.000**	**80**	**4.080**

Serial number	Product	Quantity	Costs per product unit*)	Production costs	General management expenses	Delivery expenses	Integral costs	Selling price per product unit	Incomes from sales	Gross result
0	1	2	3	4 = 2 *x* 3	5	6	7 = 4 +5+6	8	9 = 2 *x* 8	10 = 9 - 7
1.	A	60	14	840	16.8	120	976.8	18	1,080	103.2
2.	B	40	26	1.040	20.8	140	1200.8	35	1,400	199.2
3.	**Total**	**100**	**x**	**1.880**	**37,6**	**260**	**2.177,6**	**x**	**2.480**	**302,4**

2. Account of product sold in month X:

It can be noticed that in management accounting the pieces of information obtained are far more complete as far as costs, including product profitability are concerned. As a conclusion it is to be declared that the above presented method of dealing with production costs satisfies both the requirements imposed by provisions of accounting regulations and the need for information of the companies in order to make economically well-based decisions.

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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 4th 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 4th 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 5th 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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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.

IRS 4 AND INSURANCE MARKETS

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Abstract: Insurance system are actively involved in a vast array of "social" insurance services, prominently through provision of public pensions, health insurance schemes and medical services, regulation of health insurance markets, unemployment and work injuries insurance. Recent economic literature emphasizes a tension between Insurance system, and competitiveness and growth. In particular, a trade-off is envisaged between redistribution and growth, as the high fiscal burden needed to finance the Insurance system has perverse incentive effects on wages, lab our supply, capital accumulation, and the adoption of new technologies. In this paper we focus on the Insurance system as a "public insurer", rather than as a mechanism for redistribution of income. The authorized insurance companies have the obligation to have at all times an available solvency rate, in concordance with the activity developed, at least equal to the minimum solvency rate calculated in conformity with the valid regulations.

Key words: Insurance system, IFRS 4, insurance contract, insurance market.

In most deve1loped countries Insurance system systems are undergoing substantial re-organization. Growing costs of welfare systems, stringent public budget constraints, and the intense development of financial markets allowing for significant innovation in the design of insurance contracts, are amongst the main reasons behind this fact. In many European countries, re-organization of Insurance system systems is also strongly stimulated under the Lisbon agenda.

Within this perspective, the fundamental question underlying the present paper can be framed as follows: In what circumstances, to what extent, and under what conditions can the provision of "social" insurance services, nowadays typically offered in Europe by Insurance system institutions, be delegated to the market? The answer to this question will be sought by linking together, and providing advances on, several strands of analysis. First, a detailed analysis of the several instances of market failures in insurance markets will be performed, with specific emphasis on market failures connected with insurance typically provided by Insurance system institutions. Second, competitive equilibrium, and the conditions for Pareto optimality and "fairness", under both adverse selection and moral hazard, will be characterized.

Third, the literature on mechanism design will be applied to a number of social security programs, in order to obtain deeper comprehension on issues such as: public provision or financing of "private goods"; the bundling of different social insurance programs; the optimal design of pension schemes under both private and public provision; the optimal management of retirement wealth in the face of life risks; the optimal provision of old age health risks insurance; the design of prevention policies aimed at reducing health risks associated to transmissible diseases.

The "Lisbon strategy for growth and employment" (the "Lisbon agenda") commits the European Union to become by 2010 "the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment" (italics added).Under the objective of "greater social cohesion" the agenda includes the ambitious paper to a tighter compatibility between sustained competitiveness (as the development in world trade demands) and social protection that nowadays, in many countries belonging to the European Union, rests on a diffuse public Insurance system. Insurance system systems usually serve two, often intertwined, tasks: they implement income redistribution and they provide public insurance against a class of "social" risks largely connected with health, work injuries, unemployment, and retirement.

Recent economic literature emphasizes a tension between Insurance system, and competitiveness and growth. In particular, a trade-off is envisaged between redistribution and growth, as the high fiscal burden needed to finance the Insurance system has perverse incentive effects on wages, labor supply, capital accumulation, and the adoption of new technologies.

In this paper we look at the Insurance system as a "public" insurer, rather than as a mechanism for redistribution of income. We intend to focus on the reasons behind public provision of "social" insurance, and to examine the efficiency conditions under which the State as a "social insurer" can act. In many European countries Insurance system are undergoing substantial re-organization, induced by the fast growth of their costs.

In addition to the cost effects of the ageing process of the population and of scientific innovation in the provision of retirement and health insurance services, the "cost" of the Insurance system is also linked to the pervasiveness of perverse incentives it can exert on the economy's supply conditions, thus on growth and competitiveness. In fact, the institutions of Insurance system have often shown themselves to be permeable both to individuals' strategic exploitation of private information and to the inefficiencies of collective, i.e. political, decisions. These facts can have perverse effects on social cohesion, thus weakening the political consensus towards the institutions of Insurance system.

As a matter of fact in recent times we have been observing a growing demand for "decentralization", i.e., for "market" and "competition", in many "social" insurance services traditionally provided by the State. The "modernization" of the insurance system, i.e. the reshaping of social protection mainly provided nowadays in Europe by "the State as an insurer", is accordingly a major challenge for the EU countries within the framework of the Lisbon Agenda. A central issue - and the one we intend to tackle in this paper - is whether there can be efficient scope for market delegation of "social" insurance services, and the conditions for it.

The definition of an insurance contract refers to an insurance risk that IFRS 4 defines, other than the financial risk, transferred from the owner of the contract to the eminent. A contract that exposes the eminent to a financial risk, without a significant insurance risk, is not an insurance risk.(Barry j. Epstain & Abbas Ali Mirza, 2005).The definition of the financial risk includes a list of financial and non financial risks, the list includes non-financial variables that are not specific to to a contractual party like an index of the damage provoked by earthquakes in a certain region or an index of the temperatures in a certain town, the list excludes the non-financial variables that are specific to a certain contractual party like the fact that a fire takes or does not take place which affects or destroys an active of that part. Besides that, the risk of changing the right value of an non-financial active is not a financial risk if the right value does not reflect only the modifications of the prices on the market for such actives (a financial variable) but only the stage of a non-financial specific active owed by a contractual party (a non financial variable)For example a guarantee for the residual value of an automobile exposes the warrant at the risk of change of the physical state of the auto, that risk of insurance and not a financial risk. (Constantinescu Dan Anghel, 2004)

The definition of the insurance risk refers to the risk that the insurance company accepts from the insured person, in other words, the insurance risk is a preexisting risk, transferred from the insured person to the insurance company. Consequently, a new created risk by the contract is not an insurance risk.(Dobrin Marin & Ionescu Luminita, 2003).A contract that exposes the eminent to a negligence risk, to a persistence risk or to an expense risk, is not an insurance contract, except when it exposes the eminent also to the insurance risk. However, if the eminent of that contract lowers that risk by using a second contract to transfer a part of that risk to a third party, the second contract exposes the contract to an insurance risk.

Insurance system are actively involved in a vast array of "social" insurance services, prominently through provision of public pensions, health insurance schemes and medical services, regulation of health insurance markets, unemployment and work injuries insurance. In most developed countries Insurance system systems are undergoing substantial re-organization. Several reasons lie behind this fact. First, the costs of welfare systems are growing fast, also due to the ageing process of the populations and the effects of scientific innovation on the costs of health services. Second, stringent public budget constraints increase the awareness of the incentives problems generated by public interventions. Third, the intense development of financial markets allows for significant innovation in the design of insurance contracts.

Within this framework, a major issue in many European countries is whether there can be scope for market delegation of social insurance services - and the conditions for it. Policy proposals to reform the Insurance system systems, also through recourse to "market delegation", have to be subject to an articulated set of evaluation criteria. Firstly, stringent accountability and cost-benefit analysis are to be adopted to evaluate the scope for market provision of social insurance services vis a vis public intervention.

Secondly, the optimal design of public policies becomes a crucial issue where public intervention continues to play a significant role. Third, in many an instance in which welfare systems continue to provide insurance, there can often be scope for public and private insurance systems to coexist. Fourth, under both regimes, when market results may involve incomplete risk-covering, regulation can be needed to ensure acceptable levels of both efficiency and fairness. A common answer to incomplete risk-covering is recourse to straightforward coercive powers, namely compulsory insurance.

To summarize, the basic paper question can be framed as follows: In what circumstances, to what extent, and under what conditions can the provision of "social" insurance services, nowadays typically offered in Europe by Insurance system institutions, be delegated to the "market"? To tackle the question, the background literature relating to several strands of analysis has to be taken into account.

A first strand of literature focuses on the several instances of market failures in insurance markets (emphasis will be specifically put on market failures connected with insurance typically provided by Insurance system institutions): Competitive conduct of firms can lead to excessive price discrimination (Rea, 1992; Crocker e Snow, 2000), to the inability to credibly commit to long period contracts (Cooper and Hayes, 1987), to insufficient incentive to control costs (Cummins and Tennyson, 1992, Scalera e Zazzaro, 2003). Contractual design allows to reach second best solutions under moral hazard (Cooper and Hayes, 1987; Winter, 2000; Chiappori et al., 2004). However, neither the insured nor the insurer have incentives to propose adequate contractual devices when the effects are "external" to their relationship, and directly fall on society as a whole (Vickrey, 1968, Edlin, 2003, Buzzacchi e Valletti, 2005; Emons, 2001).

The possibility of incomplete coverage is known in the literature of competitive insurance markets at least since Rothschild e Stiglitz (1976) and is particularly severe in long-term contracts. Incomplete coverage can result from cream skimming strategies (Crocker and Snow, 1986); or because risk factors undergo relevant exogenous changes; or because a strong correlation among risks makes the assessment of the risks themselves extremely difficult (Gollier, 2005). Difficulty in risk assessment calls for the need, and the tough task, of aggregating the opinion of experts (Morris, 1977; Bayarri e DeGroot, 1991). Administrative costs can rise very high. In health insurance a common explanation for this result is the competitive search for separating equilibria (Diamond, 1992). In the literature relating to pension funds, the same result is expected to arise from contract incompleteness and renegotiation (Acemoglu et al. 2003; Besley and Prat 2003) that limit the capacity of future pensioners to (ex ante) identify and legally verify good indicators of fund managers' performance.

Conclusions

To ensure fairness, compulsory insurance goes frequently together with forced pooling equilibrium, when separating equilibrium, particularly burdensome to the riskiest subjects, are expected to arise. Another regulatory arrangement intended to combine efficiency and fairness policy objectives is the bundling of social programs under a comprehensive scheme whereby insurance against a number of different social risks is provided together with redistribution. Still, in a policy perspective, the search may also be open for alternative routes. For example, more indirect regulation may serve the purpose of favoring product innovation, that is, the design of more sophisticated insurance contracts, also as a result of competition.

A final theme deserves attention. Provided social insurance is delegated to the market, insurance firms are subject to antitrust law. Particular aspects of antitrust law that come into play would typically involve: prohibition of agreements among firms, strict regulation of information exchanges; severe restrictions, under several circumstances, of the possibility for firms to refuse to deal with customers. Antitrust constraints, especially when coupled with other regulatory constraints, can significantly affect the way in which insurance firms compete in the market.

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ASPECTS REGARDING THE HOMOGENEITY OF ACCOUNTS AT GROUP COMPANIES

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Summary: The accounts consolidation has as an objective to illustrate a fair image of the equity, of the financial situation and of the result of an assembly of companies all together forming a group. The companies entering within the frame of consolidation can be very different in their juridical form, activity sector, or country in which they act. All these elements can have a direct or indirect influence upon the regulations about evaluation and presentation used to settle the annual accounts. In order to satisfy the fair image principle when the consolidation is realized it is compulsory to achieve the homogeneity of the annual accounts of the consolidated companies, this means to harmonize the evaluation and presentation methods, before starting the accounts consolidation.

Key words: consolidated accounts, group, consolidation, homogeneity.

Les opérations de consolidation s'inscrivent souvent dans un cadre juridique et comptable inconstant et/ou international. La situation est fréquente où le groupe est composé à l'aide des sociétés qui ont chacune ses activités économiques et/ou des implantations géographique diverses. En vue de l'obtention d'une image standardisée et pertinente de cet ensemble économique, les sources d'informations comptables doivent faire l'objet d'un véritable filtre, par une suite d'opérations qui, d'une manière générale ont été appelées „d'homogénéisation".

D'ailleurs, les comptes consolidés ne peuvent être obtenus à l'aide d'une adjonction directe des comptes individuels des entreprises qui forment le périmètre de consolidation, parce que les comptes individuels peuvent être créés selon des normes différentes en fonction de l'aire géographique des sociétés qui seraient consolidées. Ainsi, les comptes individuels sont élaborés avec le respect des réglementations juridiques et fiscales, différentes de celles applicables dans le processus de consolidation.

Par ces raisons, les normes concernant la consolidation des comptes fixent un principe fondamental de la consolidation, c'est-à-dire l'homogénéisation.

Ce principe ne se limite pas seulement à l'assurance d'un langage comptable commun pour les comptes individuels, mais on suppose aussi la création des opérations de retraitement ou reclassement de la matière comptable.

L'homogénéisation vise les éléments de l'Actif et du Passif du bilan, les postes de revenus et dépenses, les informations contenues dans les annexes, en d'autres mots, toutes les situations financières spécifiques d'une société.

Ce processus n'a pas lieu au hasard, mais sur un plan comptable de consolidation, où pour le groupe visé sont retenues les règles et les méthodes plus adéquates, pour qu'en fonction d'elles on obtienne l'image parfaite, claire et complète du patrimoine, de la situation financière et ces résultats.

Si une entreprise membre du groupe utilise dans le traitement des opérations des méthodes comptables différentes de celles retenues par le plan comptable de consolidation, il faut apporter les ajustements nécessaires pour l'obtention de l'homogénéisation en cause. Toutefois, si les éléments respectifs sont insignifiants en rapport avec la grandeur du groupe, ou si le coût d'obtention des informations homogénéisantes est plus grande en comparaison avec des effets obtenus, on peut renoncer aux ajustements survenus dans le passé. Ainsi, observe-t-on une mise en pratique du principe de l'importance objective.

Le processus d'homogénéisation peut impliquer des aspects suivants :

- l'homogénéisation temporelle
- l'homogénéisation des évaluations
- l'homogénéisation en vue d'éliminations
- l'homogénéisation en vue intégration.

L'homogénéisation temporelle

Les comptes consolidés s'établissent et se publient annuellement. Comme règle générale, les comptes annuels du groupe s'établissent à la même date de fermeture et pour la même période ainsi que les comptes annuels de la société-mère.

En vue des dérogations et sous la réserve de la justification en annexes, les comptes consolidés peuvent être créés à une date différente de création:

- la société-mère ferme ses registres après ses filiales de production, pour pouvoir tenir compte à la création des comptes consolidés et de résultats des filiales respectives;
- les entreprises du périmètre du groupe ont une activité saisonnière et très diverse;
- les règlementations nationales imposent, à une société située à l'étranger, une autre date de fermeture des comptes.

La législation européenne et internationale prévoit que si la date de fermeture de l'exercice d'une entreprise participante dans la consolidation est antérieure à plus de trois mois de la date de fermeture des comptes consolidés, ceux-ci sont élaborés sur la base des comptes provisoires. Ces comptes sont établis dans les mêmes conditions que les comptes annuels des sociétés participantes dans la consolidation. Ils sont établis sur la base de l'inventaire et ils comprennent d'une manière obligatoire des informations concernant la variété des stocks (et si la somme afférente est ou non significative), les amortissements et les provisions, des ajustements des comptes réciproques entre les sociétés consolidées, le calcul de l'impôt sur le profit.

La société-mère peut consolider directement les comptes annuels établis à une date antérieure à celle concernant les comptes consolidés, à condition obligatoire d'application de la procédure de retraitements nécessaires, de l'élimination des comptes réciproques intra-groupe et de l'assurance que ce décalage de date n'est pas de nature à détruire l'image fidèle des comptes du groupe.

Il faut aussi souligner la situation inverse, celle d'admettre que la date de fermeture des comptes individuels d'une entreprise participante dans la consolidation est postérieure à postérieure de la date de fermeture des comptes consolidés. Une telle possibilité serait contraire aux principes qui gouvernent l'établissement des comptes consolidés et spécialement au principe que à la fermeture des comptes consolidés, on reconnaît et on enregistre seulement les résultats enregistrés et présentés à cette date.

L'homogénéisation des évaluations

Les comptes consolidés s'établissent en fonctions des principes et des règles d'évaluation spécifiques à la comptabilité générale, donc ils sont les mêmes comme dans le cas des comptes individuels.

Il y a encore des ajustements indispensables provenus des caractéristiques propres des comptes consolidés, en rapport avec ceux annuels. Sous la réserve de la mention et d'une justification en annexe, la société consolidée peut utiliser d'autres règles d'évaluation, fixées et destinées à l'élaboration correcte des comptes consolidés.

Si entre les règles d'évaluation, applicables aux comptes individuels et ceux appliqués pour les comptes consolidés apparaissent des divergences, il y aura des retraitements sur les comptes individuels.

Les méthodes et règles d'évaluation complémentaires, optionnelles, spécifiques à la consolidation sont suivantes:

La méthode du coût historique indexé: les comptes consolidés peuvent être établis sur la base de sa monnaie nationale, avec sa force d'achat, à la fermeture de l'exercice. Tous les éléments initialement reflétés, soit dans une autre monnaie, soit celle nationale, mais avec une unité monétaire commune. Cette méthode a été développée particulièrement aux Etats-Unis et en Grande Bretagne.

La méthode de la valeur de remplacement: les immobilisations corporelles amortissables et les stocks peuvent être inscrits à leur valeur de remplacement à la fermeture de l'exercice. Cette méthode, sous la réserve des difficultés pratiques d'application, présente l'intérêt dans certains compartiments d'activité. Il y a le cas des entreprises d'une période très longue d'investissement (qui ont été soumises à l'inflation dans les années antérieures) et des entreprises soumises aux variations de prix importants concernant des achats de marchandises.

La méthode LIFO: contraire aux deux premières méthodes mentionnées, l'option pour cette méthode ne peut pas être appliquée à l'ensemble des stocks concernant le groupe, mais peut être limitée aux certaines catégories de celles-ci, sur la base de la localisation géographique ou la branche d'activité spécifique.

L'inclusion des achats financiers dans le coût des stocks : les intérêts des capitaux empruntés, pour le financement de la production d'un élément de l'actif circulant, peuvent être inclus dans son coût seulement dans la période de la fabrication afférente.

Vu les biens que la société dispose par un contrat de location (ou en leasing) :

- est permise l'enregistrement dans l'actif du bilan ayant la valeur stipulée dans l'absence de l'indication de la valeur en contrat;
- est permise la comptabilisation de ces biens de contrepartie (en Passif) avec l'obligation financière correspondante;
- est permise l'affectation du compte de profit et de perte avec le pourcentage d'amortissement du bien respectif, celle-ci étant considérée une dépense financière courante.

Les différences de conversion : peuvent être inscrites dans le compte de profit et perte consolidés. Les profits (en ajoutant les valeurs latentes) peuvent être retenues, contre les dispositions comptables générales pour les comptes individuels, qui prévoient que seulement les pertes latentes doivent retenues (en se constituant provisions dans ce sens).

L'homogénéisations en vue des éliminations

Le principe fondamental de la consolidation vise la prémisse qu'un groupe est une entité unique. Ainsi, résulte-il la nécessité de l'élimination des enregistrements dans les comptes des sociétés qui font partie dans un groupe et qui visent des échanges réciproques, générateurs ou non de résultats financiers, ainsi que les dividendes distribués à l'intérieur du groupe.

Quand des opérations ont lieu entre des unités du groupe, premièrement, il faut y assurer une homogénéisation qui consiste, dans ce cas, dans le débat et la mise d'accord aux grandeurs inscrites dans les comptes des partenaires.

Cette démarche apparaît nécessairement parce que les échanges apparaissent parfois dans la comptabilité d'une société sans être reflétées d'une manière correspondante et dans la comptabilité de l'autre côté. D'ailleurs, l'inscription dans les comptes des parties pourrait être présentée aux niveaux différents.

En principe, au moment où l'opération interne du groupe apparaît seulement inscrite dans les comptes d'une des sociétés, ou quand les sommes sont différentes, l'homogénéisation signifie la force, d'un commun accord des grandeurs et l'inscription dans la comptabilité de la partie ou l'échange a été opéré.

Après ce premier groupe d'homogénéisations, des éliminations peuvent effectivement être réalisées. D'après leur origine, les éliminations peuvent être:

- éliminations patrimoniales,
- éliminations financières,
- éliminations économiques.

Les éliminations d'origine patrimoniale visent les éliminations concernant les titres de participation dans le bilan de la société dominante, en contrepartie avec des capitaux propres des sociétés dépendantes.

Les éliminations d'origine financière visent les comptes réciproques qui apparaissent dans les documents annuels des sociétés du groupe, sous la forme des créances à une société et aux dettes à l'autre, des revenus à une société et aux dépenses à l'autre, sans avoir une influence sur le résultat au niveau du groupe.

Les éliminations d'origine économiques visent par contre les opérations qui génèrent les résultats à une ou à l'autre société du groupe, comme suite à des échanges internes d'entre elles. Certains échanges peuvent viser:

- Les cession d'immobilisations: une telle élimination apparaît lorsque le prix de vente est plus grand ou plus petit que la valeur nette comptable, les cas où les profits sont enregistrés, respectivement des pertes exceptionnelles.
- Les ventes de produits entre les unités du groupe: le problème de l'élimination apparaît ou cas où les produits ou les marchandises vendus par une unité dans ce groupe à l'autre ont

obtenu pour la première fois un résultat. Celui-ci doit être éliminé vu le fait que les produits ont circulé entre ces deux unités, à l'intérieur du groupe, l'élimination s'imposant indifféremment s'ils sont stocks ou consommés ou vendus.

– Les provisions internes: les provisions enregistrés à l'intérieur du groupe et qui visent les dépréciations réversibles des quelques créances générales générées par des opérations réciproques à l'intérieur du groupe doivent être éliminées.

L'homogénéisation en vue l'agrégation

Elle suppose l'effectuation de reclassements nécessaires, du moment où les structures des comptes annuels d'une société du groupe ne coïncident pas aux structures des comptes annuels de la société dominatrice, donc leur transport à un point commun du point de vue du contenu.

Par l'agrégation on comprend le cumul des postes, inscrits dans les comptes annuels individuels, après la réalisation d'autre homogénéisation présentée antérieurement. Ce cumul peut être intégré ou divisé selon la manière des relations d'être la société prédominante et des filiales s'encadrent au contrôle exclusivement ou le contrôle conjugué.

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ORIENTATION AND PLANNING THE FINANCIAL AUDIT

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Summary: The period of orientation and planning of the audit mission supposes from the part of the auditor the proceeding of the following important works: the general knowledge of the enterprise, the identification of the significant fields and systems and planning the mission.

The general knowledge of the enterprise has as main objective the obtaining from the part of the auditor of a sufficient understanding of its specific particularities and of their influences upon planning and mission organizing

The identification of the significant fields and systems aims a better orientation and planning of the efforts in order to avoid useless things and to finally fundament the decision regarding the stated opinion.

The planning of the mission means to make a synthesis of the obtained information and to give an orientation and a coordination to the entire audit activity.

Key words: auditor, fraud, error, significant.

Le rôle de cette étape est de déterminer l'origine et la grandeur des interventions qui vont être créées par l'auditeur en cours de sa mission et d'établir les mesures d'organisation nécessaires pour les exécutions des travaux de l'audit au maximum d'efficacité dans le cadre des termes établis.

Des travaux importants ont lieu dans l'étape d'orientation et de planification du métier de l'audit:

La connaissance générale de l'entreprise a comme objectif l'obtention d'une compréhension suffisante des particularités de l'entreprise et du domaine où elle fonctionne, pour déterminer les buts généraux de l'audit et de l'identification des domaines et des systèmes significatifs.

Pour la compréhension et la connaissance des particularités de l'entreprise, les auditeurs peuvent utiliser une suite de processus et de techniques, par exemple: des discussions avec des managers et des salariés de l'entreprise; le contrôle des documents internes et externes; la visites des restaurants des entreprises; le contrôle analytique des indicateurs économiques-financiers les plus importants (chiffre d'affaires, profit, liquidation, etc.). Après l'utilisation de ces processus et techniques, l'auditeur a la possibilité d'avoir une opinion en ce qui concerne: l'origine de l'activité; les particularités du secteur; les structures de l'entreprise; l'organisation générale; les politiques commerciales, financières et sociales; l'organisation administrative et comptable; les pratiques comptables utilisées; les contrôles internes appliqués; les retards dans la présentation des informations à l'extérieur de l'unité.

En conformité avec les Normes Nationales de l'Audit, le but d'une mission d'audit des situations financières est de permettre à l'auditeur d'exprimer une opinion conformément à laquelle les situations financières ont été fondées sous tous leurs aspects significatifs conformément au cadre général de rapport comptable identifié.

Le concept d'assurance raisonnable est dans une liaison étroite avec le rassemblement des épreuves d'audit, en vertu desquelles l'auditeur peut décider l'existence ou l'absence dans les comptes annuels des anomalies significatives. Grâce aux sondages utilisés et aux limites de quelque système comptable et de contrôle interne, ainsi l'auditeur découvre les anomalies significatives. Cette situation est connue sous le nom *risque d'audit* qui correspond à la possibilité qu'un auditeur exprime une opinion incorrecte quand il y a des erreurs significatives dans les comptes annuels qui n'ont pas été découvertes à l'occasion de la planification et de l'exécution de sa mission.

Ainsi, l'auditeur doit prévoir, à l'occasion de l'appréciation du risque d'audit, ces anomalies significatives dans des situations financières provoquées par des fraudes ou erreurs.

La notion de fraude désigne un acte volontaire entrepris par une ou plusieurs personnes, faisant partie dans la direction, salariés ou tiers qui ont le but de falsifier les dates de la comptabilité et d'une manière implicite, celles des comptes annuels. Ces faits sont considérés des fraudes: manipulation, falsification ou altération de la comptabilité ou des documents; allocation fausse des actifs; enregistrement des opérations sans fondement; application incorrecte des politiques de fermetures des comptes; omission des effectifs des transactions ou des opérations en ce qui concerne la comptabilité ou les documents.

En comparaison avec la fraude, **l'erreur** représente une inexactitude involontaire continue des situations financières par exemple: une erreur de mathématique ou d'enregistrement dans les documents et dates de la comptabilité; l'application non correspondante des politiques, vu la fermeture des comptes: l'omission ou la fausse interprétation des faits et des événements.

La responsabilité pour la prévention et la détection des fraudes et des erreurs revient à la direction de l'entité qui a l'obligation de mettre en pratique et en exploitation des systèmes de comptabilité et contrôle correspondants. Même si tous ces systèmes de contrôle réduisent évidemment le risque de fraude ou erreur, ils ne l'éliminent pas totalement.

L'auditeur n'est pas et il ne peut pas être responsable de prévention et détection des fraudes et erreurs, mais il peut constituer un facteur décourageant pour les personnes intéressées.

En ce qui concerne l'évaluation des risques, l'auditeur doit définir les processus de l'audit qui permettent l'obtention d'une assurance raisonnable que les anomalies significatives dans les situations financières causées par les fraudes et les erreurs seraient découvertes. Au cas où l'impacte d'une fraude ou d'une erreur dans les situations financières est considéré comme normal, l'utilisation de ces processus offre la possibilité de l'auditeur, soit de confirmer, soit d'infirmer cette présupposition. L'auditeur doit demander des explications de la direction en ce qui concerne le problème et évaluer si la fraude ou l'erreur ont été corrigées ou reflétées d'une manière correspondante dans les situations financières.

L'auditeur est obligé de communiquer à la direction les fraudes et les erreurs constatées (s'il suspecte l'existence d'une fraude même si l'effet potentiel dans les situations financières est négligeable, ou si une fraude ou une erreur significative a été effectivement découverte) à l'organe hiérarchique supérieur (si la direction a été impliquée) ou il consultera un avocat pour établir la procédure à suivre.

L'identification des domaines et des systèmes significatifs suit une meilleure orientation et planification des efforts ayant comme but l'évitement des épreuves inutiles et pour l'adoption, finalement, de la décision, vu l'opinion émise. La connaissance générale de l'entreprise offre la possibilité à l'auditeur d'orienter sa mission, en fonctions des domaines et des systèmes significatifs.

Le Comité International de Standards Comptables, par le Cadre général pour la création et la présentation des situations financières pct. 30 a donné la définition suivante du caractère significatif: on considère que les informations sont significatives si l'omission ou leur fausse déclaration influencerait les décisions économiques des utilisateurs, prises à la base des situations financières.

Pour un auditeur, un système significatif est représenté par quelque cycle comptable manuel ou informatisé qui traite des informations qui peuvent avoir une incidence significative dans les comptes annuels. L'évaluation du caractère significatif constitue le résultat d'une appréciation professionnelle de l'auditeur.

A l'élaboration du plan d'une mission d'audit, l'auditeur sera en mesure de définir un plan de signification globale et des seuils de signification par domaines d'activité.

Le seuil de signification est donné à l'aide de la grandeur des sommes sur laquelle l'auditeur considère qu'une erreur, une inexactitude ou une omission peut affecter la régularité et la sincérité des comptes, l'image fidèle du patrimoine, du compte de résultat et de la situation financière. Pour la détermination du seuil de signification on peut utiliser plusieurs éléments de référence, parmi lesquels les plus utilisés sont: les capitaux propres, le résultat net, le résultat courrant, le chiffre d'affaire, la variation de la situation nette, etc.

Habituellement, les domaines significatifs sont différents d'une entreprise à l'autre, toute fois, on peut constituer dans des domaines significatifs les éléments suivants: achats (fournisseurs, stocks, disponibilités); ventes (clients, stocks, revenus, disponibilités); salaries (paiements, achats, disponibilités), production (stocks, achats, revenus); trésorerie (encaissements, paiements, revenus, charges); immobilisation, etc. Ces domaines doivent être analysés d'une manière plus efficace par l'auditeur, en fonction des caractéristiques propres de l'entreprise, à cette occasion, établissant où on peut produire des erreurs ou inexactitudes et qui peuvent avoir une influence significative dans les comptes annuels.

La planification de la mission (la création du plan général de travail)

Les objectifs du programme général de travail consistent dans une synthèse des informations obtenues et, en fonction d'elle, orienter et planifier toute activité d'audit.

La réalisation du plan de mission suppose:

1. la sélection des membres de l'équipe en tenant compte de l'expérience et leur spécialisation dans le domaine d'activité de l'entreprise auditée, vu le degré de chargement et la nécessité de respecter des règles d'étique professionnelle, vu l'intégrité, l'objectivité et l'indépendance;
2. la répartition des travaux par gens en temps et en espace (sous-classes);
3. la précision de la manière où l'auditeur peut avoir confiance sur le contrôle interne comme la manière les travaux réalisés par d'autres auditeurs internes ou externes seront utilisés;
4. la collaboration avec des censeurs et avec d'autres auditeurs externes des autres unités à l'intérieur du groupe;
5. la sollicitation ou la collaboration avec des spécialistes dans le domaine de l'informatique, juridique, fiscal, technique, etc.;
6. la précision de la manière d'utilisation des registres de séance A.G.A. et du Conseil d'Administration;
7. l'établissement des termes du dépôt du rapport.

Par l'intermédiaire du plan général de travail on peut obtenir des réponses aux questions suivantes:

- Quels sont les travaux qui doivent être effectués par l'auditeur, la date et l'ordre de leur réalisation;
- Quels sont les rapports et les relations que l'auditeur établit avec des censeurs, avec des auditeurs précédents, avec des spécialistes dans les autres domaines d'activité, avec la direction etc.
- Quels sont les moyens disposés par l'auditeur et quels sont les heures et les coûts engagés.
- Le plan général de travail contient une suite d'informations concernant:
- La présentation générale de l'entreprise: nom, coordonnées, la structure organisatrice, petit historique, l'objet d'activité, les lieux de déroulement de leur activité, les personnes proposées à être contactées au cours de la mission;
- L'organisation de la comptabilité: politiques comptables retenues et appliquées, comptes prévisionnels, la comparaison prolongée du bilan et du compte du profit et de perte, etc.;
- Les systèmes et les domaines significatifs: l'établissement du seuil de signification, les fonctions et les comptes significatifs, la spécificité des zones de risque, la présentation des points forts et faibles du système, l'attitude de la direction face au contrôle interne;
- La nature de la mission: la certification des comptes annuels, l'attestation des situations financières particulières;
- Les conditions nécessaires pour la réalisation de la mission: documents à obtenir (les moyens nécessaires), confirmations à recevoir, fonctions à évaluer, intervention des autres spécialistes, inventaires auxquels on participera, etc.;
- L'organisation de la mission: la structure et la composition de l'équipe, le soutien en ce qui concerne le contrôle interne, le calendrier des interventions sur le terrain;
- Le budget: l'établissement des heures nécessaires de chaque catégorie de travaux en partie, la détermination des coûts estimatifs en tenant compte de l'expérience des membres qui forment l'équipe, la comparaison du nombre d'heures ainsi établi avec les limites précisées par normes professionnelles de travail et la justification de possibles différences.

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CONSEQUENCES OF THE INFLATION OVER THE CONTINUITY OF ENTERPRISES` ACTIVITY

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ABSTRACT: In conditions of inflation, the historical costs accounting, related to a basic principle of accountancy, that is the caution principle, lead to the enterprises decapitalization, with serious consequences over the continuity of the activity in conditions of economic efficiency. Therefore, finding new alternatives which could lead to the removal of this deficiency in the traditional accounting model, in conditions of inflation, is an imperative. In this context, the major objective of the firms that carry on their activity in an inflationist environment is to maintain their capital, as well as to secure a profit which can ensure the maintenance of the capital, the continuity of the activity depending mainly of its fulfillment.

Key words: inflation, financial capital, physical capital

The inflation is a self sustained phenomenon of an overall price increase, which affects the economy of a state, having important implications not only at an economical level, but also to the social one. The inflation has as effect the corrosion in time of money value, as well as the sustained price growth in economy.

In most countries, the financial statements are produced on the basis of the historical costs, without taking into account the changes of the overall price level or the individual change of the owned assets prices, except for the fixed assets, that were reassessed. Thus, the assets elements, the capital accounts, the debts, the incomes and the expenses are expressed in accordance with the value existing at the date when these elements appeared. The impact of the inflation is consequently ignored.

The inflationist phenomenon distorts the accounting information presented through the financial statements in two ways:

- it diminishes the accounting information's capital accounts;
- it over valuates the results of the accounting period;

In conditions of inflation, the historical costs accounting, related to a basic principle of accountancy, that is the caution principle, lead to the enterprises decapitalization, with serious consequences over the continuity of the activity in conditions of economic efficiency. Therefore, finding new alternatives which could lead to the removal of this deficiency in the traditional accounting model, in conditions of inflation, is an imperative. In this context, the major objective of the firms that carry on their activity in an inflationist environment is to maintain their capital, as well as to secure a profit which can ensure the maintenance of the capital, the continuity of the activity depending mainly of its fulfillment.

The distinction between profit and capital is extremely important in inflationist conditions. As long as the source of obtaining the profit is the capital, this one can not be consumed without affecting the future profits. So, the capital must remain intact in order to be able to produce the same profit level.

"In general terms, an enterprise maintained its capital if at the end of the period, it has a capital that is equal tot the one from the beginning of the period. Any other supplementary value besides the needed one in order to maintain the level from the beginning of the period is considered to be profit."[355]

"The concept of capital preservation decides the extent to which an enterprise can allot the accruals obtained during the year without prejudicing its future[356]".

Consequently, the profit is the maximum value that an enterprise can allot during the year, so that it can preserve intact the capital owned at the beginning of the period.

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[355] General Framework for the Preparation and Presentation of Financial Statements issued by the International Accounting Standards Board, pct. 107, overtaken in OPFM no. 94/2001 (O.G. no. 85/20.02.2001)

[356] Lavinia Olimid, Măsurarea rezultatului contabil, Economic Publishing House, Bucharest, 1998, page 60

Within an economy which is not affected by inflation, the profit obtained at the end of the period represents the real profit, and it can be consumed entirely, without the fear of impoverishing the capital. The capital is expressed in the same monetary units as at the beginning of the period and remains intact during all this time.

But in an inflationist environment, taking into account the fact that the incomes are expressed in real monetary units (in terms of the value of money from the moment of their recognition), and the expenses which are to be connected to these incomes are expressed in nominal monetary units (in terms of the value of money from the moment of achieving the assets which generated the expense), in order to find the real profit and to compute an unitary result of the activity, the expenses must be expressed in real monetary units.

The overall expenses adjusted to inflation will represent the sum of the value of expenses expressed in nominal monetary unit, and the price variations between the real monetary unit the nominal one due to the assets which generated the respective expenses.

Therefore:

$Cr = Cn + v$ where:

Cr – expenses expressed in real monetary units,

Cn – expenses expressed in nominal monetary units;

v – price variations due to the assets.

The real profit will be:

$Pr = V – Cn - v$

The historical costs profit (Pci) will represent the sum of the real profit and this price variations, which is in fact the gain resulting from the owning of the assets that generated the expense.

$Pci = Pr + v$

This owning gain represents the sum that needs to be invested in the enterprise, so that the capital level stays the same. In other words, the existence of the owning gain determines the issue of the capital preservation concept.

The question is: this owning gain must be regarded as a constitutive part of the profit which is to be distributed later on, or as an element of the capital account under the form of a resource?

The answer to this question can be found depending on the means of capital measurement. From the point of view of the desired objective of the enterprise, there are two perspectives regarding the capital measurement:

- the owner's (shareholders)
- the enterprise's

The owner's capital (financial) and its maintain

The owner's capital is found in the specialty literature under the name of financial capital. The paragraph 102 from the Conceptual Framework IASB defines the financial capital: "the financial capital is synonym with the net assets or with the entity's capital account".

The concept of financial capital maintain is defined in the paragraph 104 from the Conceptual Framework IASC[357], where it is specified that "*according to this concept, the profit is secured only if the financial value of the net assets at the end of the period is higher then the financial value of the net assets from the beginning of the period, after the exclusion of all distribution towards the owners and of any contributions of the owners during the analyzed period*."

In other words, the increase of the assets value, which exceeds the overall price increase, is to be recognized as profit.

The preservation of the financial capital can be measured in nominal monetary units, by using the concept of nominal financial capital or stable value of money, through the real financial capital.

[357] General Framework for the Preparation and Presentation of Financial Statements issued by the IASC Board and adopted IASB, International Financial Reporting Standards, page 54, CECCAR Publishing House, Bucharest, 2005

When the prices are stable, we can talk about the preservation of the nominal financial capital. The sharable profit represents the difference between the capital accounts existing at the end of the period and those from the beginning of the period, taking into account the possible capital increases or decreases which appeared during the year due to the owners` contributions or withdrawals.

When the prices are variable, the term of real financial capital becomes operational. As the preservation of the nominal capital becomes insufficient, the capital accounts from the beginning of the accounting period are adjusted according to the variation of the overall price index in order to preserve the real capital.

The financial concept of the capital must be adopted if the users of the financial statements are concerned mainly with maintaining the invested nominal capital or maintaining the value of the invested capital.

According to this concept, the profit is recognized only after the value of the capital accounts is maintained. All the adjustments that need to be done to the financial statements, so that the enterprise's financial capital (capital account or the net assets) stay stable, are the objectives of the conversion based methods (methods based upon the current value of money). This methods aim to adjust the financial statements expressed in nominal unitary methods, with the purpose of expressing them in stable monetary units , and also the quantification of the result owned to the national currency depreciation.

In order to exemplify the above mentioned, let's take the following hypothetical example:

At the beginning of the N accounting period, an enterprise has a share capital of 300 m.u., representing a building with the value of 200 m.u., stocks in value of 80 m.u. (40 pieces * 2 m.u./piece) and money supply in value of 20 m.u. The building is subjected to a straight-line amortization for a remaining period of 20 years. At the end of the N accounting period, the enterprise sells 20 pieces of stock at the price of 3m.u./piece.

During the N period, the overall price increase was of 20%.

(Historical costs) Balance sheet at the 1st of January N

Table no. 1

Fixed assets Stocks (40 pieces*2 m.u./piece) Money supply	200 m.u. 80 m.u. 20 m.u.	Share capital	300 m.u.
Total assets	300 m.u.	Total liabilities	300 m.u.

Loss and gain account at the 31st of December N

Table no. 2

Elements	In historical costs	In historical costs modified depending on the evolution of the overall value of money
Sales incomes - the cost of the sold stocks - the building amortization Losses from owning monetary elements (money supply)	60 m.u. (20*3 m.u.) -40 m.u. (20*2 m.u.) -10m.u. (200*5%/year)	60 m.u. (20*3 m.u.) -48 m.u. (40*1,2) -12 m.u. (10*1,2) -4 m.u. (20*0,2)
Profit	10 m.u.	-4 m.u.

The balance sheet from the end of the N accounting period expressed in current value of money will be:

Balance sheet at the 31st of December N

Table no. 3

Gross fixed assets (200*1,2) - amortization Net fixed assets Stocks (40*1,2) Money supply (20 + 20*3 m.u)	240 m.u. -12 m.u 228 m.u. 48 m.u. 80 m.u.	Share capital (300*1,2) Profit/Loss	360 m.u. - 4 m.u.
Total assets	356 m.u.	Total liabilities	356 m.u.

The real profit computed as a difference between the capital accounts from the end of the accounting period and the capital accounts from the beginning of the accounting period adjusted with the overall price index is:

Pr = 356 m.u. – 300 m.u.*1,2

Pr = -4 m.u.

The monetary elements (cash assets and debts) stay recorded at their nominal value in the financial statements from the end of the accounting period. The difference between them will determine the gain/loss from owning monetary elements, which will appear as a different position in the loss and gain account.

In what concerns the non monetary elements, these will be recorded in the financial statement at their new value adjusted in counter trade with an element of expenses or incomes, from case to case, for the adjustments of the current year, and a resources account for the adjustments of the previous years.

In conclusion, the adjustment of the financial capital, with the purpose of its maintenance, will be done through the overall prices index. This perspective admits the effect of the inflation over the patrimonial monetary and non monetary elements as a component of the enterprise's result.

The enterprise's capital (physical) and its maintain

The general framework IASB defines in the paragraph 102 the concept of physical capital or "the exploitation capacity" as it follows: "*the capital represents the production capacity of the enterprise expressed, for instance, in production units per day"*.

The concept of maintaining the physical capital is defined in the paragraph 104 as it follows: "according to this concept, the profit is secured only when the productive physical capacity (exploitation capacity) of the enterprise at the end of the period surpasses the productive physical capacity from the beginning of the period, after the exclusion of all distribution towards the owners and of any contributions of the owners during the analyzed period."

The profit determined on the basis of the historical cost does not make the distinction between the profit resulting from exploitation and the profit resulting from owning goods whose current cost is higher than the cost to which they were achieved. These owning gains are not gains obtained during the maintenance of the goods in enterprise's possession, and when they are to be sold, they will be entirely recognized in the gains and losses account, even if they are due to more accounting periods.

The concept of maintaining the physical capital decides the extent to which these gains are included in the sharable profit. With the purpose of maintaining the productive capacity of the enterprise, the increase of the assets value, and the latent additional value, will be recorded in the resources category, in a distinct account "adjustment reserves". The maintenance of the enterprise's physical capital is possible only if these reserves are not sharable.

With the purpose of establishing the production capacity which needs to be maintained, the goods that are used within the production process (fixed assets and stocks) must be expressed in current values, and also in values into which they can exchange at a certain point using real basis.

Among the assessment bases which can be used in the assessment of the financial statements (historical cost, current cost, realizable value and present value), the current cost, the realizable value and the present value can be considered as forms of the current value.

As it is determined based on some objective values (book value, specific price index), the current cost is the assessment base used the most often in order to express the present value of the goods. *The current cost* is the delivered cost of an equivalent new good, to which a rectification for depreciation is applied. The current cost can also be determined by multiplying the book value of the good with a price index specific to that category of goods.

Starting from the previous numerical example and knowing that, at the end of the accounting period, the stocks replacing cost is of 2, 5 m.u./piece (it grew with 25% from the beginning of the period), and the replacing cost of the fixed assets is of 240 m.u. (it grew with 20% from the beginning of the period), the financial statements will be retreated with the purpose of maintaining the physical capital as it follows:

Loss and gain account at the 31st of December N

Table no. 4

Elements	**In historical costs**	**In current costs**
Sales incomes - the cost of the sold stocks - the building amortization	60 m.u. (20*3 u.m.) -40 m.u. (20*2 m.u.) -10 m.u. (200*5%/year)	60 m.u. (20*3 m.u.) -50 m.u. (20*2,5 m.u.) -12 m.u. (240*5%/year)
Profit	10 m.u	-2 m.u

Determining the capital gains

Table no. 5

Realized yield from the sold stocks owning (20*(2,5-2))	10 m.u.
Realized yield from the building owning – interest from yearly amortisation ((240-200)*5%/year)	2 m.u.
Unrealized yield from the unsold stocks owning (20*(2,5-2))	10 m.u.
Unrealized yield from building owning ((240-200)-2)	38 m.u.
Total owning income	60 m.u.

The balance sheet of the N period, expressed in current costs is:

Balance sheet at the 31st of December N

Table no. 6

Gross fixed assets	240m.u.		
-amortization (240*5%/year)	-12 m.u.	Share capital	300 m.u.
Net fixed assets	228 m.u.	Profit/Loss	
Stocks (20*2,5 m.u)	50 m.u.	Reserves of capital maintaining	-2 m.u.
Money supply (20+20*3m.u.)	80 m.u.		
			60 m.u.
Total assets	358 m.u.	Total liabilities	358 m.u.

The real profit, computed as the difference between the capital account from the end of the accounting period and the capital accounts from the beginning of the accounting period, adjusted with specific price index of the non monetary assets, is:

Pr = 358 m.u. – (200 m.u. * 1, 2 + 80 m.u. *1, 25 + 20)

Pr = -2 m.u.

The non monetary assets are presented in the balance sheet at present value, and the profit will be recognized by the enterprise only after its operational capacity was maintained.

The adjustments made to the financial statements with the purpose of maintaining the enterprise's production capacity, represent the objectives of the assessment based methods (current costs based methods). These methods are oriented towards the usage of the specific index for the value correction of different categories of goods, of the amortisements and of the sales cost.

In conclusion, the maintenance of the enterprise's physical capital is done through the specific price index of the non monetary assets, recognizing the profit only after the capital was maintained.

The maintenance of the owners' and enterprise's capital

As resulting from those mentioned above, the adjustments made in order to maintain the financial capital do not take into account the fact that most prices of certain goods can surpass the overall price changes, and this prejudices the maintenance of the physical capital.

Moreover, with the purpose of maintaining the physical capital the inflation impact is quantified only in the case of non monetary assets, without taking into consideration the influence that the inflation has over the monetary elements of the enterprise, and this way, the complete maintenance of the financial capital is not ensured.

In order to maintain the financial capital, as well as the physical capital, the profit must be corrected with the gain or with the loss from monetary elements owning and diminished with the gain owed to the value increase of the non monetary assets over an overall price increase.

In the balance sheet, the non monetary assets are to be presented to an adjusted value, adjustment made through the overall price index or through the specific price index, depending on which one id higher, and the non monetary liabilities are to be adjusted through the overall price index. The monetary elements will stay recorded in the balance sheet at their nominal value.

The gains resulting from the non monetary assets owning, whose specific price index surpasses the overall price index, will be recorded under the form of non sharable reserves, which will rise the enterprise's capital accounts.

With the purpose of preserving the financial and the physical capital, the capital accounts from the beginning of the accounting period are to be adjusted with the overall price index, except for the non monetary assets whose prices are higher than the overall prices increase, which are to be adjusted through the specific price index to the respective assets.

Starting from the same numerical example, the financial statements adjusted with the purpose of maintaining the financial capital, as well as the physical capital, are as it follows:

Loss and gain account at the 31st of December

Table no. 7

Elements	In historical costs	In historical costs adjusted with the purpose of maintaining the physical capital and the financial capital
Sales incomes	60 m.u. (20*3 m.u.)	60 m.u. (20*3 m.u.)
- the cost of the sold stocks	-40 m.u. (20*2 m.u.)	-50 m.u. (20*2,5m.u.)
- the building amortization	-10m.u. (200*5%/year)	-12 m.u. (10*1,2)
Losses from owning monetary elements (money supply)		-4 m.u. (20*0,2)
Profit	10 m.u.	-6 m.u.

Determining the capital gains

Table no.8

Realized yield from the sold stocks owning (20*2,5-40*1,2)	2 m.u.
Unrealized yield from the unsold stocks owning (20*2,5-20*2*1,2)	2 m.u.
Total owning income	4 m.u.

Balance sheet at the 31st of December N

Table no. 9

Gross fixed assets -amortization (240*5%/year) Net fixed assets Stocks (20*2,5 m.u) Money supply (20+20*3m.u.)	240m.u. -12 m.u. 228 m.u. 50 m.u. 80 m.u.	Share capital(300*1,2) Profit/Loss Reserves of capital maintaining	360 m.u. - 6 m.u. 4 m.u.
Total assets	358 m.u.	Total liabilities	358 m.u.

Pr = 358 – (200*1,2+80*1,25+20*1,2)

Pr = -6 m.u.

The capital accounts from the end of the accounting period expressed in real monetary units are of 358 m.u, and those from the beginning of the accounting period, adjusted with the purpose of expressing them in real monetary units are of 364 m.u., the difference between them representing the real loss, of 6 m.u.

If we compare the historical costs accounting system with the three accounting systems which have as purpose the maintenance of the capital in inflation conditions, we can see that historical costs profit is of 10 m.u., which is equal to a 4 m.u. loss if the financial capital is maintained, a 2 m.u. loss if the objective was the maintenance of the enterprise's production capacity and a 6 m.u. loss if the objective was the maintenance of the owners` capital, as well as of the enterprise's capital.

The choice of one of the capital preservation concepts is motivated by the requirements of the accounting information users, as well as their interest in maintaining the financial power of the invested capital or the operational capacity of the enterprise.

The maintenance of the financial capital is mainly preferred by owners, as it leads to the attainment of a maximum profit and to the maintenance of the capital value.

The physical concept of capital preservation is more attractive for an enterprise' managers and employees, which can consider that the objective of an enterprise is to perpetuate its existence, by providing future goods and services similar to those in the present.

Even if the enterprise's main objective is to maintain the physical capital, as the prices increase, the physical capital needs a higher financial capital, and this capital can be achieved by reinvesting the profit from the previous years or it can be brought by shareholders.

We can conclude that the objective which should be followed is to maintain the owners` possession in an inflationist environment and to maximize it, and this objective is also in compliance with the employees` requirements (jobs availability, safe wages, etc). This thing is to be achieved by the implementation of the inflation adjustment procedures of the enterprise's financial statements items.

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FROM THE CONTINUOUS ACIVITY PRINCIPLE TO THE DISCONTINUTY PRINCIPLE

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The principle of continuous activity starts from the presumption that a company will continue its activity into the previewed future. Therefore, we presume that the company does not intend and does not need to terminate or to reduce in a significant way its activity; if there is such an intention or a need the financial situations might be imposed based on a different valuation base and in this situation the used based must be indicated.

If the continuity is insured the traditional accounting principles will continue to be applied, and the accounting works and the financial situations will be elaborated in a usual way, as during the previous periods.

If the company enters a discontinuity state the continuity principle is to be infringed because complying with it should take to distorted financial situations.

Keywords: principle of continuos activity,discontinuity activity, intangible assets and tangible assets

The companies from around the world elaborate based on the accounting data the financial situations (the balance sheet, the profit and loss account, the situation of the treasury flows, accounting policies and explanatory notes) in order to be presented to the external users.

The basic concepts stipulated by the General frame of elaborating and presenting the financial situations, elaborated by the Committee for International Accounting Standards (IAS) are the engagement accounting and the principle of continuous activity.

The principle of continuous activity starts from the presumption that a company will continue its activity into the previewed future. Therefore, we presume that the company does not intend and does not need to terminate or to reduce in a significant way its activity; if there is such an intention or a need the financial situations might be imposed based on a different valuation base and in this situation the used based must be indicated.[358]

The Romanians mainly respect the definition given by IASB: „The company normally continues its activity in a previewed future without entering the impossibility of continuing its activity or without significantly reduce it. If the company's administrators found out about some un-secure elements related to some events that may lead to its incapacity to continue its activity, these elements must be presented in the explanatory notes as well as the reasons that were at the base of the company's decision not to continue its activity anymore".[359]

It is obvious that this principle (postulate) has appeared together with the development of commerce, credit and business. Initially the companies have been created to be related to the life duration of their owners. The concept has been consolidated together with the appearance of shares companies.

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[358] *International Accounting Standards* 2001, Editura Economică,2001 ,p 63,

[359] *Order of the public Financing Ministry no 94/2001 regarding accounting regulations harmonised with the Directive 4th of the European Economic Community (C.E.E)and the International Accounting Standards, O.M.F.P. no. 306/2002 for approving the Simplified accounting regulations harmonised with the european directives.*

Mainly, continuing the exploitation does not mean that the company has an unlimited life or permanence but it supposes that it will exist a long enough period so that the targets, previewed activities to be accomplished, the agreement to be respected, the companies existence being longer that the use period of its assets. It is an expression of what A. Marschall called "a longer period" as a subdivision of the economic time, where all the production factors are variable. This determines that the goods' valuation to be done based on their utility, presuming that the company's activity will maintain without any significant reduction in a previewed future.

Applying the principle of continuous activity needs the performance of the following requests in the accounting-financial field:

- separating the companies' activity during the financial exercises depending on which the following will be established: the patrimony's situation, the financial situation, the obtained results and the elaboration of the financial situations.
- limitation in time of the expenses and income;
- using the historic cost and the actual value in valuating the assets and passive, the expenses and the income;
- separating the assets in intangible assets and tangible assets and the passive in long term and short term passive;
- adapting the accounting to the inflation.

Jacques Richard identifies the origins of the continuity principle in the practice of the American companies between 1920-1930 and he wrote that „ companies can have longer life duration than the individuals that make them, they can transfer capital and their target is to insure an operational continuous cycle."[360]

From a juridical point of view,[361] the continuity postulate was mentioned for the first time in the Anglo-Saxon texts in 1971 (the English text SSAP no 2 and the American APB Statement no.4), and in 1974 in the IASC norm no.1, the Communitarian Europe mentioned the continuity principle in the UEE recommendation no 4 (1978) and the 4th Directive (1978).

Even if the French accounting plans from 1947 and 1957 did not mention this principle rules related to the continuous exploitation have been published, such as: immobilisation liquidation, valuation at historical costs etc., and the one in 1982 does not mention the continuity among the general principles, but it refers to it when considering the goods valuation and rules of presenting synthesis documents. Nevertheless the accounting law from 1983 and the Commercial Code mention this postulate in a distinctive article.

In the Anglo-Saxon world we talk about „going concern", like a fundamental working hypothesis, mentioned by the commercial code: „To elaborate the annual accounts either for an individual or a moral person, the trader continues his activities"[362].

The pregnancy of the continuity in exploitation, mentions Professor Robert Teller, from the Institute of Administrating Companies, Sophia Antipolis University, Nice, France, justifies by:[363] the hypothesis of continuity in exploitation is an implicit support, but an essential one of the accounting-financial information. The financial situations are used for obtaining a company diagnosis, by starting from the exploitation continuity presumption. IAS 1 „Presentation of the financial situations" sees the exploitation continuity presumption as a fundamental base in establishing financial situations. So in IAS 1 it is mentioned „the financial situations must be elaborated based on the activity's continuity, except the case when the management either intends to liquidate the company or to terminate its activity, or has other alternative"[364] .

The exploitation's continuity is rooted in practice and accounting doctrine, it is an implicit hypothesis of the traditional accounting model. This refers to the neo-classical model of a company that develops its

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360 Jacques Richard, Cristine Collette, *Comptabilitaté générale. Une optique internationale, 4-e edition*, Dunod, Paris, 1996, p.40,quoted from N. Feleagă, L.Malciu, Şt.Bunea, *The accounting basis, European and International aaproach*, Editura Economică,. Bucureşti, 2002 p.237.

361 Niculae Feleagă, Ion Ionaşcu, *Financial accounting treaty,* vol.I., Editura Economică, Bucureşti, 1998, p.314.

362 N. Feleagă, Be *Beyond the the frontiers of the accounting vagrancy*. Editura Economică, Bucureşti, 1997, p.45.

363 Robert Teller. *Essay on discontinuity in exploitation*. National Accounting Symposium SICON 94 „Five centuries if accountancy 1494-1994", Timişoara 7-8 dec.1994.

364 …*international Accounting Standards* 2001 Editura Economică, Bucureşti p.99.

activity under the conditions of a pure and perfect competition of waiting conditions. An increase is possible, but it is regulated, balanced, without interruption, and the price variation is regulated by the market.

We consider that the logical consequences of these hypotheses formulated by R. Teller for the classical accounting model can be resumed as following:

- The model is universal and does not depend on time;
- It describes the economic agents' balance conditions correctly;
- It perfectly resumes the company's reality (balance sheet);
- The administration control can be resumed to a checking of the correct data (applying the principle of transparent information);
- The environment is stable; the risk related to exploitation is covered by previsions.

Appreciating the continuity criteria in this way is difficult, because in evaluating the company's activity, there are some subjective and objective factors. Therefore the European Federation of the Accounting Experts - the European Union of the Accounting Experts (F.E.E. – U.E.C.), referring to the continuity principle recommends: „This principle cannot be used in a valid way when it is not probable in a previewed future that the company may dispose of sufficient funds to regulate the debts in their payment terms or when a company that would be solvable there are doubtable external factors to determine it to stop its activity or to significantly reduce its volume. Normally, this situation will be valuated on the period after terminating the exercise and for which a previewed prevision is probable to be realized, a prevision to bring again into discussion the perspective of continuous activity"[365].

Usually, the exploitation's continuity is appreciated while elaborating the financial situations. The management analyses the effects that the technical, financial, commercial, social, external difficulties have on its activity in the future. They have sufficient data for such a valuation, that is: the financial situations from the last years, the previsions for the future activity, the market study for supplying and sale, due of some important debts, attracting supplementary financial resources, etc. While analysing the annual financial situations or other sources the auditor may see some clues to suggest the infringement of the activity continuity principle:[366]

Financial clues

- The net debt or the situation of the current net debt;
- Appreciating the expiration of the debts with fix deadline without realistic perspectives of renewing or reimbursement or relying too much on short term credits for financing long term activities;
- Financial unfavourable key clues;
- Substantial exploitation losses;
- Non-payments or interruptions in paying the dividends;
- Incapacity to pay creditors on the due date;
- changing the transactions on credit for transaction suppliers with payment on delivery;
- Incapacity to obtain financing for developing new essential products or for other essential investments.

Clues from exploitation

- The loss of key management members without the possibility to replace them;
- the loss of an important market, the licence or the main supplier;
- Difficulties with the labour force or the lack of important suppliers.

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[365] Robert Obert, Eric Delesalle, Barthelemy Mercadal, Patrick Dalion, Gilles Nodel „*Law and accounting*". (traducere) Editura Economică Bucureşti 2002 p.96.

[366] Audit 2000 Standarde. *The code of the ethic and professional condition,* Editura Economică, Bucureşti, p.181 – 187. *Audit Standard No.570 The Principle of continuous activity*.

Other clues

- the non-conformance with the requests related to capital or with other statutory requests;
- Legal actions in progress against the entity that if successful may take to judicial decision that could not be respected;
- Legislation change or governmental political change.

The significance of such clues may be attenuated by a serial of factors. Such as the incapacity to reimburse debts on time can be counterbalanced by the management's plans to keep the cash flow obtained by assets transfer, rephrasing the reimbursement of debts or obtaining supplementary capital or losing a main supplier can be diminished by corresponding supplying alternative sources.

After analysing the criteria based on exploitation, financial situation and other criteria the administrators and the auditors of the financial situations can reach one of the following conclusions:

- the continuity state is obvious;
- continuity is uncertain;
- the company will enter a discontinuity state.

If the continuity is ensured, the traditional accounting principles such as: valuation of the transactions and events at historical costs, the permanence of the methods, continuity of exploitation, independence of exercises, the prudence principle etc. will continue to apply and the accounting works and financial situations will be elaborated as during the previous periods. In case of uncertainty, the situation changes, the principles of the traditional accounting cannot be applied anymore. It is obvious that the appearance of some uncertainties regarding the exploitation continuity does not justify the abandonment of the exploitation continuity, and in the explanatory notes their causes must be presented as well as the conditions that justify the maintenance of the continuity principle.

If the company enters a discontinuity state the infringement of the continuity principle is imposed, because complying with it will take to the distortion of the financial situations. Such an attitude may have the following consequences:the valuation of the patrimonial elements is done at the liquidation values (realized on the market) and not at the historical costs, by infringement of the methods permanence principle;the activity being terminated, there is no need to register the liquidation and to create previsions, the prudence principle being infringed;the stocks and debts will be devalued; expenses registrations and advance income are not justified; this will affect the principle of exercise independence;there is n o distinction between assets and circulant assets, debts on short and long term;involves expenses related to liquidations, indemnities for annulling contracts in progress, for firings, etc.

In a crisis period of the world's economy mentions Professor R. Teller, a period characterised by rupture situations, uncertain events, bankruptcies, activity decrease levels or week activity of the companies, the question is asked if it is correct to consider and implicit hypothesis of exploitation continuity? Must this hypothesis be rethought; is there no discontinuity of the company's activity?

The answer to such legitimate questions must start from the need to put an early diagnosis for each company depending on analysing the criteria based on exploitation, financial and other criteria (social, legislation, political etc.) regarding its difficulties, survival, restructure, merge, its development or liquidation. The principle of exploitation continuity is valid only when the continuity state is obvious or uncertain, difficulty repair measures can be taken. If the company enters a discontinuity state its reorganisation or liquidation is necessary.

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ABC METHOD – EVOLUTION OR REVOLUTION IN THE CALCULATION OF COSTS

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Summary. The accounting systems of traditional administration have lost their credibility, in the sense in which the accounting information that they produce is lesser and lesser adequate to the action and the control of the modern enterprise, based on the diversity of the production and the multiplication of the combinations of goods and services for the satisfaction of the demand of a more and more differentiated custom. As a reaction to the limits of the classical methods of administration accounting, in the 1980s there was developed and implemented the ABC method, which is based on two complementary orientations: one concerning the calculation and the analysis of the costs and another that aims for it as an instrument of measuring the performances of the enterprise. It represents more of an evolution than a real revolution in the field of the administration accounting.

Key words: ABC method, cost inductor, pertinent cost, activity.

1. The premises of the organization of the calculation of costs through the ABC method

The economical environment most enterprises are part of knew important mutations in the last decades. They can be synthesized in three major evolutions:

- the development of globalisation phenomena and the increase of competition'
- disfunctionalities that can appear in industry and services;
- the acceleration of the technological innovation.

In this context the administration accountancy must answer to the following problems:

a) the variation of the production and the multiplication of the combinations of goods and services for the satisfaction of the demand of a more and more differentiated custom. On the hand, the enterprise must administrate from now on, at the same time, the two components of the profit: the value, which is fixed by the client, and the conversion value and, on the other hand, the production of an enterprise can be represented through a continuous good-service, in a diversity of combinations products-services, going from the pure physical good to the pure service (the informational sector constitutes an excellent example of this evolution).

b) the development of the support activities. The production function loses from its importance in the economy of the last decades in favour of the activities downstream and upstream. Beside the sold product, there also generates value for client the complex of services associated to it, offered through these support activities (delivery, installation, formation, service, etc.), and in this context the classical systems of administration accountancy must answer to the following question: how is determined the cost of the resources consumed by the customers if the administration accountancy system is organized on the fundamental principle that the resources are consumed by products?

c) The structure of the costs of the enterprise has radically changed in numerous industrial sectors. The automation of the industrial production processes led to the modification of the structure of costs. Thus, it arrived, from a structure of costs in which the raw materials represented 40-50% from the total cost of production, while the materials, which represent 29% to 70% from costs, constitute indirect expenses (for example, the electronic industry).

In this new structure of costs, in which there increased the weight of the indirect expenses of production, the adequate distribution of indirect expenses between products becomes preponderant and the use of the division key hour-worker or our-machine, used in the classical accounting systems, is no longer adequate.

On the other hand, in the last 20 years, in many enterprises, the part represented by the conversion values have constantly diminished in the global cost of the enterprise (approximately 40% from total cost of the enterprise) and has increased the weight of the activities of marketing and/or research (approximately the same weight).

In such a context the performance of the enterprise doesn't depend on a single factor of production, direct labour, which, in these cases doesn't represent but a minimum part of the total cost. So, the performance of the enterprise results from a combination of factors as: the minimum price, the maximum quality, the respect of the delivery terms, etc.

d) the functional control of the resources.

The instability and the uncertainty that characterize more and more the environment in numerous enterprises put in difficulty the possibility of the assurance of the coordination of different activities of the enterprise through the budget and, also, lets the different responsibility centre take decisions of local optimization without taking into consideration the impact that they have (their decisions) on the other structural units of the enterprise.

The informational accounting systems must be built in such manner that they generate pertinent information for the processes in the enterprise.

e) the pertinence of the production volume as unique inductor of the cost.

The passage from an economy of offer to one of demand and the multiplication of products that result have modified the causality structure of the costs of the enterprise. Beside the production volume that constitutes, undoubtedly, the predominant cost inductor of the enterprise and other cost indicators like: the diversity of the production and the complexity of the processes of production, get a certain importance to explain the causality of the structure of costs. The increase of the number of cost inductors makes that the adequate representation of the consumption of resources of the enterprise be complex.

In conclusion, it is asked the question: how much pertinent can be accounting systems based on a taylorian representation of the enterprise for the orientation of the administration and the assurance of the control of the enterprise, permanently confronted with the change and the complexity? The answer is that the administration accountancy systems, which inspire from the taylorian vision of the organization of the production, have lost their credibility, in the sense in which the accounting information that they produce is less and less adequate to the action and the control of the enterprise.

2. The general presentation of the ABC method

To remove the limits of the classical administration accountancy systems, which have at their basis the taylorian organization of the enterprise, some American enterprises began to develop, in 1980s, administration accountancy system based on the representation of the enterprise going from its activities. A close analysis of this accounting systems show that, in fact, it's rather about more of an evolution of the classical systems than a real revolution in the conception of the administration accountancy systems.

Synthetically, two major changes distinguish the accountancy systems on the basis of classical systems activities:

- - an other modality of division the indirect expenses on the bearers of costs, through centres of accounting regrouping based on activities and not through functional centres of responsibility;
- - it is resorted to a bigger diversity of the basis of division for the allocation of the cost of the analysis centres at the bearers of costs.

Through the brought innovations, the ABC method produces a more pertinent cost, because there is a relation cause-effect between the activity and the product that consumes the activity. From the point of view of the construction of a system of administration accountancy, the activity becomes the centres of representation and modelling of the enterprise. The activity serves as an interface between the consumed resources and the bearers of costs the cost of which we want to measure. It allows a new vision in the cutting up of enterprise, the transversal vision, which replace the vertical one, respectively the cutting up on functions. In this way there is obtained a more real cost, on the basis of which there can be taken strategically decisions, through the non-creative activities of value and the division of expenses, using as basis the activity that generates them.

The ABC method has at basis two fundamental principles, and namely:

- the activities consume the resources of the enterprise;
- the products consume the activities.

Within the ABC method, the treatment of the direct expenses is alike the one in the classical systems, respectively direct allocation on the bearers of costs. The indirect expenses make the object of a different treatment, the procedure of their allocation on the bearers of costs, supposing two stages:

- the division of the indirect expenses between the centre of accounting regrouping established on the basis of the activities;
- the allocation of the cost of the activities on the bearers of costs according to the consummation of the activities.

The ABC method has at basis two complementary orientations: one concerning the calculation and the analysis of costs and other that aims it as a measurement instrument of the performances of the enterprise, which will be followingly presented;

3. The calculation of costs through the ABC method

The organization of the calculation of costs through the ABC method supposes the going over of the next stages:

- the identification of the activities and of the due costs;
- the establishment of the cost inductors of the activity;
- the regrouping of the activities in homogenous centres;
- the allocation of the costs of the activities at the calculation objects.

a) The identification of the activities and of the due costs. The analysis of the activities in the first stage in the construction of an ABC systems and presents a big importance, because according to this initial stage is determined the nature of the administration information produced in future by the ABC system, on long term. The knowledge of the finalities of the accountancy system on the basis of activities will direct the labour of the identification of the activities and the degree of detailation of the analysis. The calculation of cost needs, in most cases, the identification of 30 up to 40 big activities; following, a measure of the profound analysis and of the reconfiguration of the processes demands a much more detailed analysis which allow the identification of various activities in an enterprise. In this essential to be determined for each activity the responsibility centre of which it is attached to identify the person that can take the administration decisions relative to the activity. Without this connection with the structure of responsibilities it is not possible the control of the cost of the activities. The regrouping of the activities in administration processes allows to be determined, through the aggregation of the cost of activities, the cost of the process. Some authors have introduced a distinction between the activities creating of value and those that don't create value, with the purpose to concentrate the efforts of reducing the costs on the non-creative activities of tax-added, without diminishing the offered value to the final client. After the activities were identified, it is proceeded to the determination of the costs of the resources consumed by the activities. Although certain consumptions of resources are indirect in comparison with the products, they are still direct towards the activities, which makes that the resources consumed by the support activities not be divided in the cost of the products in comparison to the arbitrary division bases. Actually, one of the basis principles of the ABC method relies precisely in the more realistic division of the indirect expenses on the products, in comparison with the classical methods of calculation of costs.

b) The establishment of the cost inductors of the activities. The cost inductors represent the innovating part of the ABC method, but are, at the same time, the more expensive aspect.

The cost inductor constitutes a causality factor of the cost of the object of calculation and, particularly, of the activity. The knowledge of the inductors of cost of the activities is essential for an administration of the activities in view of the reduction of their cost.

The cost inductors allow the allocation of the cost of the activities on the calculation objects, they serving as measurement instrument of the volume of the provided prestations.

In the context of the administration of the activities, the choice of a cost inductor can be oriented in view of the attaining of two different objectives:

- the representation of the consumption of resources in activities by the objects of calculation;
- the orientation of the employees' behaviour, choosing as cost inductors those that determine the members of the enterprise to take decisions referring to the consumption of the activities allow the realization of the strategically objectives of the enterprise.

c) The regrouping of activities in homogenous centres. The activities that have the same cost inductors will be grouped in a single centre of accounting regrouping on the basis of activities, without being affected the quality of the allocation of activities on the objects of calculation. Generally, in a enterprise there can be identified 200 up to 300 different activities. The making of 200 up to 300 centres of accounting regrouping of indirect expenses can lead to an accounting system that is extremely voluminous and that is why the management must realize a compromise between the simplicity of the model of accounting representation of the enterprise (reduced number of activities and cost inductors) and the precision of the provided accounting information (the detailed ensemble of the activities and of the cost inductors). That's why it is imposed the regrouping of the activities, it must be done in comparison with the factors of causality (the cost inductors) so that the distortion risks, in the calculation of the cost of the objects of calculation be minimum.

d) The allocation of the cost of the activities on the objects of calculation. For the determination of the complete cost of the objects of calculation, the next stage relies in the division of the indirect expenses on the objects of calculation, between the analysis centres on the basis of activities. This primary division of the indirect expenses between the analysis centres on the basis of activities, can be done after two ways that correspond to two types of indirect expenses:

- the indirect expenses that are directly attachable to a centre of activities. In this case, the indirect expenses are directly affected, as also in the case of the direct expenses of the products;
- the indirect expenses both towards the objects of calculation, and towards the analysis centres on the basis activities. They can not be directly imputed and must make the object of a division between the different analysis centres on the basis of activities, using a division key, more or less arbitrary, which can lead to distortions in the calculation of the cost. In the conception of the ABC method, the cost of the objects of calculation (products, technological installations, customers, etc.) is formed by the direct expenses at which it is added the cost of the consumed activities, the latter being obtained through the weight of the unitary cost of every inductor with the volume of the inductors used for the obtaining of every calculation object.

The adoption of the ABC system for the calculation of the complete costs of the products has a bigger impact on the effective level of cost and, so, of the profit margins, when there are accomplished two conditions:

- the part of indirect expenses due to the support activities for the production increases in the structure of the total costs of the enterprise;
- the diversity of the products or the services offered to clients is increasing.

Conclusions

We appreciate that the introduction of the ABC method, as a reaction to the limits of the classical methods of administration accountancy, generates a series of mutations in the administration of the enterprise, and namely:

- **the administration through activities** allows continuous improvement of the performance through the identification of the ensemble of activities, cost and relations of cause-effect between the activities. **On other hand, the map of the activities allows the heading of the managers' attention towards:**
- **the activities that represent the most important cost for the enterprise and, so, the most important potential of the reduction of costs;**
- **the non-creative activities of value the elimination of which would allow the diminishing of the costs of the enterprise, without a reduction of the value of the product offered to the customers;**
- **the comparison between various entities of the enterprise (factories, sections, workshops, etc) in what concerns the performance level attained in the realization of an activity. The most performing entity, in the putting into practice of the activity, becomes thus the reference for the realization of this activity in the ensemble of the group and indicates ways of continuous improvement of the performance. The comparison can also be made through the comparison to a reference point external to the enterprise, as it is, for example, the enterprise considered the most performing in the sector.**
- **it shows the impact of a decision taken concerning an activity on other activities structurally comprised in another function of the enterprise.** A concrete example is represented by the choice of the solution in view of the conception of the product because 80% up to 90% from the value of the product is definitely fixed in the moment of the conception phase. All the actions of reduction of the value, which is limited to the production operations, won't lead but to minimum results.
- identifies the causes of costs better than the classical methods, which leads to the increase of accuracy and pertinence of the obtained costs, and also to the use of the information about the cost in different purposes within the enterprise.

This thing is realized through ABM (Activity-Based Management), as it will be presented in a separate article. The improvement of the quality of the accounting information about costs allows the taking of the best decisions in what concerns the politics of the product, the externalisation or the fabrication by the enterprise of some products or components, the orientation to the client.

With all these advantages, the ABC method represents more of an evolution than a real revolution in the field of the administration accountancy. The ensemble of the concepts and the fundamental principles that stay at the basis of the classical administration accountancy systems are found put into practice by accountancy through activities.

The two mains changes brought by the ABC systems refer, actually, to the application of the fundamental principles. On the one hand, the criterion of the regrouping of the indirect expenses in analysis centres is done on the basis of the attachment of resources to the activities that consume them, and not on the basis of the belonging to a responsibility centre. The regrouping way doesn't put into discussion the principle of treatment of the indirect expenses in the calculation of the complete cost. On the other hand, the introduction of the cost inductors for the division of the expenses in the analysis centres on the objects of calculation is an application of another calculation principle of the complete cost, respectively the division of the indirect expenses on the basis of some division keys. From a strictly accounting point of view, the contribution of accountancy through activities is limitation itself, through, to a **reactualization of the classical model of the administration accountancy, to adapt it to an economical and technological environment that has evolved in terms of complexity of the processes of production and of diversity of products, to satisfy a demand of a more and more exacting custom, whose satisfaction determines the performance of the enterprise.**

The vision of the enterprise as an ensemble of activities and processes before becoming an ensemble of responsibility and functions centres imposes it self more and more in different science domains of the administration. **The most interesting contribution of the ABC system is, undoubtedly, that it articulate the existent administration system with the representation through activities and provides information to those with decisional power to letter administrate the activities.** The analysis through activities has the big merit to place in the centre of the accounting preoccupations the care to generate information that is pertinent for the taking of the decisions in the enterprise. It undoubtedly allows to be better redefined the role that the administration accountancy can have in the taking of the operational and strategically decision in the enterprise.

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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 6^{th} directive concerning the annual accounts, and the 7^{th} 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 4^{th}, 7^{th} and 8^{th}.
- 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 6^{th}, 7^{th} and 8^{th}
- 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, (4^{th}, 7^{th}, 8^{th}), and then The International Standards of Financial Reporting.The 4^{th} 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 4^{th} directive, and knowing the financial globalization phenomenon, and the international standards evolution, the European device included in the 7^{th} section new rules that are relying on the evaluation system, based on the true value. The 7^{th} 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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STUDY REGARDING THE QUALITY OF THE TRUE AND FAIR VIEW SUPPLIED BY THE FINANCIAL STATEMENTS FROM FINANCIAL AUDITOR'S POINT OF VIEW

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Abstract: The concept of "true and fair view" is a very subjective one , which didn't find yet the definition general accepted and in this way we can't say that there are relevant instruments for measuring the level of the fidelity reflected in the financial statements. The financial audit plays an important role for delimitating the true and fair view supplied by the financial statements and despite the fact that the financial auditors are consciences that there isn't a mathematical formula or other kind of formula through which could be possible to measure the level of the fidelity and the true and fair view of the financial statement, they consider that they have the possibility to identify the situations in which the financial statements didn't present the reality true and fair, using the professional though to determine the level of the financial statements to give a true and fair view We have made an empirical survey which permits us to analyze the quality of the true and fair view supplied by the financial statements from the point of view of the financial auditor, without having the pretentious of using all the significant aspects.

Key words: true and fair view, financial audit, survey, financial auditor, financial statements

1. Introduction – motivation and importance of the research

The fidelity represents that characteristic, quality of the accounting information through "which are reproduced or which follow précised, exactly a model, a norm, an object"[367]. The image represents the reflection of an object in the conscience as a sensation, perception or representation or in the same time the image represents the reproduction of an object by the optical system; plastically, representation through drawing, painting, sculpture etc. is the artistic reflection of the reality, also through words[368].

In this way, the accuracy of the accounting information is the representation in the financial statements of the economic reality as accurate as possible, reproducing the company's activity in the documents of the accounting synthesis. In other words, there must be a very well defined two-way connection (through norms, rules and principles) between the activity of transposing the financial and economic activity of the company (the domain of definition of the accounting functions) in the financial statements (the co-domain of definition of the accounting functions, where represents abstract the financial position, financial performances, treasury flows and the other information referring to the developed activity) and the real situation of the company. If we start from the idea: "The true and fair view could not be confounded with the exactly copy of the economical reality, but is represented by the image in which we could have trust, to whom we can give credit."[369] we can say that an very important role in the assurance of the true and fair view of the accounting information has the auditor, the person called to assure, to guarantee the trust of the users of the supplied information.

[367] „Iorgu Iordan" Institute of Linguistics, (1998), *Dictionarul Explicativ al Limbii Romane*, Edited by Universul Enciclopedic Publishing House, Bucharest, pg. 377

[368] "Iorgu Iordan" Institute of Linguistics, (1998), *Dictionarul Explicativ al Limbii Romane*, Edited by Universul Enciclopedic Publishing House, Bucharest, p.445

[369] Matiş, D.,(2003), *Contabilitatea operațiunilor speciale*, Editura Intelcredo, Deva

2. Research methodology

For realizing the proposed objectives, we have made an empirical study, based on the survey where the subjects to whom the questions were addressed had been the financial auditors from Romania, which activate in different organizations, and their selection was made from the active members of the Chamber of Financial Auditors from Romania. The conception of this survey is based in an objective mode on the research from the domain till present, using the aspects find in the studied works, the scope was that of adding to this theoretical aspects the practical conclusions regarding **the analyze of the quality of the true and fair image supplied by the financial statements, from the financial auditors point of view**. Corroborated with the survey techniques, we use the sampling, which use the sample as a researching tool. The sample represents a subpopulation of the statistical population studied, and this subpopulation is selected in the mode of keeping the characteristics of the whole population. The method used for the sample realization was **multistage sampling**[370], which suppose to group the population on subgroups, selecting from this a sample of groups, and from every group we select using a statistical step a number of subjects. After the sample was made we sent through the email the survey, and after feed back from subjects we process the data and analyze it for getting the answers to the objective initially settled to be touched at the final of the survey.

3. The techniques used in collecting the data, respective to accomplish the sample

In this study we use the technique of the sample survey the questionnaire. The questionnaire represents the technique of collection of information, which includes a list of questions, composed in that way of generating the possibilities of the results which permits to get the objectives previous settled. For the distribution of this questionnaire we chose the email, because direct survey is a little difficult for the accomplishing the condition of distributed subject's on the whole geographical territory of Romania, and to approaching the financial auditors from all the countries of Romania, giving in this way a higher relevance for the study. We paid attention for the conception of the questionnaire regarding the format, the content and the way of expression, for assuring for the subjects a large freedom of expression. Also we try to find the best formula of questionnaire for avoiding the boring of the respondent, the subject to spend few time for answering (optimal time for keeping the interest for subjects is 5 minutes in completion of the questionnaire), but in the same time we need the answers which gives us the finality in the objectives previous settled at the staring of the research.

We compose the sample by using few alternatives:

- We use the database from www.cafr.ro, The Chamber of Financial Auditors from Romania, where we find all the financial auditors from Romania. Respecting the initial grouping of the financial auditors, settled at the start of the research, we get 21 countries from 42 of all, and from every country we chose a number of financial auditors respecting the rate of auditors from that country relative to whole number of auditors from Romania.
- Second alternative was the approaching the group of Big Four: Price Waterhouse Coopers, Ernest&Young, KPMG, Deloitte & Touche, by contacting some senior managers which we pleased them to help us in contacting experienced financial auditors, who activate in this institutions.
- The last alternative which we used was building of a data base with the same rules: grouping on the countries the companies of audit and consultancy, other those from Big Four, randomizing a number of these companies of consultancy and financial audit.

From every group we select a number of 10 till 35 subjects, considering the level of every group (country). We use systematical sampling, using Ms Excel tool, and we carry in excel all the selected subjects alphabetically sorted and the auditors which should be the subjects of the research was extracted conform to the sampling step[371]. If the **N** is the selected population, for choosing of the sample with **n** subjects, the sampling step is resulted from the rate **k= N/n,** this rate mean that the **k**-th element will be member of the

[370] Rotariu, T.& Iluț, P.(2006), *Ancheta sociologică şi sondajul de opinie: teorie şi practică,* Ed. a 2-a, Editura Polirom, Iaşi

[371] Rotariu, T.& Iluț, P.(2006), *Ancheta sociologică şi sondajul de opinie: teorie şi practică,* Ed. a 2-a, Editura Polirom, Iaşi

sample. From the K subjects from the selected list we extract a random one, the **m**-th, the next subjects are extracted through a order number at which we add the step **k.** Result a component of the sample:

$$\mathbf{E = \{m, m+k, m+2k, ...\}}$$

So in the firs phase of the sampling we select a number of 1027 of the financial auditors, after this on the systematical sampling we select 673 subjects, which also was included in the sample. For collecting the data we use the site www.cafr.ro , where we find contacts for selected subjects. After this, every selected auditor was contacted through email, presenting the research developed, we underline the scope of the research, and also the objectives settled, with specification of the institution who gives me support in this research. We consider important the reaction of the subjects regarding the first action (deleted email, reading email – options of the outlook). We ask through Outlook the responses. In every email we attach the questionnaire in Word documents, completion of this being very facile, by marking with X in the box corresponding to the answer selected by the subject, and returning the attached document through email. In this stage we create the necessary framework for picking the data, after this step we wait for feedback, and after this we continue with the stage of synthesizing and processing the information for the final conclusions.

3. Presenting the picked data and analyzing the results of the research

The answers received after sending on email the questionnaire, was centralized in an Excel file, and this facilitate the management of the data easer for an analyzing and for conclusion. We respect all the conditions for assuring the maximizing the number of answers received. The rate of answers in our research is 12.9% (87 valid questionnaires from 673 subjects). From the total of subjects who give feed back to this research, 43 was auditors from group of Big Four; and 29 financial auditors who activate in audit and consultancy companies, others than group Big Four; and 15 auditors were independents.

For assuring the relevance of the conclusions, a question for subjects was regarding the professional experience as financial auditor, looking for number of missions at which participate till the date of the research (period of the research was 04.01.2008-04.02.2008). This question was settled considering that a higher experience of the subjects from the sample assure a higher relevance of the conclusion extracted, diminishing the disadvantages of the small number of answers, not very high from the total of sample selected (but relevant).

2. How many financial audit missions in the last 5 years have you done?	
	1-5 financial audit missions
	5-15 financial audit missions
	15-25 financial audit missions
	over 25 financial audit missions

Answers structure:

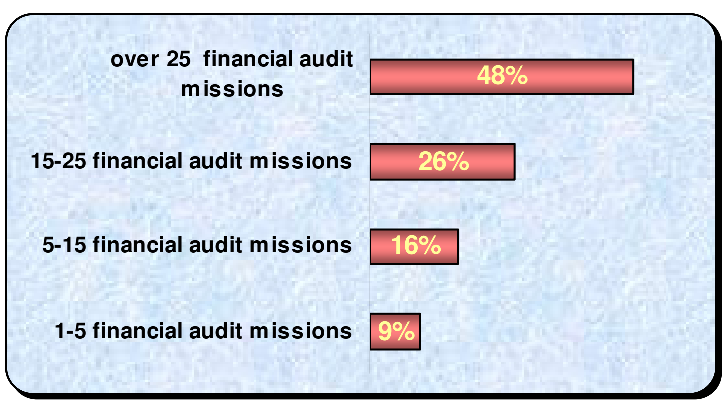

Chart no. 1 "Financial audit mission participation"

We consider favorable the facts that from the total of subjects 48% participate to over 25 missions, 26% participation at 15-25 missions. We appreciate that in this conditions we accomplished the essential condition in sample representatively, and this condition is the higher professional experience of the respondent.

Next element tested in our research is the words which express the best the role of the financial auditor.

3. Which of the following affirmation express the best the role of the financial auditor?	
	To supply a reasonable assurance, through the expressing of an opinion regarding the level in which the financial statements present a true and fair view
	Assure a higher credibility of the financial statements of the entities
	Supply an independently control of the accounting information accordingly with a list of pre-established conditions, which suppose a reflection of the whishes and needs of the users
	Others please specify..

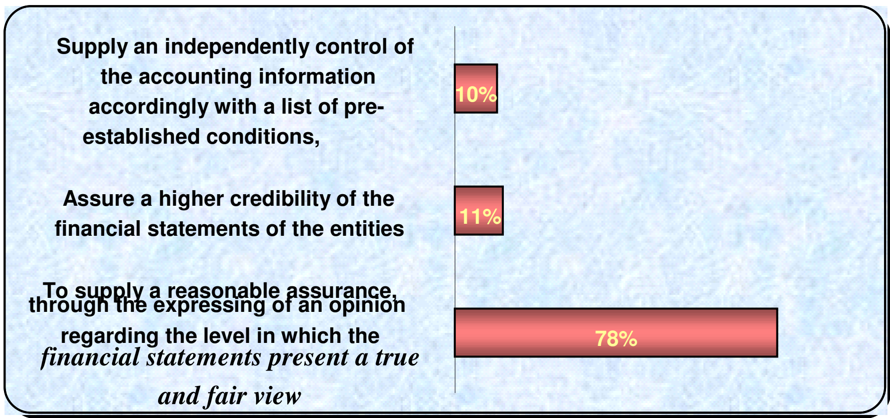

Chart no. 2 "Financial auditor role"

From the total number of the subjects 78% agreeing that the role of financial audit is that of supplying a reasonable assurance, through expressing an opinion regarding the level of the financial statements in reflecting a true and fair view.

The efficiency of the financial audit work is directly related to the level of the assurance which the auditor can give regarding to the true and far view of the financial statements audited. From this reason, we wish to see the most important factors which determine this efficiency, through the next question:

4. Which are the factors which you consider that narrows the efficiency of the financial audit works, and in which measure? (Please use the next specifications: (5) - very high measure, (4) - high measure, (3) - medium measure, (2) - low measure, (1) - very low measure.)					
	(5)	**(4)**	**(3)**	**(2)**	**(1)**
Existing ambiguous concepts in accounting					
Estimations used in accounting can't be higher precisely than the allowing of the methods used for their dimensioning					
Existing for the same transaction more than one reflection through accounting treatments settled by the accounting standards, and this implies different results					
Unrealistic expectations of the users regarding the performances which should be realized by the financial audit services, relative to the real and normal performances.					

Incorrect informing of the users regarding the role and the inherent limits of the financial audit.					

Factors which ceiling the efficiency of the financial audit (% from total answers)	(5)	(4)	(3)	(2)	(1)	Total
Existing ambiguous concepts in accounting	**6%**	**21%**	**41%**	**23%**	**9%**	**100%**
Estimations used in accounting can't be higher precisely than the allowing of the methods used for their dimensioning	**2%**	**39%**	**29%**	**23%**	**7%**	**100%**
Existing for the same transaction more than one reflection through accounting treatments settled by the accounting standards, and this implies different results	**47%**	**22%**	**18%**	**10%**	**2%**	**100%**
Unrealistic expectations of the users regarding the performances which should be realized by the financial audit services, relative to the real and normal performances.	**3%**	**22%**	**13%**	**47%**	**15%**	**100%**
Incorrect informing of the users regarding the role and the inherent limits of the financial audit.	**11%**	**25%**	**32%**	**23%**	**8%**	**100%**

Table no. 1"Factors which ceiling the efficiency of the financial audit"

Analyzing the answers we can underline that the factor which has a very high important influence to the financial audit work is the existence of alternative treatments for the same recording transaction, in the opinion of 47% from subjects. The estimations used in accounting have a high influence for the financial audit work (39%). We can't ignore the significant percentage of subjects which affirms the influence of other factors regarding the audit efficiency, which even if it is in a medium measures it is important. So 41% from the total of subjects appreciate that still find ambiguous concepts in accounting, which affects in a medium measure and 32% of subjects consider that a factor which affects the efficiency and indirect the quality of the true and fair view reflected by the audited financial statements is wrong information of the users regarding the role and limits of the financial audit.

The independence of the auditor is an significant element whit direct influence to the finality of the financial audit, at the end of which the auditor issue an opinion regarding the true and fair view of the audited financial statements. If the condition of independence is affected the opinion of the auditor isn't valid and trusted, so it can't be considered a "health certificate" for the financial statements of the company. We test in this way the principal factors which could affect this independence.

5. Which factors do you consider that can affect the independence of the financial auditors, and in what measure? ((5) - very high measure, (4) - high measure, (3) - some measure, (2) - small measure, (1) - very small measure.)					
	(5)	**(4)**	**(3)**	**(2)**	**(1)**
Dimension of the audit company					
Period of time when are delivered services for the same client					
The competition between financial auditors					
The fear of the auditor to lose his client or a bad reputation					
Responsibilities of the auditor regarding the third parties					
The professional sanctions settled and the strictness of their applying					

Factors which affects the independence of the financial auditors	(5)	(4)	(3)	(2)	(1)	Total
Dimension of the audit company	**0%**	**45%**	**32%**	**14%**	**9%**	**100%**
Period of time when are delivered services for the same client	**3%**	**31%**	**39%**	**22%**	**5%**	**100%**
The competition between financial auditors	**30%**	**25%**	**16%**	**18%**	**10%**	**100%**
The fear of the auditor to lose his client or a bad reputation	**15%**	**46%**	**23%**	**10%**	**6%**	**100%**
Responsibilities of the auditor regarding the third parties	**7%**	**0%**	**33%**	**28%**	**32%**	**100%**
The professional sanctions settled and the strictness of their applying	**9%**	**0%**	**26%**	**28%**	**37%**	**100%**

Table no. 2 „Factors which affects the independence of the financial auditors"

Analyzing the answers regarding the factors who affect the independence of the financial auditor in the opinion of 30% of the subjects, the factor with the highest influence is the competition between financial auditors. We see a high percent of answers who consider that the independence of the auditor is affected in a high measure by the dimension of the audit company (45%) and the fear of the auditor to loose his client or a bad reputation (46%). These results are justified by the structured of the subjects, half of them activate in audit companies other than Big Four or independents financial auditors. Despite of the evident necessity of the financial audit, being compulsory by the accounting laws, there is few factors which have the effects to the binding condition of independence for the auditor. The fear of the auditor to loose his clients or getting a bad reputation could be analyzed from two point of view: from a point of view the auditor is avoiding to issue an opinion unflavored for the client, specially in the case when the auditor activate in a small company of audit (the dimensions of the company and the competition between the auditors intervene here); or from another point of view the financial auditor has a responsibility for issuing an opinion regarding the quality of the true and fair view of the financial statements, with direct influence for the decisions made by the users of these information who analyze the opinion of the auditor issued in the report and as an reasonable assurance regarding the reality of the information. The issued of an opinion without insufficient argumentation can generate in the future consequences very important for the companies and of course for the auditor, who has the responsibility of the opinion issued in the financial audit report.

From the structure of the financial statements we want to see the importance for every component of the financial statements from the point of view of the subjects:

6. Which is in your opinion the importance of every component of the financial statements for the quality of the true and fair view supplied by this? ((5) - very high, (4) - high, (3) - medium, (2) - small, (1) - very small.)					
	(5)	**(4)**	**(3)**	**(2)**	**(1)**
Balance sheet					
Profit and loss account					
Cash flows statement					
Own capitals movement statement					
Explicative Notes and Accounting Politics					

The importance of every component of the financial statement	(5)	(4)	(3)	(2)	(1)	Total
Balance sheet	**90%**	**10%**	**0%**	**0%**	**0%**	**100%**

Profit and loss account	**68%**	**21%**	**11%**	**0%**	**0%**	**100%**
Cash flows statement	**67%**	**14%**	**16%**	**3%**	**0%**	**100%**
Own capitals movement statement	**32%**	**44%**	**17%**	**5%**	**2%**	**100%**
Explicative notes and accounting politics	**76%**	**20%**	**3%**	**1%**	**0%**	**100%**

Table no.3 *„The importance of every component of the financial statement"*

Every component of the financial statement is appreciated being with a very high importance and high importance in reflecting the whole image of the reality supplied by the financial statements. Interesting is the fact that a significant percent (76%) of the subject consider very important the explicative notes and the accounting policies more than the importance of the profit and loss account (68%) or cash flows statement (67%). We can appreciate that the possible argue for this answers from the financial auditors who analyze the financial statements for issue an opinion regarding the quality of these:

- Through the details from the explicative notes the auditor understand much better the professional judgment of the accountant who made and presents the financial statement, having a high utility;
- In the explicative notes we have to find the reasonable explications of argues the choosing some or another accounting treatment permitted by the accounting standards;
- In the explicative notes could find details which could give a large vision of the performances of the company.

The financial auditor's opinion regarding the true and fair view reflected by the financial statements are in a very close relation with the signification level or materiality. We wish to see the principal criterion used in selecting the level of signification.

7. The level of significance, which represent the dimension of the accepted error rate in the context of every audit mission, has an essential influence in the process of appreciating the true and fair view of the financial statements. Specify please, which is the frequency of the criterion used for settling this level of significance? (5- always, 4 - very often, 3 - some times, 2 - very rare, 1 - never.)

	(5)	(4)	(3)	(2)	(1)
The gross profit					
The net profit					
Total turnover					
Total assets					
Net assets					
Others..					

The criterions for settling the significance level	(5)	(4)	(3)	(2)	(1)	Total
The gross profit	**16%**	**36%**	**31%**	**7%**	**10%**	**100%**
The net profit	**15%**	**17%**	**45%**	**10%**	**13%**	**100%**
Total turnover	**36%**	**54%**	**9%**	**1%**	**0%**	**100%**
Total assets	**17%**	**28%**	**47%**	**7%**	**1%**	**100%**
Net assets	**6%**	**7%**	**13%**	**29%**	**46%**	**100%**
Others..	**3%**	**26%**	**11%**	**0%**	**0%**	**41%**

Table no.4 *„The criteria for settling the significance level"*

Analyzing this table no. 4 ***„The criteria for settling the significance level"*** we can see that very often criterion used for settling the significance level are the gross profit (36%) the total turnover (54%), and sometimes are used the net profit (45%) and the total of assets (47%). We have to underline the fact that 41% of subjects chose last option "others" giving details such: the selection of the significance level are different from company to company being important to give importance to more aspects for example the domain of activity, the level of the company, the activity of the company, the environment of the company, and the most important fact is the professional judgment of every financial auditor and his own experience and professional preparation.

To argue and to give a fundament for his opinion, regarding the audited financial statements, the auditor has to find evidences necessary and enough for sustaining his point of view. These evidences have to respect some conditions or quantitative criterion, in that manner that they could not be disavowed. We consider necessary at this stage of the survey to test the most important criterion in appreciating the truthfully of the audit evidences, asking the next question:

9. The audit evidences are necessary for proving the fidelity of the image supplied by the financial statements. Which criterion do you consider most important regarding which you appreciate the quality of audit evidence? ((5) - very important, (4) - important, (3) - some kind important, (2) - little important, (1) - not important).					
	(5)	**(4)**	**(3)**	**(2)**	**(1)**
The evidence have to be enough quantitative for having the level of the needed trust level					
The pertinence of the audit evidence: in the sense of possibility of influencing the professional judgment in accepting or rejecting of a declaration presented in the financial statement.					
The independence of the source					
The objectivity of the audit evidence					
The form of the audit evidence (the evidence in the form of the written documents are more credible than a verbal one)					

The criteria in appreciating the audit evidence	**(5)**	**(4)**	**(3)**	**(2)**	**(1)**	**Total**
The evidence have to be enough quantitative for having the level of the needed trust level	**8%**	**29%**	**56%**	**7%**	**0%**	**100%**
The pertinence of the audit evidence: in the sense of possibility of influencing the professional judgment in accepting or rejecting of a declaration presented in the financial statement.	**61%**	**30%**	**8%**	**1%**	**0%**	**100%**
The independence of the source	**45%**	**43%**	**13%**	**0%**	**0%**	**100%**
The objectivity of the audit evidence	**39%**	**51%**	**10%**	**0%**	**0%**	**100%**
The form of the audit evidence (the evidence in the form of the written documents are more credible than a verbal one)	**38%**	**52%**	**9%**	**1%**	**0%**	**100%**

Table no.5 *„The criteria in appreciating the audit evidence"*

In the opinion of the subjects the most important criterion used in validating the audit evidences are: the pertinence of the audit evidence (61%) and the independence of the source (45%). Important in appreciating the evidence is: the objectivity of the audit evidence (51%) and the form of the audit evidence (52%). ***Having a whole picture of the results we can see that the subjects underline the importance of the***

qualitative characteristics than the quantitative characteristics for the audit evidence. Being enough from the point of view of the quantity is appreciated with some importance from the point of view of 56% of the subjects. The professional judgment has a very important role in appreciating the audit evidence. We consider that the professional experience of the subjects selected for the survey plays a very important role and we appreciate that this determinates the respondents to choose this option of qualitative audit evidence. We conclude underling that both criterions are important, being sufficient on a side and on the other side the adequacy of the audit evidence.

Another important element for evidence is the disposability of the material used as the evidence in the financial audit activity.

10. Which are the factors, in your opinion, which could have an influence for the disposability for the audit evidence?	
	The moment of the disposability of the evidence
	The access less or more difficult to the audit evidence
	The cost of getting some audit evidence
	Others...

The answers to this question are laid down:

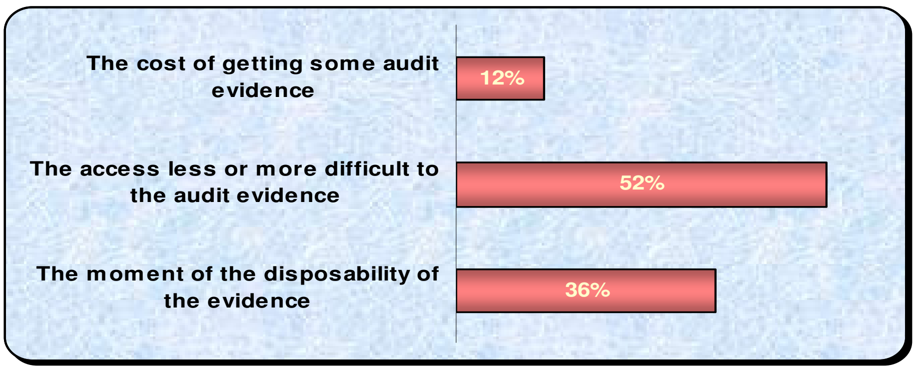

Chart no.3 „Factors for disposability of the audit evidence"

The most important factor for the subjects regarding the disposal of the audit evidences is the access of the auditor to the audit evidence (52%). There are enough situations in which the auditor hasn't access to some information or audit evidences. The problem appears when is considered legal or illegal the access of the auditor to the data, those situation where the company pretends that some information are secret, and they are not accessible for the auditor, but the real reason of the company is this of stopping the auditor to change his opinion in case of getting the information considered secret.

The finality of the financial audit is the audit report, which reflects the opinion of the auditor regarding the fidelity of the image supplied by the audited financial statements and the conformity with a referential accounting system very well settled. At this moment of the survey we are interested by the information regarding the frequency of the opinion used in the audit report.

11. Which is the frequency of the opinion issued by you in the financial audit mission? [(5)- always, (4)- very often, (3)- some times, (2)- very rare, (1)- never.)]					
	(5)	**(4)**	**(3)**	**(2)**	**(1)**
The opinion without reserves					
The opinion with reserves					
Impossibility to issue an opinion					

Adverse opinion					

Types of opinion issued by the financial auditor	**(5)**	**(4)**	**(3)**	**(2)**	**(1)**	**Total**
The opinion without reserves	**0%**	**38%**	**48%**	**10%**	**3%**	**100%**
The opinion with reserves	**1%**	**61%**	**33%**	**3%**	**1%**	**100%**
Impossibility to issue an opinion	**0%**	**0%**	**0%**	**56%**	**44%**	**100%**
Adverse opinion	**0%**	**0%**	**0%**	**21%**	**79%**	**100%**

Table no.6 „Types of opinion issued by the financial auditor"

Analyzing these results we can see some aspects very interesting. We would like to conclude that the *opinion without reserves* should be the most used opinion but we can see that very often is expressed *the opinion with reserves* (61%) and *the opinion without reserves* is expressed some times (48%). Of course, *the opinion with reserves* isn't unfavorable for the client, and a user of the audit report will analyze the information reflected by the financial statements with some reticence, the true and fair view of the financial statements is in a some measure affected and this opinion let to fall down the fidelity of the financial statements in a semi shadow. A good point in this question is the answer of 79% of the subjects where they said that never issued an adverse opinion, unfavorable of client this opinion. We have to underline that 21% of the subjects meet situation in which the image reflected by the financial statements is very different by the reality and user should be informed by the auditor through an adverse opinion.

Looking forward for the objectives of the survey we would like to find the reasons which determine the auditor to choose an opinion or another. For the first time we need to see the arguments of the subjects for issued the opinion wit reserves. The relevance of this question appears thinking to the percent of the subjects who expresses very often an opinion with reserves (61% of subjects). We put the laid down question:

12. Which are reasons which determine you to issue an opinion with reserves after the mission of financial audit?	
	Some reasons which implies impossibility to apply all the audit procedures needed
	There are some significant errors in the financial statements, but not so bad in the measure to issue an adverse opinion.
	There are some elements in the financial statements which could not be considered a base for the decision of the potential user of this financial statement.
	Others..

The answers structure:

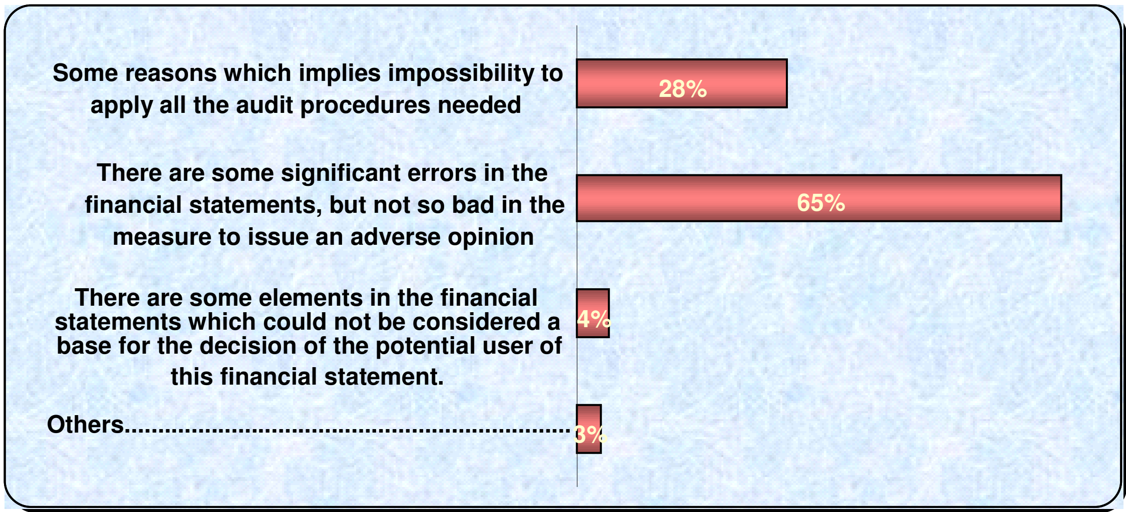

Chart no. 4 ***„Reasons in choosing the opinion with reserves"***

We can see that the reason for the 65% of the subjects for issuing *the opinion with reserves* is the existence of some significant errors in the financial statements, but not so bad in the measure to issue an adverse opinion, and for 28% from subjects the issue of the opinion with reserves is determined by existence of some reasons which implies impossibility to apply all the audit procedures needed.

Despite the small percent of the subjects who express an adverse opinion (according to the question 11. only 21%) we consider that an opportune question at this phase of the survey is to ask the reasons which determine the subjects to give an adverse opinion.

13. Which are the reasons which determine you to issue an adverse opinion after the financial audit mission?	
	The difference from the principal criteria related initially settled is very high
	The difference from the true and fair view is to high for expressing an opinion with reserves
	Using the financial statements in taking some decision will determine wrong decision due to errors from financial statements
	Others..

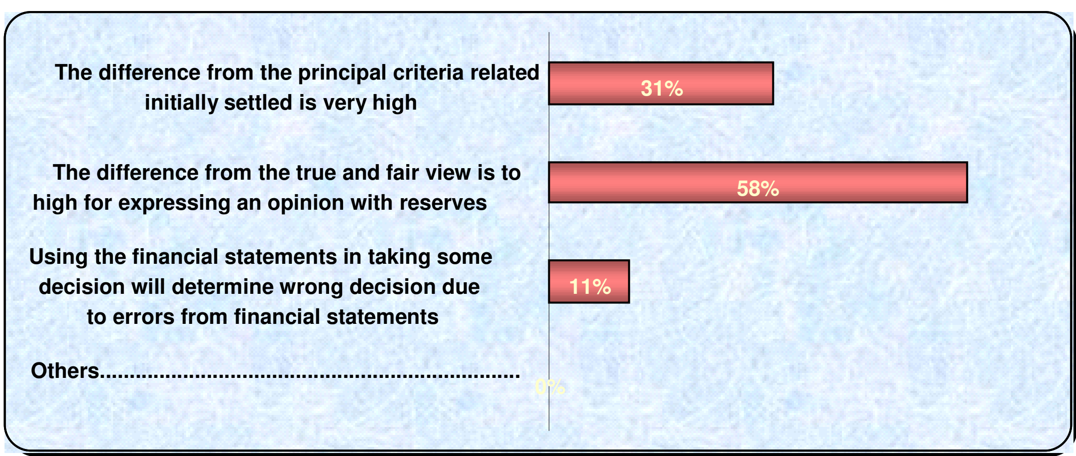

Chart no. 5 „ Reasons in choosing the adverse opinion"

The reason which determine to issue an adverse opinion is the differ from the true and fair view is to high for expressing an opinion with reserves (58%) and for 31% of subjects determinant in issuing an adverse opinion would be the difference from the principal criteria related initially settled is very high. The issue of an adverse opinion has a consequence stronger than the impossibility to issue of an opinion or an opinion with reserves. The auditor transmits through this opinion a message to the users of the financial statements, and this is that the financial statements are completely wrong, there is no fidelity in reflection of the position and financial performances of the company, implying in this way errors for those who want to use this wrong information. We consider fairly the fact that 58% of subjects would issue an adverse opinion only in the situation of the differing from the true and fair view is too high for expressing an opinion with reserves.

5. General conclusions

As a general conclusion after this survey we can say that despite definition of the true and fair view is a controversial one (in the present we don't have a definition general accepted in the accounting literature) the financial auditors, who have to validate and to issue an opinion regarding the quality of the fidelity of the image supplied by the financial statements, facing this challenge, having a continuously searching for improving the methods for an higher objectivity and assurance in expressing an opinion regarding the true and fair view. The auditor advantages is that one that they have the knowledge and qualities needed to identify at least those situations in which the true and fair view is not respected, the professional judgment being very important in appreciating the true and fair view, the fidelity of the financial statements with the reality.

The percentage of achieved answers in this research is 12.9% (87 valid answers from total of 673). The specialty literature regarding the theory and practical of surveys appreciate that a satisfying feed back for assuring the relevance is between 10-20%. In this condition the percentage of 12.9% from the total of subjects targeted, and the fact that from all the subjects at least 48% participate to over 25 audit mission in the last 5 years and 26% between 15 and 25 audit missions (this implies a relevant experience in financial audit activity) we have assured an important characteristic of the statistical population researched, and we appreciate that the conclusion are sufficient relevant for generating to the whole population targeted.

Obviously, like any scientific research, there is some limits which we identified in our survey, but these limits didn't affect significant the well progress of the empirical study and without affecting the relevance of the conclusions obtained from the analyses of the results. These limits we can classify in two categories: formal limits and administrative limits.

Regarding the formal limits we can lay down:

- Because the short time allocated for the answers (for not taking to much time of the subjects), in the questionnaire structure we didn't cover all the significant aspects regarding the researched theme;
- Detailing some questions or including some open questions could result in a better refinement of the conclusions and from this to observe other interesting aspects;

Regarding the administrative limits we consider that extending this research for a long period and retransmitting the survey, insisting for a feedback would implies a high number of answers.

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EVOLUTIONS ON THE ROMANIAN CAPITAL MARKET, FROM THE VIEW OF THE ACCESSION TO THE EUROPEAN UNION

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In the last few years financial experts demonstrated the very close relationship between the evolution of the capital market and the economic growth level in different countries.

In the present context of Romania's EU accession, we expect a continuous trend of economic growth as a consequence of EU funds absorption for rehabilitating the economic and business infrastructure.

The aim of our study is to examine the main events on the Romanian capital market and to present an accurate picture of its evolution before and after the EU accession, in order to prove the strong relationship between economic growth and capital market evolution.

Keywords: capital market, EU accession, IFRS

1. Capital markets – a possibility for investing cash surplus or for financing treasury deficits

The market economy, marked by the existence of a powerful competition environment, generates the need for companies' development and coping with environmental pressures. Where the internal financing sources are not sufficient in comparison to the company's needs, it becomes necessary to attract foreign sources.

In the present context of EU accession, private companies can use various ways for attracting financing sources: share issue, bondholders, bank loans, European non-reimbursable structural funds, etc.

In a stronger competitive environment and under the pressure of the globalization of the financial markets, companies perceive becoming an open company as a way to survive, but also for improving the company's competitiveness. This process presumes a punctual preparation and the quantification of risks and advantages resulted from listing the company on capital markets.

From the company's point of view, the most important benefit of being listed on capital markets consists in the access to foreign alternative financing sources, absolutely necessary at a certain development level, provided that capital costs are acceptable in comparison to bank financing costs.

The possibility of being financed through the issue of securities attracts efficient companies on capital markets, resulting automatically in continuous transactions with the issuers' securities. In order to materialize the two most important advantages of companies' listing, capital markets should achieve their two functions: permanent valorisation of securities at a stock market price based on the issuers' actual performances and financing the listed companies' most profitable investment projects.

Although seeming very simple, the relationships between listed companies and capital markets are complex from the view of achieving the markets' two functions and fulfilling certain performance criteria by the issuers.

On the other hand, capital markets also offer the opportunity to invest cash surplus in different investments with a superior profitability than those offered by bank deposits.

As a conclusion, economies have two attracting, propagating and stimulating channels: the bank system and the capital markets system. At the beginning of the competition, capital markets have been very unstable.

The bank system continues to be attractive for investors even if interests are lower than the winning possibilities on capital markets. The bank system and the Treasury attracted most of the available savings, re-allocating them by means of consumer loans or imports of goods for resale. Under these circumstances, most of the money did not return into the actual economy by means of loans, but indirectly, by means of each company's added value. Another share of the money attracted into the bank system was used for covering the companies' current cash needs by means of short-term loans. In a developed economy, long and medium-term available funds actually insure the general economic development. Companies can access these available funds both through the bank system and through the primary capital markets.

The main difficulties in developing the Romanian capital markets were the following: reduced liquidity and lack of a complex range of financial instruments, financial indiscipline on the capital markets, prevailing position of certain financial mediators, voidance of large companies and corporations, withdrawal of some companies due to their takeover.

2. History of capital markets

The Romanian securities market has been structured from the beginning into two different elements: Bucharest Stock Exchange (BSE) and RASDAQ (Electronic Stock Exchange RASDAQ). Subsequently, these two units merged into a single market, BSE absorbing RASDAQ.

Presently, BSE functions as a joint-stock company. It was set up based on Decision no. 20/1995 of the National Commission for Marketable Securities (CNVM). Its set up was requested by 24 financial investment companies (marketable securities companies at that time), founders of the Stock Exchange Association. The National Market for Marketable Securities RASDAQ was launched on 26 October 1996, as a result of the need for an institutional and technical frame for the transaction of all securities distributed within the Privatisation Programme. RASDAQ is the direct result of the Romanian-American co-operation, enacted through the Memorandum concluded in 1994 between the Romanian and American Governments.

As noticed, the two markets had a similar evolution, being strongly influenced by the period's domestic economic and political events. After an excellent start, overlapped by a high level political change (1996), it reached the top in the summer of 1997, with a maximum of transacted securities and value quotations. Afterwards, the Romanian securities market experienced a major decline, both in value and duration. The descendant evolution had many reasons, the most important being the following: "overheating" of the market (1997) due to massive securities acquisitions based on speculative funds, not achieving the political objectives set during the elections (which became obvious at the end of 1997), non-implication of capital markets in the privatisation process, mistrust of state owned financial institutions in the Romanian capital market, the monetary policy dictated by NBR and the Finance Ministry, which cancelled any chance of the Romanian financial market (highest interests for the most secure financial instruments – titles issued by the state), the slow general evolution of the Romanian economy.

The end of 2000 could be considered a milestone, which marked the inversion of the evolution on the securities market. The main cause, which stopped the decline could be considered the reaching of certain incredible minimum transaction levels for a normal stock exchange market (for example, SIF shares were transacted at prices, which determined the capitalisation of issuers exceeding 50% out of their liquidities – bank deposits and government stock). Also, the end of the financial crisis from 1999, as well as the political changes in 2000, quickened the general evolution of stock markets.

In the summer of 2001, the stock markets entered an ascending trend. Meanwhile, bank interests decreased especially due to the future predictability of this phenomenon (confirmed in the next years). The fiscal policy for sustaining the Romanian exports (by applying a decreased profit tax rate for these operations) had also an important role in improving the evolution of listed companies and by default, their attractiveness for investors.

The enactment of a better legislative frame during 2000 consecrated the stock exchange market as a viable alternative for investing funds, and meanwhile there was the hope that the Romanian capital market will be able to play its ultimately role in economy: facilitate the meeting between long and medium-term capital demand and offer. In this context, 2002 was a top year for the Romanian stock exchange market, both related to the level of transacted values and stock exchange marks, but especially to the level of the public's perception of the stock exchange phenomenon.

A boom period followed. During 2003, 2004, 2005 and 2006, the stock exchange market overcame record after record and a scenario began to be respected every year: accelerated increases in the first months, spectacular adjustments in spring, a relaxation period followed by new increases with new historical maximums in the last part of the year. From the beginning of 2003 and until the end of last year, BET and BET-C indices increased up to 5 times. More and more foreign funds turned their eyes to Romania, encouraged by its EU accession, by the economic development of many large companies (increasing financial results), privatisations, development of certain PAS associations, etc. Meanwhile there was an increase in domestic investments, number of transactions, number of opened bank accounts, stock exchange turnover, and market capitalization. Developing fast during a couple of years, the capital market became again attractive and visible in the same time, as the inhibition generated by past events decreased and bank interests became less and less satisfactory.

A common element for the period 2003-2004 consisted in the repeated withdrawal of companies from the stock exchange. The legislation in force at that time committed the shareholders, who overran the level of 90%, to launch the public takeover bid in order to withdraw the company, so that many shareholders initiated such bids. Companies like Arctic Găeşti, Dacia Piteşti and, subsequently, Terapia Cluj Napoca, are only the largest withdrawn companies, which at that time had a significant weight in market capitalization. There were significant losses for the market, especially because after the withdrawal the three companies experienced spectacular evolutions in respect to their financial results.

An interesting event, which could significantly influence the development of the stock exchange market, is the set up of the "Proprietatea Fund", whose aim is to compensate the owners dispossessed by the communist regime and whose confiscated properties can no longer be given back. The fund functions as a legal person since the end of 2005 and holds a portfolio of shares in 114 state owned companies. Its equity amounts to approximately EUR 3.9 billion. However, currently there are some problems related to the fund's stock exchange listing (without this the compensation process would be practically impossible). Probably the main problem consists in the compulsoriness that all companies within the fund's portfolio are to be listed.

In the last years, another series of events influenced the capital markets. We briefly mention some of them: Petrom's privatisation (the largest company in Romania) through the acquisition of the controlling interests by OMV Austria, the merger of the two stock exchanges, the Electronic Stock Exchange Rasdaq being absorbed by the Bucharest Stock Exchange, the Romanian Commercial Bank's privatisation (not listed, but SIFs own 6% each, thus with impact on the SIF segment) and last but not least, Romania's accession to the European Union (although the market reacted long before the actual accession on 1 January 2007).

In comparison to the withdrawals from 2001-2003, last year Transelectrica has been listed on the stock exchange. The company represents the state monopoly in electric energy transport. The Romanian State announced few years ago its intention to list large companies in its portfolio, like Romgaz, Transgaz, Electrica, the Constanța Harbour, Romtelecom, the Henri Coandă Airport, but so far only Transelectrica was listed. It was a great success. In a few months the shares doubled their value compared to the initial takeover bid, and in the first transaction day the value increased with over 35%. The Romanian State did not sell any shares and instead it doubled the value of the Transelectrica interests. At the end of the last year there was another IPO. This time a private company chose to get listed on the stock exchange - Alumil Rom Industry, part of the Greek industrial group Alumil. Under these circumstances, it is highly likely that there will be a new stage on the Romanian capital market, with a new wave of very necessary stock exchange listings.

3. Current situation

Presently capital markets have a new regulatory frame ("Law no. 297 regarding capital markets"), which includes provisions regarding: new market opportunities; highly transparent standards for issuers; ascertaining a high protection level for investors; implementation of the regulatory context necessary for the new transacting instruments and techniques.

Although the transacted values or the stock exchange capitalization are higher than in the previous years, they are still at low levels compared to the markets in the neighbouring countries. Generally speaking, emerging markets in Central and Eastern Europe were marked by similar elements, common to all shaping markets. However, a detailed analysis shows that a series of particular features significantly difference their evolution compared to the Romanian stock exchange market from the perspective of the general context of stock exchange markets (national specific, rhythm of economic reforms, etc.). The main elements, which brought countries like Hungary, Poland or the Czech Republic at a higher level than ours, with regard to the development of stock exchange markets are the following: economic start advantages (superior economic performances and a certain level of opening of the respective economies); time advantages (these stock exchanges reopened before the Romanian one); a sustained privatisation rhythm, which ascertained the background for an efficient market economy and for a functional stock exchange market; earlier accession to the European Union.

The synthetic situation compared to the countries mentioned above (to which we currently compare ourselves) is presented in the table below:

Tara	Capitalizare (mil. USD)	Indice (nov.2006)	Variatie 2006	P/E	Capit. / PIB	Capit. / Activ bancar
Bulgaria	9439	SOFIX (1160,26)	+40,55%		~21%	32,2%
Polonia	210043	WIG20 (3217,41)	+21,14%	17,4	~34%	82,6%
Ungaria	38559	BUX (22880,67)	+10,08%	12	~32%	38%
Rep. Ceha	71381	PX (1570,6)	+6,63%	21,2	~46%	47,5%
Slovacia	5711	SAX (412,89)	-0,1%	10,4	~13%	10,8%
Romania	28456	BET (8047,98)	+22,2%		~17%	52,4%

4. Connecting the Romanian accountancy to the latest evolutions on the capital markets

The decision to make a certain investment is very difficult and it should consider the analysis of a number of agents like conjuncture, market features, financial benchmarks and last but not least, the investor’s personality.

Nowadays, the existence and development of capital markets are inconceivable without the use and propagation of accounting information. An article of the prestigious British daily newspaper „The Economist” underlined that international capital markets have a very important role in improving the preparation and communication of accounting information at global level.

Considering these general trends, accountancy obtained the same valences like the capital markets, thus resulting the need for „governing” accountancy at global level.

The globalization of capital markets led to the imperative necessity for unitary information, for understanding and comparing the financial-accounting information in different corporations. A person active on the international capital market or another person involved in reporting financial information, working in a multinational or in a large company, which intends to get listed on foreign financial markets, have a very difficult mission in accomplishing their tasks. Only an employee with direct involvement in achieving these tasks realizes the benefits of an international unique accounting language, given this „Babel Tower” in which accountants live all over the world. However, they only apply the provisions of the various national accounting systems, which give different interpretations to the same events or transactions.

Besides these aspects, the extension of the financial relationships between companies, for instance the set up of subsidiaries or participations, brought the necessity of adjusting the accounting consolidation methods, in order to measure the global weight of the group made up of the subsidiaries, the participations and the mother company, and to facilitate comparisons between the financial situations obtained in different countries for getting listed on various stock exchange markets.

Under these circumstances we can highlight the increase of the accountancy's contribution on the international capital markets, especially related to the information of participants for preparing the decision taking process.

The company's listing on the stock exchange also significantly influences its accounting system (its financial reporting procedures). Generally, listed companies have hundreds or thousands of shareholders. Under these circumstances, the yearly financial statements become the main communication means between the company and its shareholders. Thus, the companies will disclose the balance sheet and income statement in the easiest way to be understood by the shareholders. The balance sheet and income statement will be accompanied by additional information presented in the statement of cash-flows, in the statement of changes in equity or in the notes to the financial statements, which aim to help the reader to understand as well as possible the company's results and performances.

In the context of a fantastic development of capital markets, the lack of a unitary accounting system represents a hold back for investments, because investors are not sure of the different accounting models used, being suspicious about them. The Asian crisis underlined the lack of transparency and the deficiencies of accounting systems in different countries, asserting once again the need for an international unitary accounting system.

In the context of Romania's accession to the European Union and its integration in the European Common Market, our country understood the necessity of complying with the accounting regulations applied in the Union and made efforts for adapting to these requirements. The Programme for development of the Romanian accounting system started in 1997.

In our opinion, the penultimate step started on 1 January 2006, with a new change in the Romanian accounting system: the adoption of the European Directives in the Romanian accountancy.

The adoption of the European accounting legislation will ease the information offer to the most favoured information users: the investors on the capital markets. The direct result of this change will consist in the development of the Romanian capital market and its integration in the European Common Market.

The next step at global level would consist in the adoption of a unique set of international accounting regulations in order to provide unitary information on the financial markets in whatever place of the world and regarding any company, regardless of the country in which it develops its activity. Significant efforts in this respect were made by issuing the International Financial Reporting Standards (IFRS), as a result of the convergence programme developed by the competent institutions in this field: IASB and FASB respectively.

In conclusion, we can say that Romania's accession offers great possibilities for the development of both the Romanian capital market and the Romanian companies, which due to their stock exchange listing could attract funds for financing future development investments.

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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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PARTICULARITIES OF THE ACCOUNTANCY FOR THE OWN CAPITALS CONCERNING THE DISSOLUTION AND THE LIQUIDATION

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Summary: The presented theme is approached from the perspective of the accentuated extension of the operations concerning the dissolution and liquidation activities, which care allow some accounting and fiscal treatments and some specific insurance measures. We have considered that it is useful to debate the following significant problems: the competences to adopt the decisions concerning the operations of this nature; their realization flow; the managerial implications; the specificity for the inventory and for the evaluation of the tangible and intangible elements. A special attention has also been given to the presentation of the accountancy methodology for the economic and financial operations that the dissolution and the liquidation generate, by realizing the accounting registrations under the form of a case study.

Key words: accounting information, own capitals, dissolution liquidation.

Concerning the theme in debate we consider as being justified a short **introduction** within which we retain as a first aspect the fact that the operations which are realized in connection with the cessation of the activity by dissolution and liquidation need some accounting, fiscal and treatment and some specific insurance measures. So, within the dissolution operation we should take into consideration, first of all, the structure and the form of property for the capital. The dissolution and the liquidation, in the case of the private capital, is an act of decision of the own shareholders, based on a decision of the majority taken in the general meeting. The situation changes in the case of the companies with a mainly or integrally state capital where the dissolution and the liquidation are decided by the state structures with competences in the capitalization of its assets.

Without taking into consideration the decisional competence, the dissolution and the liquidation of the entities suppose the realization of many **specific operations** and more exactly:

- The inventory and the evaluation of the tangible and intangible elements of the entities that will cease their existence by dissolution and by liquidation, followed by the registration of the results;
- The elaboration of the financial situations according to the applicable accountancy norms;
- The settlement in the general meeting of the shareholders of the operations that will be realized by the liquidator in the name of the entities;
- The capitalization of the asset elements, the cashing of the debits, of the financial investments on a short term, etc.;
- The payment of the debts towards the state budget, the budget of the state social insurances, as well as the payment of the other social obligations towards other funds, employees and other third parties;
- The settlement of the result for the liquidation (profit or loss);
- The calculation, the retention and the payment of the tax for the profit and of the tax for the dividends corresponding to the action of dissolution/liquidation;
- The elaboration of the partition balance, according to the accounting norms in force;

- The realization of the partition concerning the own capital (net asset), resulted from liquidation, depending on the provisions of the statute, the decision taken by the general meeting of the shareholders, as well as depending on the participation quota in the social capital.

There are some situations when the entities, as a consequence of some unpleasant events or of some decisions of the jurisdiction organs, for the cessation of the activity are introduced in a juridical reorganization procedure, which supposes, besides the operations described above, some the obligatory measures such as:

- The sealing and the conservation of the goods which make part of the entities' fortune;
- The sale of the perishable goods or of the goods subjected to an imminent depreciation;
- The sale of the important goods from the debtor's fortune (lands, factories, installations) in then most advantageous and rapid conditions, by the previous agreement from the part of the creditors;
- The bank deposition, in the debtor's account, of the sums realised from the sale of the goods;
- The settlement, according to the law, of the intangible elements of the mass;
- The distribution of the sums realised from liquidation, according to the distribution plan between the creditors, in the order mentioned by the legal norms;
- The elaboration and the approval of the final report;
- The elaboration of the final financial situation, in the case when the liquidation ends in the current exercise. If the liquidation is prolonged over the duration of a financial exercise, the liquidators are obliged to elaborate the annual financial situations.

The realization of the operations of dissolution and liquidation, as well the ones from the juridical reorganization and bankruptcy presents some contexts and situations with a certain difficulty degree generated, as a rule, by the commercial relations, by the legal obligations of the entities towards their partners and also by the own shareholders.

The management of such an operation supposes that the general meeting should also settle the realization way of the activities that are obligatorily and which will comprise the organisational structures, the functional processes and the allocated human resources and the responsibility.

Depending on the fact if the management elements have been settled, that we consider essential in the realization of the operations of cessation of the entity's activity, at the date settled by the general meeting, there will be started **the inventory and the evaluation of the tangible and intangible elements of the company**. Within this framework, both the inventory, and also the evaluation have to be structured on categories of assets, as far as possible, as they are presented in the financial situations. The inventory is realized by observing the procedures which correspond to the accounting norms, and the evaluation is done by observing the standards and the use of the adequate values.

The resulted of the inventory are registered in the accountancy, and depending on their nature, they will be recognized in the profit and loss account, and the ones with fiscal implications (the perishable ones) will follow the fiscal procedure. The results of the evaluation are registered in the accountancy based on the recognition principle and they are taken into consideration for the settlement of the entity's global value and they will finally affect, the result of the dissolution and liquidation process.

Further on, we consider that there is a justification to exemplify the **accounting methodology for the main operations** appeared with the occasion of the dissolution and of the liquidation, inclusively concerning the elements of own capitals, related to which we appreciate that it is not suggestive to treat them separately.

The financial situation presented by the entity that has entered in the dissolution and liquidation process, decided by the general meeting of the shareholders, contains the following essential elements concerning the determination of the final result:

Item	Indicators	Details and determinations	Balance (thousand lei)
1.	Immobilized assets		800,00
	Corporal immobilizations (ct. 212 - 2812)	2.000.000 – 1.200.000	800,00
2.	Circulating assets		500,00
	Stocks (ct. 301-391)	200.000 – 40.000	160,00
	Debits (ct. 4111 + 4118 - 491)	The sums will be cashed after a period bigger than one year and they are separately presented 250.000+50.000-20.000	280,00
	Cash register and the accounts in the banks (ct. 5121)		60,00
3.	Debts (ct.404)	which should be paid in a period of up to one year	600,00
4.	Assets – Debts	Rd. (1+2-3)	700,00
5.	Provisions (ct 151)		100,00
6.	Own capital		600,00
	Subscribed and paid capital (ct. 1012)	500.000 shares x 1,0 lei/share	500,00
	Reserves from revaluation (ct.105)		
	Legal reserves (ct. 1061)	The legal reserve has been deduced with the occasion of the constitution	100,00

Situation concerning the tangible and intangible elements belonging to an entity that is dissolved and that will be liquidated

The general meeting of the shareholders has mandated the liquidator to capitalize the immobilizations and the stocks by sale, as far as possible, by the auction procedure, which has been considered to be advantageous for the entity.

In the same time, it has offered details concerning the clients and especially concerning the uncertain clients, as well as concerning the suppliers.

Base on this, the liquidator has sold the buildings over their net value presented in the balance sheet, with the sum of 100.000 lei, and in the case of the raw materials under the value from the balance sheet, with the sum of 16.000 lei. The sum corresponding to the sure clients has been received with a value of 250.000 lei with a discount in sum of 5.000 lei, and from the uncertain clients there has been received the sum of 24.000 lei from the sum of 50.000 and an adjustment of 20.000 lei has been constituted in this sense. The suppliers have been paid before the fixed term with the sum of 600.000 lei, and in this case the liquidator has gotten a discount of 20.000 lei. For the realization of the activity, the liquidator has registered expenses in sum of 52.000 lei.

All the operations are registered in the accountancy as they are presented below:

1. The capitalization of the corporal immobilizations:

a) Sale of the buildings by an auction:

461	=	%	1.071.000 lei
		7583	900.000 lei

4427 171.000 lei

b) Cashing of the value for the buildings:

5121 = 461 1.071.000 lei

c) Subtraction from the evidence of the sold buildings:

%	=	456	2.000.000 lei
281			1.200.000 lei
6583			800.000 lei

d) Closing of the account for incomes:

7583 = 121 900.000 lei

e) Closing of the account for expenses:

121 = 6583 800.000 lei

2. Sale of the stocks of raw materials:

a) Sale of the raw materials:

411	=	%	171.360 lei
		707	144.000 lei
		4427	27.360 lei

b) The registration of the goods as raw materials and their subtraction from the administration:

371 = 301 200.000 lei

607 = 371 200.000 lei

c) Annulment of adjustments:

391 = 7814 40.000 lei

d) Closing of the account for expenses:

121 = 607 200.000 lei

e) Closing of the account for incomes:

%	=	121	184.000 lei
707			144.000 lei
7814			40.000 lei

f) Cashing of the value for the sold goods:

5121 = 411 171.360 lei

3. Cashing of the debits:

a) Partial cashing from the uncertain clients:

5121 = 4118 24.000 lei

b) Passage on expenses of the uncertain clients:

6588 = 4118 26.000 lei

c) Annulment of adjustments:

491 = 7814 20.000 lei

d) Closing of the sure clients:

5121	=	411	245.000 lei

e) Allowance of the discounts:

667	=	411	5.000 lei

f) Closing of the account for expenses:

121	=	%	31.000 lei
		667	5.000 lei
		6588	26.000 lei

g) Closing of the account for incomes:

7814	=	121	20.000 lei

4. Payment of the debts:

a) Payment of the suppliers of immobilizations:

404	=	5121	580.000 lei

b) Discount received as a consequence of the payment before the due date:

404	=	767	20.000 lei

c) Closing of the account for incomes:

767	=	121	20.000 lei

5. Registration of the expenses from liquidation:

a) Expenses realized by the liquidator:

628	=	5121	52.000 lei

b) Closing of the account for expenses:

121	=	628	52.000 lei

6. Annulment of the provisions for the clients:

a) Annulment of the provisions for the risks and for the expenses:

151	=	7812	100.000 lei

b) Closing of the account for incomes:

7812	=	121	100.000 lei

7. Adjustment of the value added tax:

a) Registration of the tax which should be paid:

4427	=	4423	198.360 lei

b) Payment of the VAT:

4423	=	5121	198.360 lei

8. Settlement and payment of the tax for the profit resulted from the liquidation

a) From the registrations in the account 121 „Profit and loss" we observe that we have a credit footing of 1.224.000 and a debit footing of 1.083.000, resulting that the profit before the tax of 141.000 lei, which means that the tax for the profit is of 23.040 lei (1.224.000 x 16%) fact which also implies the realization of the registration:

691	=	441	23.040 lei

b) Closing of the account for the profit tax:

121	=	691	23.040 lei

c) Payment of the profit tax:

441	=	5121	23.040 lei

After the validation of the registrations in the accountancy we realize the works for the elaboration of the financial situations, that, in the previous example are represented by a balance sheet known under the name of **partition balance**. The partition consists in the division of the own capital (net asset), resulted from the liquidation, between the shareholders of the dissolved and liquidated trade company, which allow the usual accounting registrations. Mainly, they refer to the taxation of the legal reserves and the registration of the gotten net value, together with the realized profit, as dividends to be paid, the taxation of the dividends resulted from the profit, the disconnection of the sums due towards the budget and towards the shareholders and the closing of the account for the subscribed and paid capital.

As a conclusion, we appreciate that the present work brings a modest contribution concerning the clarification and the profound study of some essential aspects related to the accounting information corresponding to the dissolution and liquidation operations of the economic entities, which brings a benefit to the quality of the generated accounting information.

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L’ANALYSE DE L’INFLUENCE DE LA MARGE COMMERCIALE SUR L’EQUILIBRE ECONOMIQUE-FINANCIER DE L’ENTREPRISE EN COMMERCE

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Profit margin is a performance indicator of a commercial company that represents the main source for covering the circulation expenses, being in the same time a weight balance in the intermediate administration balance-sheet of commercial companies.

This indicator shows the earning obtained as margin from goods selling, that has a balance in the operating activity of a commercial company. The analysis of gross margin’s influence to the economic-financial equilibrium of commercial company is done through the “direct-costing” method.

Margin, profit margin, intermediate administration balance sheet

La marge commerciale est un indicateur de la performance de l’entreprise en commerce, qui constitue la principale source de couvrir les dépenses de la circulation et elle mit en évidence l’efficacité de l’activité de l’exploitation. L’influence de la marge commerciale sur l’équilibre économique-financier est réalisée par l’usage dans l’analyse économico - financière de la méthode ’’direct-costing’’.

Caractéristique de la méthode ’’direct-costing’’ c’est la poursuite sur la formation du résultat de l’exploitation de l’entreprise en commerce par la corrélation qu’il y a entre les dépenses de la circulation mises en évidence par les dépenses variables et fixes et bien sûr le chiffre d’affaires. La séparation des dépenses variables de celles fixes permet l’analyse approfondie des dépenses variables, qui met en évidence l’usage des actifs circulants à court terme et des dépenses fixes qui mettent en évidence la stratégie du développement ou la diminution, à long terme du patrimoine des entreprises commerciales.

Par l’usage de la méthode ’’direct-costing’’, dans le processus d’analyse économique on peut déterminer le point d’équilibre entre les encaissements résultés par la vente des marchandises et la prestation, les dépenses pour la fonctionnement efficace des entreprises commerciales et le résultat par l’activité d’exploitation.

La connaissance du point d’équilibre par les hommes des entreprises en commerce peut influencer positivement la prise des décisions optimale en ce qui concerne les programmes prochains d’assurance sur la rentabilité de l’activité d’exploitation et implicitement sur l’équilibre économico - financier.

L’application de la méthode ’’direct-costing’’ dans l’analyse des dépenses dans les entreprises commerciales présente les éléments suivants:

- on simplifie l’évidence de l’évolution des dépenses de circulation par rapport au chiffre d’affaires.
- on assure la connaissance de l’influence des dépenses variables et fixes sur le résultat de l’activité d’exploitation et implicitement de l’activité générale.
- on permet pour les manages un contrôle rigoureux, sur les dépenses et la prise des décisions efficaces dans l’administration du patrimoine, la maintenance de l’équilibre économico - financier et l’optimisation de l’activité économique. Les informations nécessaires pour prendre des décisions efficaces sont fournies par la dynamique des indicateurs:le chiffre d’affaires, les dépenses en ce qui concerne les marchandises, les dépenses variables, la marge des dépenses variables, les dépenses fixes.

Pour l’analyse de la dynamique des dépenses de la circulation par rapport au chiffre d’affaires on utilise la méthode ’’direct-costing global’’ qui se base sur la séparation des dépenses de l’exercice par les dépenses variables et les dépenses fixes et sa poursuite par rapport au chiffre d’affaires.

L’analyse de la structure des dépenses est réalisée tenir compte de l’implication des indicateurs: le chiffre d’affaires, les dépenses de marchandises, la marge commerciale, les dépenses variables, la marge des dépenses variables, les dépenses fixes et le résultat brut de l'activité d'exploitation par rapport au chiffre d'affaires déterminé selon le schéma numéro 1:

Le chiffre d'affaires
- les dépenses de marchandises
= la marge commerciale
- les dépenses de la circulation variables
= la marge des circulations variables
- les dépenses des circulations fixes
= le résultat brut de l'activité d'exploitation selon le chiffre d'affaires

L'illustration numéro 1. La détermination du résultat brut de l'activité d'exploitation.

Par le schéma présenté, il en résulte les relations suivantes:

CA - Mf = Mc – Cv = Mcv; Mcv – Cf = Rbex, où:

CA - le chiffre d'affaires résulté par la vente de marchandises;

Mf - les dépenses en ce qui concerne les marchandises;

Mc - la marge commerciale;

Cv - les dépenses variables de la circulation;

Mcv - la marge des dépenses variables;

Cf - les dépenses fixes de la circulation;

Rbex - le résultat brut de l'activité d'exploitation.

La détermination du résultat par l'exploitation pour la société commerciale ''ALFA'' S.A. :

Les indicateurs	***L'exercice financier***						
	N	***N+1***	***N+2***	***N+3***	***N+4***	***N+5***	***N+6***
1. *le chiffre d'affaires (CA)*	*3813*	*3995*	*3827*	*2791*	*3033*	*2358*	*1782*
2. *les dépenses de marchandises (mf)*	*3101*	*3169*	*2834*	*2095*	*2266*	*1754*	*1311*
3. *la marge commerciale (Mc) (rd.3=rd.1-rd.2)*	*712*	*826*	*993*	*696*	*767*	*604*	*471*
4. *les dépenses variables de la circulation (Cv)*	*424*	*612*	*566*	*491*	*559*	*502*	*338*
5. *la marge des dépenses variables (Mcv) (rd.5=rd.3-rd.4)*	*288*	*214*	*427*	*205*	*208*	*102*	*133*
6. *les dépenses fixes de la circulation (Cf)*	*279*	*397*	*552*	*419*	*421*	*527*	*294*

***7.** le résultat brut de l'activité d'exploitation selon le chiffre d'affaires (Rbex)* *(rd.7=rd.5-rd.6)*	*9*	*-183*	*-125*	*-214*	*-213*	*-425*	*-161*
***8.** la production immobilisée*	-	-	-	-	-	-	-
***9.** la variation des stocks*	-	-	-	-	-	-	-
***10.** les autres rapports de l'exploitation (Ave)*	*81*	*383*	*36*	*260*	*312*	*663*	*382*
***11.** le résultat de l'exploitation (Re)* *(rd.11=rd.7+rd.8+rd.9+rd.10)*	*90*	*200*	*-89*	*46*	*99*	*238*	*221*

Par l'analyse il en résulte :

- le résultat d'exploitation est concrétisé en bénéfice, à cause des autres bénéfices d'exploitation.
- la marge commerciale ne couvre pas les coûts de la circulation et la réalisation du profit.

Pour préciser le résultat d'exploitation, on retient comme un désavantage le fait que les facteurs de décisions n'ont pas poursuit la réalisation du chiffre d'affaires avec un surplus commercial selon les marchandises vendues qui pourraient couvrir les coûts de la circulation.

L'équilibre économico - financier des entreprises commerciales est exprimé par les relations suivantes:

1. Cmf + rmc = Cmf + rmcv + Cv = 1, oỳ :

Cmf - le coût moyen des marchandises par 1 leu chiffre d'affaires

rmc - la mensualité commerciale;

rmcv - la mensualité de la marge des coûts variables;

Cv - le coût moyen variable par 1 leu chiffre d'affaires.

2. rmcv = mcv / CA / Mc / CA – Cv /CA = rmc – Cv ; Cv = rmc - rmcv

Si l'on considère:

E = Cmv / Cv, il en résulte Cv = Cmv / E,

Et rmcv = rmc – Cmv / E = rmc. E – Cmv / E;

Rmcv. E = rmc. E - Cmv;

Cmv = E(rmc - rmcv);

Et E = Cmv / rmc - rmcv, oỳ :

Cmv - la dépense variable marginale;

Rmcv - la mensualité de la marge des dépenses variables;

Mcv - la marge des dépenses variables;

CA- le chiffre d'affaires;

Mc - la marge commerciale;

Cv - les dépenses variables;

Rmc - la mensualité de la marge commerciale;

Cv - la dépense moyenne variable;

E - le coefficient d'élasticité.

Le rendement de l'activité d'exploitation de l'entreprise commerciale est rendu par la valeur du coefficient d'élasticité.

- le rendement augmenté: E < 1; Cmv < Cv; rmc – rmcv > Cmv;

– le rendement constant: E = 1; Cmv = Cv; rmc – rmcv = Cmv;

– le rendement diminué: E > 1; Cmv > Cv; rmc – rmcv < Cmv.

3. rmc = Cv + Cf + b, oừ:

Rmc - la mensualité de la marge commerciale;

Cv - la dépense moyenne variable;

Cf - la dépense moyenne fixe;

b- le bénéfice par 1 leu chiffre d'affaires.

L'activité de l'exploitation devient efficace si:

Rmc > Cv + Cf, et Cf a un niveau constant.

4. rmcv = Cf + b, oừ:

Rmc - la mensualité de la marge commerciale;

Cv - la dépense moyenne fixe;

b - le bénéfice par 1 leu chiffre d'affaires.

L'efficacité de l'activité de l'exploitation augmente l'équilibre économico - financier, si la mensualité des dépenses variables (rmcv) évolue positivement, et la dépense moyenne fixe (Cf) se maintient constante. Aussi, la mensualité de la marge commerciale croît dans un rythme supérieur comparatif à la mensualité des dépenses variables.

Indicateurs	*L'exercice financier*						
	N	*N+1*	*N+2*	*N+3*	*N+4*	*N+5*	*N+6*
1.le chiffre d'affairs (CA)	*3813*	*3995*	*3827*	*2791*	*3033*	*2358*	*1782*
2.les dépenses de marchandis (mf)	*3101*	*3169*	*2834*	*2095*	*2266*	*1754*	*1311*
3.la dépense moyenne des merchandises (Cmf) (rd.2/rd.1)	*0,81*	*0,79*	*0,74*	*0,75*	*0,75*	*0,74*	*0,74*
4.la marge commerciale (Mc) (rd.1-rd.2)	*712*	*826*	*993*	*696*	*767*	*604*	*471*
5.la mensualité de la marge commerciale (rmc) (rd.4/rd.1)	*0,19*	*0,21*	*0,26*	*0,25*	*0,25*	*0,26*	*0,26*
6.les dépenses variables (Cv)	*424*	*612*	*566*	*491*	*559*	*502*	*338*
7.la dépense moyenne variable (Cv) (rd.6/rd.1)	*0,11*	*0,15*	*0,14*	*0,17*	*0,18*	*0,21*	*0,18*
8.la marge des couts variables (Mcv) (rd.4-rd.6)	*288*	*214*	*427*	*205*	*208*	*102*	*133*
9.la mensualité de la marge commerciale variable (rmcv) (rd.8/rd.1)	*0,08*	*0,06*	*0,12*	*0,07*	*0,07*	*0,05*	*0,08*
10.les dépenses fixes circulation (Cf)	*279*	*397*	*552*	*419*	*421*	*527*	*294*
11.la dépense moyenne fixe	*0,07*	*0,09*	*0,14*	*0,15*	*0,14*	*0,22*	*0,16*

(Cf) *(rd.10/rd.1)*							
12.le résultat brut de de l'activité de l'exploitation selon le chiffre d'affaires (Rbex)	*9*	*-183*	*-125*	*-214*	*-213*	*-425*	*-161*
13. le résultat brut de l'activité d'exploita-tion selon le chiffre d'affaires (b)	*0,01*	*-0,03*	*-0,02*	*-0,18*	*-0,07*	*-0,17*	*-0,08*
14. la dépense marginale variables (Cvm)	-	*1,03*	*0,26*	*0,07*	*0,27*	*0,08*	*0,28*
15. la valeur du coefficient d'élasticité	-	*6,86*	*1,85*	*0,38*	*1,50*	*0,38*	*3,50*

L'analyse des indicateurs et des resultants obtenus par SC ALFA SA

Par l'analyse on peut comprendre les conclusions suivantes:

- les coûts de marchandises et la marge commerciale ont été un niveau constat.
- l'activité d'exploitation a enregistré un rendement augmenté, quand la dépense marginale variable a été plus petite que la dépense moyenne variable.

Pour l'assurance de l'équilibre économico - financier il est nécessaire:

- l'augmentation de la marge commerciale dans un rythme supérieur aux dépenses de la circulation.
- que les dépenses variables soient effectuées en concordance avec la modification du chiffre d'affaires, et des autres indicateurs économiques.
- que les dépenses fixes soient constantes ou diminuées par rapport au chiffre d'affaires et la marge commerciale.

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ORGANISATION DES AUDIT COMMITTEES IN DEUTSCHEN UNTERNEHMEN

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Abstract Corporate Governance ensures that long-term strategic objectives and plans are established and that the proper management structure (organization, systems, and people) is in place to achieve those objectives, while at the same time making sure that the structure functions to maintain the corporation's integrity, reputation, and responsibility to its various constituencies. Audit committees have a big job to do in an organization, tough when the members have other responsibilities and the audit committee role is a part-time job with huge accountability.

Key words: Audit Committee, Organisation, Corporate Governanc,Audit Committee Charter

1.Einleitung

Im Zentrum der Corporate Governance-Debatte steht die Frage, durch welche Instrumente oder Mechanismen potentielle Interessenkonflikte zwischen Kapitalgeber und Management gemindert werden können. Diese Interessenkonflikte, in der wissenschaftlichen Literatur auch bekannt unter der Principal-Agent Problematik, lassen sich auf die in der Natur der modernen Aktiengesellschaft liegenden Trennung von Eigentum und Kontrolle zurückführen. Die Aktionäre als Eigentümer der Aktiengesellschaft überlassen deren Führung üblicherweise einer Unternehmensleitung respektive einem Management , da ihnen die Zeit oder der Anreiz fehlt, das Unternehmen selber zu führen oder sie nicht über die dazu erforderlichen Kompetenzen verfügen (Beiner, 2005, S. 1). Die Interessen der Agents müssen in der Folge nicht zwangsläufig mit denen der Principals übereinstimmen.

Forschungsgegenstand der vorliegenden Arbeit ist es, den spezifischen Beitrag eines Audit Committees zur Corporate Governance einer Gesellschaft und die speziellen Anforderungen an die Zusammensetzung eines solchen Ausschusses herauszuarbeiten.

2.Organisation des Audit Committees

2.1.Innere Organisation

Den organisatorischen Aspekten des Audit Committees kommt hierbei eine grosse Bedeutung zu. „Aufbau und Prozess sind für den Erfolg des Prüfungsausschusses genauso wichtig wie für den Erfolg eines beliebigen Unternehmens“ (Lussu, 2004, S. 8). Zu einer zweckmäßigen Organisation gehören unter anderem Festlegungen hinsichtlich der Zusammensetzung, der Vorgehensweise, aber auch der regelmässigen Selbstbeurteilung. Nach der Untersuchung der Hauptdokumenten, des deutschen Best Practice- Empfehlungen, haben wir 242 Geschäftsberichte des Jahres 2006 von deutschen kotierten Unternehmen analysierst.

2.1.1. Audit Committee Charter

Gemäss der Empfehlung 4 des Blue Ribbon Reports und den Listing Requirements der New York Stock Exchange (sec. 303A.07) soll das Audit Committee über ein schriftliches Organisationsreglement respektive eine Audit Committee Charter verfügen. Allerdings ist das Organisationsreglement nicht nur ein wirksames *Instrument* für eine klare und unmissverständliche Zuteilung der Aufgaben, sondern auch ein *formelles Commitment* des Audit Committees „to ensure the integrity of financial statements and to supervise the internal and external audit functions“ (Moeller, 2004, S. 61). Nicht zuletzt ist zudem auf der Ebene des Gesamtverwaltungsrates von Gesetzes wegen des Organisationsreglements vorgeschrieben, wenn der Verwaltungsrat die Geschäftsführung an einzelne Mitglieder oder Dritte überträgt. Deshalb sollten die Corporate Governance-Richtlinien im Bereich der organisatorischen Aspekte des Prüfungsausschuss wohl im Minimum eine Audit Committee Charter empfehlen.

2.1.2. Anzahl Mitglieder

Ein Audit Committee sollte einerseits gross genug sein, um den umfangreichen Aufgaben nachkommen zu können und ein ausgewogenenes Spektrum von Ansichten und Erfahrungen zu gewährleisten. Andererseits sollte es aber auch klein genug sein, um effizient arbeiten zu können (PWC, 2003, S. 20). In den USA und Grossbritannien wird eine Minimalgrösse von drei Mitgliedern gefordert. Generell wird bei drei bis sechs Mitgliedern von einer optimalen Grösse gesprochen (PWC, 2003, S. 20). Grundsätzlich gilt auch hier, dass die Grösse jedes Prüfungsausschusses den spezifischen Eigenschaften (wie der Grösse des Unternehmens oder dem konkreten Arbeitsumfang des Ausschusses) des Unternehmens anzupassen ist. Der Blue Ribbon Report und der Combined Code tragen der Berücksichtigung der Grösse des Unternehmens Rechnung, indem sie die Mindestgrösse erst ab einer Marktkapitalisierung von USD 200 Mio. respektive der Zugehörigkeit zum FTSE 350 Index fordern.

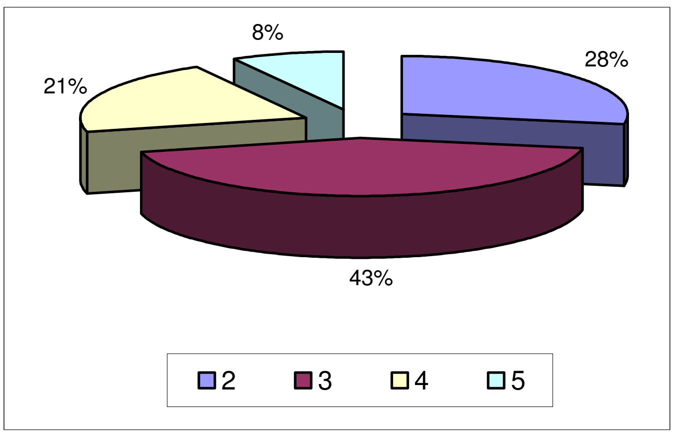


Abbildung 1 Anzahl Mitglieder der Audit Committees (eigene Darstellung)

Die Auswertung, der deutscher Unternehmen zeigt, dass 72 % der Unternehmen die Forderung nach mindestens drei Mitgliedern erfüllen . Gemäss einer Studie von PWC (zit. in PWC, 2003, S. 20) haben 70 % der wichtigsten europäischen Unternehmen ein Audit Committee mit drei bis vier Mitgliedern. Nach unseres Analyse können wir bemerken dass der Anteil der deutschen Unternehmen fast deckungsgleich ist mit dem Europäischen Niveau. Es stellt sich jedoch die Frage, ob zur Sicherstellung einer ausgewogenen Mitgliederstruktur, einer gewissen Altersschichtung, aufgrund von Verhinderungen und der Zuteilung von geeigneten Mitgliedern zu weiteren Ausschüssen nicht generell ein grösseres Gremium nötig ist (Böckli, 2004, S. 1440). So sieht Böckli (2004, S. 1440) das Optimum für einen Verwaltungsrat denn auch bei sieben bis zehn Mitgliedern. Auf der anderen Seite sind grosse Verwaltungsräte mit sehr vielen Mitgliedern aus Effizienzgründen anerkanntermassen problematisch. Von den neun Audit Committees mit fünf Mitgliedern gehören fünf einem Gesamtverwaltungsrat mit über zehn Mitgliedern an. Hier besteht die Gefahr der Konzentration aller wichtigen Funktionen im Ausschuss und der Informationshemmung zwischen den Ausschüssen (Böckli, 2004, S. 1440), weshalb eine Verkleinerung des Gesamtverwaltungsrates und des Audit Committees in Erwägung gezogen werden sollte.

2.1.3. Anzahl Sitzungen

Damit man zu einen guten erfolg kommt ist neben einer nutzenmaximierenden Grösse der Prüfungsausschuss für eine effektive Durchführung seiner Aufgaben angewiesen. Wenn man das in einem Wort zusammen fast kann spricht man von der Zeit „Audit committee members must make the time, and take the time, to achieve an adequate understanding of what the company´s financials represent, to have enough time to consult with outside counsel and experts if necessary, to ask the tough and incisive questions, and to obtain answers that make sense" (Herdman, 2002, S. 7). Für diese Arbeit sind *regelmässige Sitzungen* des Audit Committees unerlässlich. Der 1992 publizierte Cadbury Report ging noch davon aus, dass zwei Sitzungen pro Jahr genügen würden. Zur Erfüllung der heutigen Anforderungen genügt dies allerdings kaum mehr. Die Häufigkeit der Sitzungen hängt zwar vom genauen Umfang der Überwachungstätigkeit und –verantwortung des Audit Committees ab. Man spricht von einer optimalen Anzahl von Sitzungen wie es Bertschinger und Schaad (2003, S. 27) sowie PWC (2003, S. 21) nennen jedoch von drei bis vier Sitzungen. Eindeutiger äussern sich dagegen Wallace und Zinkin (2005, S. 216), sowie Böckli (2005, S. 39), indem sie vier ordentliche Sitzungen pro Jahr als Untergrenze ansetzen.

Ausser der internen und externen Revision sollte man auch die Probleme der Follow-up, der Stand der Arbeiter und vieles anderes Diskutieren. Diese Probleme, die in den Sitzungen zu Besprechen sind, kann man kaum in einer Sitzung bewältigen. Um einen guten Verlauf der Sitzungen zu gewährleisten, sollte man eine gute Vorbereitung vornehmen und die dazugehörige Agenda erstellen. Das Management des Unternehmens sollte für diese Veranstaltungen die nötigen Ausrüstungen zur Verfügung stellen.

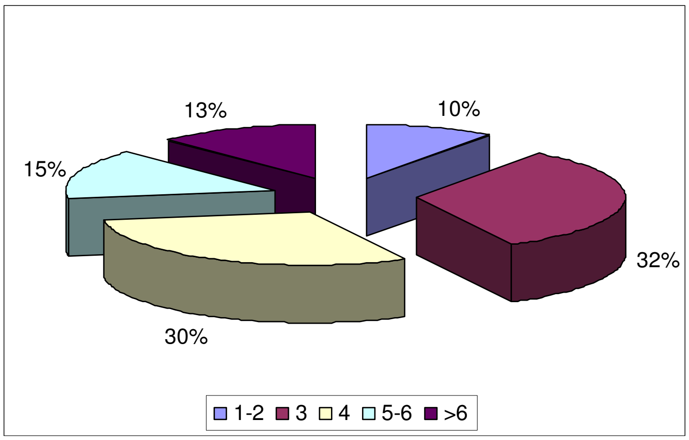


Abbildung 2 Anzahl Sitzungen der Audit Committees (eigene Darstellung)

Von den untersuchten Unternehmen haben nur 80 respektive 52% Angaben bezüglich ihrer Sitzungen angegeben. Wie man es in der oberen Grafik feststellen kann, 72% der Unternehmen erfüllen die Minimalerfordernis von vier Sitzungen pro Jahr. Es sind sogar 28% der Unternehmen, die mehr als vier Sitzungen pro Jahr haben.

2.1.4. Selbstbeurteilung

Gemäß des Combindet Cod sollen die Ausschüsse jährlich ihre Effektivität überprüfen und gegebenenfalls den Gesamtverwaltungsrat nötige Änderungsmaßnahmen vorschlagen. Die jährliche Selbstbeurteilung wird von der Corporate Governance gefordert. Durch diese Selbstverteidigung kann man beweisen das man die Arbeit gewissenhaft durchgeführt hat. Man stellt sich die Frage nach welchen Kriterien sollte man die Selbstbeurteilung vornehmen und nach welchen Prozessen soll man das durchführen.

Nach der Beurteilung der einzelnen Mitglieder und des Audit Committees als Gesamtgremium, kann man auf der Ebene der Ausschussmitglieder folgende Faktoren in betracht ziehen:Fachkunde, Kritische Grundhaltung, Objektivität und Integrität, Urteilssicherheit, Verständnis der Geschäftstätigkeit der Unternehmen, Verständnis und Verpflichtung für die Aufgaben des Audit Committees und Bereitschaft, genügend Zeit für die Vorbereitung der Sitzungen aufzuwenden.Auf der Eebene des Gesamtgremiums dient als Grundlage die Audit Committees Charter.Auf der Ebene des Gesamtgremiums dient als Grundlage zur Beurteilung idealerweise die Audit Committee Charter, wobei beispielsweise die Zusammensetzung des Ausschusses, der Ablauf der Sitzungen, die Aktivitäten, die Beziehungen zum

Management und den Revisoren und die Nutzung der Ressourcen als Kriterien für die Beurteilung der wirksamen Überwachungstätigkeit herangezogen werden können (PWC, 2003, S. 48).

Schweizer und Hofstetter empfehlen eine Zweistufiges verfahren der Durchführung des praktischen Teiles. In der ersten Phase sollte man eine individuelle Bewertung vornehmen und eine Bewertung des Ausschusses.In der zweiten Phase sollte ein kostruktives Dialog im Rahmen einer Diskussion der Resultate durchgeführt.

2.2. Anforderungen an die Mitglieder

Damit man über effektives Audit Committees sprechen kann, benötigt man eine Besetzung mit geeigneten Mitglieder.Um eine glaubwürdige Position zu gewährleisten, sollen Mitglieder über die nötige Zeit, Sorgfalt, Unabhängigkeit, Integrität und Fachkunde verfügen.Mittels ihrer Kenntnisse sollten sie „die Geschäftsleitung herauszufordern und genügend Aufmerksamkeit auf zweifelhafte Praktiken zu richten, selbst in scheinbar erfolgreichen Unternehmen"(Bertschinger, Schaad, 2003,S.16).

2.2.1. Unabhängigkeit

Zu den Kernpunkten der Corporat Governance - Anliegen gehört seit Mitte der neunziger Jahre die Vorstellung dass der Prüfungsausschuss mit vollkommen unabhängigen Mitgliedern zu besetzten sein. Die konkreten Anforderungen der verschiedenen Kodizes und Gesetze unterscheiden sich jedoch in ihrer strengen und Reihweite.

Die internationalen Regelungen zur Unabhängigkeit sind merklich strenger als die nationalen Regelungen. So siecht der Combined Code auch schon in der Verwandtschaft eine Gefährdung der Unabhängigkeit und erfasst mit der so genannte „catch-all-clause"(Böckli, 2004, S.1823) alle denkbaren Umstände, welche die unabhängige Ausübung des eigenen Urteils in Frage stellen.

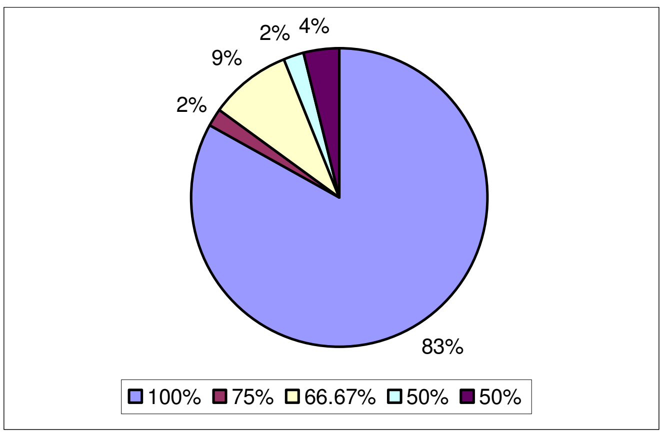


Abbildung 3 Unabhängigkeit der Audit Committee Mitglieder (eigene Darstellung)

Die Unabhängigkeit der Audit Committees der untersuchten Unternehmen kann als positiv eingestuft werden. 83 % der untersuchten Audit Committees setzen sich vollständig aus unabhängigen Mitgliedern zusammen.

2.2.2. „Financial Literacy" und „Financial Expertise"

Heut zutage sollte jeder Audit Committee Mitglied gute Erfahrung im Finanz- und Rechnungswesen haben, d.h. „in der Lage, Zusammenhänge der Rechnungslegung rasch zu erfassen, zielgerichtete Fragen zu stellen und die Antworten inhaltlich rasch zu analysieren" (Böckli, 2004, S. 1561). Bereits der Blue Ribbon Report stellte diese Anforderung auf, die vom

Sarbanes-Oxley Act drei Jahre später übernommen wurde (sec. 407). Der Combined Code (princ.

C.3.1) fordert analog: „The board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

Während die „Financial Literacy" international als Vorbedingung für die Wahl in einen Prüfungsausschuss gilt, gehen die amerikanischen Vorstellungen noch einen Schritt weiter, indem sie darüber hinaus fordern, dass mindestens eines der Mitglieder ein so genannter „Financial Expert" ist, d.h. faktisch ein diplomierter Wirtschaftsprüfer.(Böckli, 2004, S. 1765). Der Smith Report von 2003 erachtet in seinem Kommentar (Ziff. 32) diese besondere fachliche Qualifikation zwar als wünschenswert und „virtually essential for some complex businesses", wendet sich aber explizit gegen eine entsprechende Formulierung in seinen Empfehlungen.

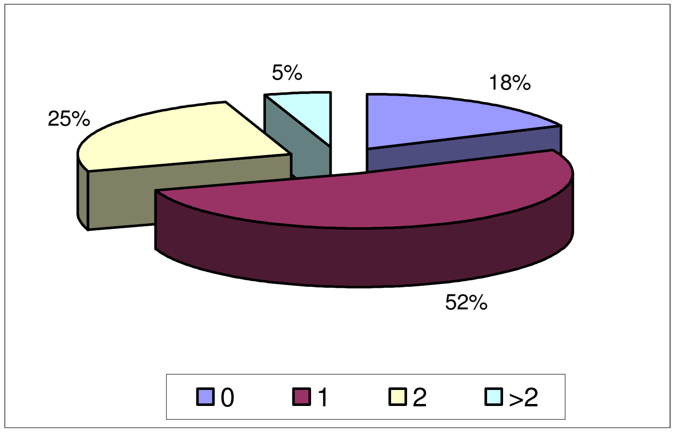
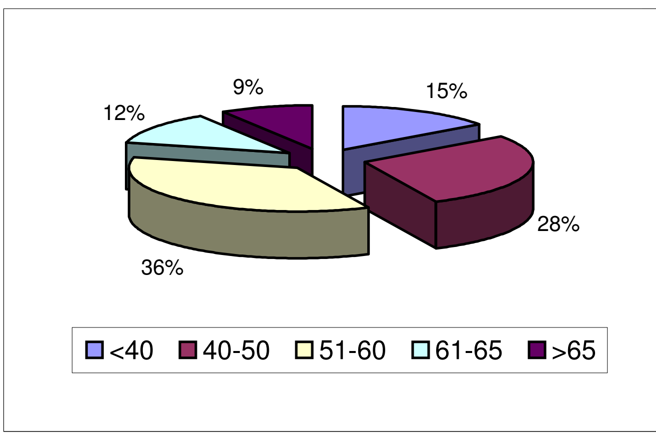


Abbildung 4 Financial Experts in den Audit Committees (eigene Darstellung)

Trotz des Fehlens einer entsprechenden Empfehlung setzen 70 % der untersuchten Audit Committees mindestens einen „Financial Expert" ein, ein Drittel von ihnen sogar zwei oder mehr. Als Erfüllungskriterien für den Status eines „Financial Experts" wurden die oben erwähnten Ausführungen von Böckli (2004, S. 1765) herangezogen.

2.2.3. Weiterbildung

Gerade auf dem Gebiet der von dynamischen Veränderungen geprägten Finanzberichterstattung ist eine innere Bereitschaft des Audit Committee-Mitglieds, dazuzulernen, von entscheidender Bedeutung. Eine Einführung für neu eintretende Mitglieder ist dabei ebenso unerlässlich wie eine *regelmässige Weiterbildung, um das Wissen auf dem neuesten Stand zu halten.*



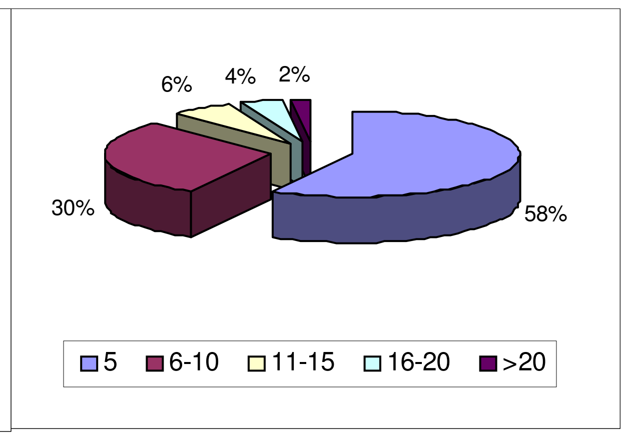


Abbildung 5 Alter der Audit Committee Mitglieder (eigene Darstellung)

Abbildung 6 Amtszeit der Audit Committee Mitglieder im Verwaltungsrat (eigene Darstellung)

Wie in den Grafiken zu sehn ist, sind 57 % der Audit Committee-Mitglieder über 50 Jahre alt und beinahe die Hälfte von ihnen bereits mindestens sechs Jahre im Verwaltungsrat tätig. Die Vermutung liegt nahe, dass dabei einige von ihnen als erfolgreiche und selbstbewusste Unternehmer für diese Belange wenig übrig haben könnten. Tatsächlich sind aber die fachlichen Anforderungen an ein Audit Committee-

Mitglied heute eindeutig grösser als das, was noch bis in die neunziger Jahre von ihm erwartet wurde (Böckli, 2005, S. 37). Deshalb handelt es sich bei Weiterbildung (und auch Einführung) um Erfordernisse, von denen, so Böckli (2004, S. 1813) zu Recht, praktisch unter keinen Umständen in einer börsenkotierten Gesellschaft abgewichen werden darf.

3.Zusammenfassung und Ausblick

Zielsetzung der vorliegenden Arbeit war, den Beitrag eines Audit Committees zur Stärkung der Corporate Governance herauszuarbeiten. Überdies sollten die spezifischen Anforderungen an die Zusammensetzung eines Audit Committees aufgezeigt werden, die diesem eine effektive und effiziente Wahrnehmung seiner Aufgaben ermöglichen.Um den umfangreichen Aufgaben mit der gebotenen Sorgfalt nachkommen zu können, sollte ein Audit Committee aus mindestens drei, aus Effizienzgründen maximal vier Mitgliedern bestehen. Überdies sind regelmässige Sitzungen des Audit Committees unerlässlich. Vier ordentliche Sitzungen pro Geschäftsjahr sind dabei als Untergrenze anzusetzen.

Für eine zielgerichtete Wahrnehmung ihrer Aufgaben müssen die Ausschussmitglieder zudem persönlichen Anforderungen an ihre fachliche Qualifikation und ihre Unabhängigkeit gerecht werden. Um die Fülle an Berichten wie Konzernabschlüsse, Prüftestate und Zwischenberichte sachgerecht verarbeiten und in einen fundierten und konstruktiven Dialog mit der internen und externen Revision treten zu können, müssen die Mitglieder im Finanz- und Rechnungswesen erfahren sein. Die Schaffung eines obligatorischen Financial Experts, wie im Sarbanes-Oxley Act gefordert, stellt eine Möglichkeit dar, dieses Qualifikationsniveau sicherzustellen.Als weiter Studie haben wir uns Vorgenohmen eine Analyse bezüglich der rumänischen Unternehmen vorzunehmen. Wie möchte sehn, wie weit in Rumänien das Corporate Governance angewendet wird und ob wir über Audit Committees verfügen.

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THE IMPROVEMENT PROCESS OF THE ROMANIAN EDUCATIONAL ACCOUNTING SYSTEM TOWARD A GLOBAL ECONOMIC ENVIRONMENT – A SHORT DESCRIPTION OF A RESEARCH PROJECT

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Through this paper we intend to disclose our actual research project focused on evaluation of the actual stage of Romanian academic accounting education in order to support the national university reform which has began in 2005. The research is meeting the international trends oriented to improve the academic process of accounting graduates. In this way, by determine a correlation degree between international trends: globalization, regionalization and the evolution of Romanian accounting system and by evaluation of the actual stage of Romanian accounting academic system from the point of view of actors involved (graduates, teachers and employers) we intend to determine the connection between the appliance of public requirements with the actual level of graduates' professional knowledge. Then we will offer constructive solutions, empiric validated, which will help the accounting graduates in their way to accounting profession. The research is interdisciplinary and its originality is give by the pioneering work performed at national level by the research team who is developing such a theoretical and practically complex approach.

Keywords: accounting education, professional development, academic education, accounting profession

An overview of the project

In recent years, at least three major factors had a significant impact on the business environment for which teachers prepare graduates: technology, globalization and the increased concentration of power among certain markets investors. In this circumstance, the future of the accounting education depends on how proactive teachers are and on the way universities can meet the necessities of the economic world's ongoing change. High trade literature (Albrecht and Sack in 2000 and 2002, Dusch and Wambsganss in 2006, Hurt in 2007, etc) reflects concerns regarding the perilous academic accounting education is. Moreover, the accounting profession's organisms (IFAC, IAAER, UNCTAD, GAE, AAA, ACCA, etc.) are demanding changes in accounting education to be made before the image of the profession will be affected.

The proposed research's topic is based both on a fundamental and applicative research. The fundamental research focuses on analyzing information by description, offering the useful instruments in order to perform analyze, launching ideas and believes. It allows, based on existing theories and concepts, to draw essential guidelines in the accounting education domain which assure the pre-requisite of the research.

The applicative research is meant to identify the actual stage of the Romanian academic accounting education concerning the accounting graduates' level of knowledge. Its results will have a great impact on verifying the hypothesis developed by fundamental research and also on identifying new problems, stages or particular cases for Romania. Using both of the research methods will contribute to establishing the connection ratio between the application of public requests and the actual level of accounting graduates' knowledge.

The transdisciplinary feature of this project is proved by involving within the research project both Romanian's professional organisms and top management of the most important audit and accounting companies. Their implication will add value to our research by bringing a practical and different vision and ideas. In this way, the hypothesis developed throughout this research will be larger. Since the subject of the research affects the public interest, the participative approach is a must.

The structure of the research underlines its' interdisciplinary feature: firstly, we are going to investigate the actual stage of the accounting curricula in relation to the requests of the professional organisms on the necessary knowledge an accounting graduate must have: accounting, finance and related knowledge, organizational and business knowledge and IT knowledge [IES 2, p.3]. Being indispensable to assure a minimum base in gaining knowledge process of the accounting graduate, these areas of knowledge will be analyzed in order to identify the degree of correlation in between at curricula level. Moreover, we will analyze other significant aspects like teaching methods, educational models, technology and the development stage of Romanian university.

Research's objectives are:

- O1: To identify the accounting education public requests made by the professional organisms and professional organizations at international, European and national level and the factors that affect them.
- O2: To determine the degree of correlation between the nowadays trend: globalization and the evolution of the Romanian academic accounting education system.
- O3: To evaluate the national academic accounting education by deeply analyzing the accounting graduate's level of knowledge.
- O4: To determine the extent to which the professional organisms' public requests are connected with the accounting graduate's level of knowledge.
- O5: To issue new pragmatic approaches and to offer constructive solutions for achieving a higher accounting graduates' level of knowledge.

The research methodology and methods used

The research methodology is based on scientific epistemology. A critical and mostly inductive research will generate the obtaining of verifiable knowledge which contributes through their value to the development of the scientific knowledge in this area. Our vision is to build new hypothesis and opinions supported by the preliminary analyze of the present knowledge and specific phenomena and to test further the validity of the hypothesis and issued opinions. The testing process for the obtained data validity will consider only scientific methods. Besides inductive research, deductive research will also play an important role in the consolidation process of the research's results.

The research methodology implies gathering all possible existing theory, concepts, ideas and opinions of high rated specialists and a comparative approach of different visions on two levels: conceptual (literature and existing regulations) and de facto (the actual stage of academic accounting education in Romania).

The first important step is represented by identifying the knowledge area in this field, which will be achieved through a harshly documentation over the most recent publications: articles in journals, governmental acts, reports, standards, recommendations issued by international and national professional organisms. The documentation process followed by observation will help us to use a comparative approach on three different levels (International, European and National) in order to identify the requests of the most active professional organisms. By offering explanations on similarities and differences observed in our effort to establish a causality relation, based only on valid theories, we can build a necessity's perimeter of academic accounting education in Romania.

The Academic accounting system (AAS) is influenced by external and internal aspects. One of the external aspects which play an important role is the globalization/regionalization process (Mathews, 2001, Hilton, 2005, Needles, 2005, Pekdemir, 2007). We will look closely at this factor in order to identify its impact on national AAS. On the other hand, AAS is influenced by the evolution of social, economic, cultural and not at least political factors. We will identify and investigate their influence using the holistic analyze because the effect of each factor's evolution is representative only if it is analyzed on the whole. The issued hypothesis will be empirically tested to reach trustable conclusions from scientific point of view.

Having the goal of evaluating the actual stage of national AAS we will apply four questionnaires in order to assess the accounting graduate's knowledge in Romania. The questionnaires which will be applied are based on those used by Steve Albrecht S and Bob Sack in 2000 and published in their remarkable study: „Charting the Course through a Perilous Future". The reasons for using their questionnaires are as follows: they were drawn by a team of specialists whose professional probity can't be questioned; the trade literature didn't identify any doubts regarding their quality, although their study was analyzed and commented by many specialists; the questionnaire's scope is the same: to evaluate the academic accounting graduates' knowledge; the questionnaires are available at http://aaahq.org/pubs/AESv16/index.html with no restriction to be used. Even so, we will not use the same questionnaires' working methodology: few amendments will be considered regarding the nature and number of analyzed subjects. Moreover, some additional questions will be added in order to clarify some specific aspects. The results will be processed with SPSS 16.0 using descriptive statistics. The practical approach of the research is essential by permitting us to assess both the actual stage of the academic accounting education system and its results which will guideline our research to reach and offer practical solutions of the studied phenomena. By doing so, we can connect the theoretical research's results with those resulted from the applicative study in order to establish a correlation ratio between public requests and the actual stage of accounting graduate's knowledge. All these new results will be managed using the instruments of the inductive research. This stage of the project contributes to the reality's deep knowledge of the studied topic and permits us to identify and explain different problems or specific identified situations and phenomena. The tools used in this phase will permit us to draw scientific conclusions which will be empirically validated. Based on the achieved results and using observation and direct analyze we can identify new approaches and offer constructive solutions with the purpose of raising the performance of the Romanian academic accounting education. In order to reach the proposed objectives, the documentation process will be focused on ongoing bases and oriented to the recent journals' publications.

The originality and the novelty of the proposed research topic

It is for the first time that such a deep analyze of the actual stage of the Romanian accounting academic education is taken into consideration, with the specific purpose of bringing a contribution to its development. By proving preoccupation in improving the academic education system, this project will confer Romania a special status among the UE countries. In addition, we have to underline that none of the European country has performed a similar research. The international echo of the project will be sound, Romania becoming one of the few countries who had tried to move on to be competitive in this domain, and this way showing its preoccupation regarding the faith of accounting profession. Such complex research, approached both theoretical and practical are extremely valuable because it tests the identified subject as a whole. Since now, partial researches which focus on accounting curricula ((Malciu, 1998, Tiron si Mutiu, 2007) and accounting regulations (Diaconu, 2006) have been done, but they are not so detailed and can't offer a global picture of the Romanian academic accounting education; moreover, they can't offer a constructive solution regarding the entire system. These are the motivations that show the originality and the novelty of the proposed research topic.

The functioning chart of the consortium

The consortium comprises research teams from the most well-known Romanian universities with a long tradition in accounting education. Each research team is run by a coordinator whose election was made based on a mix of several reasons: the level of expertise, professional and scientific achievements. The coordinator is in charge to select the research team's members except one amendment: team members have to be young researchers (masters and PhD students) which can assure by their background and knowledge the research will be carried through its final stage at the highest possible standards. The teams' structure has to be revised every time it is considered to be necessary, so that therefore, the professional knowledge of the researchers which are involved can successfully assure the achieving of the research's goal.

The project will be run by teams' coordinators and by the director of the project. The administration process of the project will be done by a person who is not involved in research.

Every team is involved actively in achieving every objective, as it is shown in the table from below. Their role is a major one, the work they perform being indispensable for the proposed research project. Based on the written procedure issued by the project's director, every team has specific tasks regarding the documentation process, obtaining and analyzing data, in order to build hypothesis and to test them. Advancing hypothesis, results interpretation and designing the conclusions will be done by the coordinators, assisted by the representatives of the Romanian professional organisms and business environment. The representatives' participation in this project will be voluntarily and no claims for any financial reward will be possible. The team's contribution is presented below according to the project's objectives:

Scientific objectives of the project	***Team's contribution (%)***				***% from total***
	UBB	*ASE Bucuresti*	*AI Cuza Iasi*	*UV Timisoara*	
O1: *To identify the accounting education public requests made by the professional organisms and professional organizations at international, European and national level*	*42,5*	*19,5*	*19*	*19*	*100*
O2: *To identify the accounting education public requests made by the professional organisms and professional organizations at international, European and national level and the factors that affect them*	*31*	*23*	*23*	*23*	*100*
O3: *To determine the extent to which the professional organisms' public requests are connected with the accounting graduate's level of knowledge*	*31*	*23*	*23*	*23*	*100*
O4: *To issue new pragmatic approaches and to offer constructive solutions for achieving a higher accounting graduates' level of knowledge*	*31*	*23*	*23*	*23*	*100*
% on objectives	*33,9*	*22,1*	*22,0*	*22,0*	*100*

Table 1. The team's contribution according to the project's objectives

The research's results

The research's results will have a great positive impact and will represent an important milestone for the national academic education system because the result will identify new approach directions characterized by a high level of pragmatism, offer new development's solutions of the national academic educational system and allow designing new strategies whose main role will increase the performance of the accounting graduates and the prestige of Romanian accounting academic system at international level. The results of the research will constitute a reference point for future similar research both at national, regional and international level. Moreover, they will permit an ongoing analyze of the national education system's performance.

The utility of the project is claimed by the international trend that emphasize the power of academic accounting education has to increase in order to help its bigger sister: the accounting profession. The results of the research will follow this trend by proving to be a part of the effort made by international professional organizations: (IAAER, IFAC, ACCA, etc.), well known accounting and audit companies (KPMG, PricewaterhouseCoopers, etc.) and researchers (Albrecht and Sacks, 2002, Bennet 2005, Hurt, 2007, Cheng, 2007, etc.) in their way to improve the accounting educational system. Going further, our belief is that the results will be applied into practice since their existence will be circumscribed with the direct interest of the university in increasing the quality of the education process.

Our research will most definitely add value in this field because it both identifies the actual stage of national academic accounting education and offers ways to improve it, this way contributing to the development of the accounting educational strategy. We consider that a strong connection exists between the high quality of accounting profession and the high quality of the accounting education system. Because of that, the future imagine of the accounting profession depends on the improvements made in the quality of the education system.

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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”[372].

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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[372] 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”[373]. 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”[374]. 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,

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[373] Peter Walton – “La convergence IASB –FASB et ses implications”, *Revue francaise de Comptabilite, Numero special IAS/IFRS*, Septembrie 2005

[374] David Tweedie – “Le programme de IASB” – *Revue francaise de Comptabilite, Numero special IAS/IFRS*, Septembrie 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"[375].

"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"[376].

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"[377].

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"[378].

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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[375] 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

[376] Sir David Tweedie – IASB Chairman Addresses European Parliament, April 10, 2007

[377] David Tweedie, press release 21 June 2007

[378] 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”[379]. 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.

[379] 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 analize 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 by 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[380] 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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[380] Neag Ramona – The Romanian Accounting regulation: what evolution, what perspectives?, International conference ICELM II, Tg. Mures, June 2006

ISSUES REGARDING VALUATION IN ACCOUNTING. FROM HISTORICAL COST TOWARDS FAIR VALUE

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ABSTRACT: A primary goal of financial reporting is aiding investors in making economic decisions. A primary economic decision investors make is assessing the value of firms in which they are invested or consider investing.

The role of accounting numbers in valuation has been of fundamental interest to analysts, investors and researchers alike. Much of the empirical research in accounting based valuation has revolved around analyzing historical and forecasted accounting numbers.

In my paper I will present few accounting model used in evaluation and the implications of choosing one of those models: historical cost model, fair value model.

KEYWORDS: Accounting models, conservatism, earnings, valuation

INTRODUCTION

The IASB focus on assets and liabilities as the primary elements of financial statements contrasts starkly with "traditional" accounting practice. Until recently, accounting practice was generally based on historical cost and focused on accounting for transactions, underpinned by the concepts of "realization", under which profits were not recognized until they were realized, "matching", under which revenues were matched with costs, and "prudence", which implied an element of conservatism, but was seen by some as a means by which companies could inappropriately smooth their profits through the creation of hidden reserves or excessive provisions. The inadequacy of the historical cost, transaction-based approach for dealing, in particular, with derivatives (which have little or no initial cost but can expose companies to very substantial financial risk) and diminutions in the value – impairments – of assets, encouraged standard-setters to espouse an asset/liability approach to recognition and a "fair value" basis of measurement of assets and liabilities.

EVALUATION IN ACCOUNTING – THE CONCEPTUAL FRAMEWORK FORESIGHTS

It is generally considered that accounting is a measurement as well as a communication discipline. By measurement is meant "the assignment of numerals to object or events according to rules". The first step in accounting is to identify and select these objects, activities or events and their attributes that are deemed relevant to users before actual measurement takes place. Naturally, limitation of availability of data as well as specific characteristics of the environment, like uncertainty, lack of objectivity and verifiability, may create constraints to measurement. Where measurement is inadequate or infeasible, non quantifiable or non-monetary information may be provided in the footnotes.

Types of measurement

Various types of measurements are possible in accounting:

Accounting measurement can be direct or indirect. Direct or primary measures are actual measures of an object or its attributes. Indirect or secondary measures are derived indirectly by an algebraic transformation of a set of numbers that themselves represent direct measures of some objects or attributes.

With respect to decision time dimension, accounting measures can be classified as past measure, present measure or future measure to refer respectively to a measure of a past, present or future events.

To refer to accounting object or its attributes measures belong to a past, present or future event relative to the time at which measurement is made, the accounting measures can be classified as a retrospective measure, a contemporary measure or a prospective measure.

Measures can be:

- Fundamental measurement where the numbers can be assigned to the property by references to natural law and not to rely on the measurement of any other variables.
- Derived measurement which rely on the measurement of two or more quantities and depend on the existence of a verified empirical theory linking the given property to other properties.

Measurement can be made when confirmed empirical theories may be used to support their existence or made by fiat, based on arbitrary definition.

Types of scales

Every measurement is based on a scale. Scales can be described in generally terms as nominal, ordinal, interval or ratio.

- A nominal scale assist in the determination of equality; it is a simple classification system like the case of a chart of account. The numbers reflect the objects themselves rather than their properties.
- An ordinal scale assists in determination of greater or lesser; it is an order of preference system. One problem with ordinal scale is that the differences or intervals between the numbers are not necessary equal.
- An interval scale assists in the determination of the equality of intervals or difference. It assigns equal values to intervals between assigned numbers.
- A ratio scale assists in the determination of the equality of ratios, with the additional feature of the existence of a unique origin, a natural point zero, where the distance from it for at least one object is known.

According to Conceptual Framework, measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognized and carried in the balance sheet and income statement. This involves the selection of the particular basis of measurement.

A number of different measurement bases are employed to different degrees and in varying combinations in financial statements. They include the following:

Historical cost. Assets are recorded at the amount of cash or cash equivalents paid or the fair value of the consideration given to acquire them at the time of their acquisition. Liabilities are recorded at the amount of proceeds received in exchange for the obligation, or in some circumstances (for example, income taxes), at the amounts of cash or cash equivalents expected to be paid to satisfy the liability in the normal course of business.

Current cost. Assets are carried at the amount of cash or cash equivalents that would have to be paid if the same or an equivalent asset was acquired currently. Liabilities are carried at the undiscounted amount of cash or cash equivalents that would be required to settle the obligation currently.

Realizable (settlement) value. Assets are carried at the amount of cash or cash equivalents that could currently be obtained by selling the asset in an orderly disposal. Liabilities are carried at their settlement values; that is, the undiscounted amounts of cash or cash equivalents expected to be paid to satisfy the liabilities in the normal course of business.

Present value. Assets are carried at the present discounted value of the future net cash inflows that the item is expected to generate in the normal course of business. Liabilities are carried at the present discounted value of the future net cash outflows that are expected to be required to settle the liabilities in the normal course of business.

The measurement basis most commonly adopted by enterprises in preparing their financial statements is **historical cost.** This is usually combined with other measurement bases. For example, inventories are usually carried at the lower of cost and net realizable value, marketable securities may be carried at market value and pension liabilities are carried at their present value. Furthermore, some enterprises use the current cost basis as a response to the inability of the historical cost accounting model to deal with the effects of changing prices of non-monetary assets.

The historical cost accounting is characterized primary by:

- ☑ The use of historical cost as the attribute of the elements of financial statements;
- ☑ The assumption of a stable monetary unit;

- ☑ The matching principle;
- ☑ The realization principle.

FAIR VALUE VALUATION

As if the shift to IFRS in itself were not enough for the financial reporting system to digest, there are further, even more fundamental matters that the adoption of IFRS will bring to prominence. These centre arounds the valuation basis for assets and liabilities that the IASB has adopted in many of its new standards. The valuation approach that the IASB has embraced is rapidly introducing "fair value" as the primary basis of asset/liability measurement. As a result, a substantial portion of a reporting entity's assets and liabilities will be stated in the balance sheet at "fair value" – including pension assets and liabilities, derivative financial instruments, certain other financial assets, financial liabilities held for trading, tangible and intangible fixed assets that have been acquired in a business combination, impaired or revalued, assets held for disposal, share-based payment liabilities, investment properties, provisions and biological assets. The IASB has adopted what is essentially a market value definition of fair value, and expresses it in most of its standards as follows: 'the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction'.

Valuations required for many asset types in financial statements, and for different purposes, including:

- Establishing the carrying amount on balance sheet
- Treatment of surplus assets
- Establishing lease liabilities
- Calculation of depreciation charges
- Establishing value of assets acquired in takeover

The objective of a fair value measurement is to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction for that asset or liability. Thus, the estimate is determined by reference to a current hypothetical transaction between willing parties. Willing parties are presumed to be marketplace participants representing unrelated buyers and sellers that are (a) knowledgeable, having a common level of understanding about factors relevant to the asset or liability and the transaction, and (b) willing and able to transact in the same market(s), having the legal and financial ability to do so. Fair value presumes the absence of compulsion (duress). Accordingly, the amount that forms the basis for the estimate is the price that would be observed in a transaction other than a forced liquidation transaction or distress sale. In all cases, that price shall be estimated without regard to an entity's intent to currently enter into such a transaction.

Like other estimates, a fair value estimate, using present value, is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases, the amount and timing of the cash flows will be uncertain. Even contractual amounts, like the payments on a loan, will be uncertain if there is risk of default.

Marketplace participants generally seek compensation for bearing the uncertainty inherent in cash flows (risk premium). For example, marketplace participants will place a higher value on an asset with promised (contractual) cash flows and no uncertainty than on an asset with expected cash flows of the same amount that are uncertain. The lower value reflects compensation for bearing risk. Similarly, marketplace participants will demand more to assume a liability with cash flows that are uncertain than a liability with cash flows of the same amount and no uncertainty. The higher value reflects compensation for bearing risk. An estimate that excludes compensation for bearing risk would not faithfully represent fair value if it is apparent that marketplace participants would seek compensation for bearing that risk.

The objective of including risk in the estimate of fair value is to replicate the market's behavior toward assets and liabilities with uncertain cash flows, using as a benchmark the rate on monetary assets that are essentially risk free and that have maturity dates or durations that coincide with the period covered by the cash flows (risk-free interest rate).

Fair Value is used in the following cases:

- Expensing share options (IFRS 2)
- Assets acquired in takeover (IFRS 3)

- Surplus assets (IFRS 5)
- Carrying amount on balance sheet (IAS 16 and 40)
- Measurement of lease assets and liabilities (IAS 17)
- Impairment Reviews (IAS 36)
- Measurement of embedded derivatives (IAS 39; IFRS 7)
- Agricultural Assets (IAS 41)
- Important to note that in many cases Fair Value is optional as an alternative to cost:
- IAS 16 – Property plant and equipment may be put on balance sheet at historic cost or fair value
- IAS 40 – Investment property – cost or value, although if cost adopted fv must be shown in notes to accounts

CONCLUSIONS

The need to finance high growth and manage the interests and needs of investors make value creation a critical concern for businesses. Almost any financial endeavor, such as attracting new investors or making investment decisions, necessitates the consideration of the equity value created by the endeavor. The perceived value creation has a direct effect on the percentage of the firm outside investors will require if they are to invest in the business.

In today's business environment, companies face tremendous pressure to create value.

This pressure comes not only from shareholders but also from a wide array of market observers such as the financial press, financial institutions, and shareholder activists**.** Business owners must understand that maximizing value creation is possible only when their company maintains a well-planned and well-controlled operation that efficiently integrates the company's resources. Planning and controlling for value creation requires an ability to measure and relate the creation of value to current and prospective owners.

Of course, value is a relative term that can be viewed differently by the various stakeholders that have an interest in the company. Job creation, personal fulfillment and community pride adds to the general level of energy and optimism in society.

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ETHICS IN ACCOUNTING

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Ethics is an important element of social life, which influences the relationships between peoples. The professional accountants are not just members of a specialized organization; they are members of a society. It means that their behavior influences not just the business environment, but the entire society from they belongs. IFAC has developed a Code of Ethics, which establishes ethical requirements for the professional accountants from all over the world.

Key words: ethics, code of ethics, professional accountants

The Explicative Dictionary of Romanian Language gives ethics the follows definitions:

- Science which purpose is the theoretical and practice study of human worthiness and values from the morals principles perspective and their role in social life;
- Entire norms of moral behavior of a domain, of an activity or a collectivity;
- Collection of moral principles or values.

From those definitions results that ethics is an important element of social life, which influences the relationships between peoples. The professional accountants are not just members of a specialized organization; they are members of a society. It means that their behavior influences not just the business environment, but the entire society from they belongs. This is just one reason that proves the necessity of ethical requirements for the professional accountants. So that, like it is mentioned in The Economic Dictionary, ethics is importance to professional accountants because provides them the principles and values which allow orienting their professional practice in varying of the specific context.

Therefore, we can say that the necessity of an Ethic code consist in:

1. Necessity guarantee of an optimal quality of the services;
2. Trust maintenance of people, in the accounting profession;
3. Protection insurance of professional accountants and of the consumers of their services;
4. Confirming the authority of working made by of the professional accountants;
5. The necessity of defending the dignity and the independence of professional accountants and the organism from he belong.

In Romania the organism who has the attributions to assure all those aspects are The Body of Expert and Licensed Accountants of Romania (CECCAR). The Body of Expert and Licensed Accountants of Romania was found in 1931 like an independent professional organism and in the '30-s it was one of the most powerful specialize institution from Europe. His most important attributions were the standardization of accounting activity and the performing the audit activity. In 1950 the communist regime from Romania forbid the activity of the CECCAR. In 1989, after the change of the communist regime, was found The Professional Agency of Accountants Experts and in 1991 was re-establish The Body of Expert and Licensed Accountants of Romania. In 1996 The Body of Expert and Licensed Accountants of Romania became a member of the International Federation of Accountants (IFAC) and of the European Federation of Accountants.

Today, CECCAR advanced in the reform process of accounting, necessary for the integration of Romania in European Union. The reform process consist in the convergence of the accounting and audit to the international standards, the increasing of the quality of Financial Statements, the counteract the economic criminalities, the improvement of business environment and, for the acquire the trust in the professional accountants activities, based on science, law, honor and morality.

The mean purpose of the IFAC is "the worldwide development and enhancement of an accountancy profession with harmonized standards, able to provide services of consistently high quality in the public interest", and for this reason has develop a Code of Ethics which establishes ethical requirements for the professional accountants from all over the world. IFAC has in present 133 members and 24 associates. Members and associates are required to participate in the Member Body Compliance Program to demonstrate that they are maintaining their good standing and addressing the requirements of IFAC membership.

The IFAC's members have the following obligations:

- Should support the work of the IASB by notifying their members of every IFRS;
- Must notify their members of all exposure drafts issued by the IASB and to encourage them to comment on behalf of those members that have an interest in accounting standards;
- Should use their best effort:
    - To incorporate the requirements of IFRSs in their national accounting requirements, or where the responsibility for the development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRSs, or with local accounting standards that are converged with IFRS, and disclose the fact of such compliance;
    - To assist with the implementation of IFRSs, or national accounting standards that incorporate IFRSs.

The Code of Ethics develops by IFAC contains three parts: part A, part B and part C.

Part A establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework for applying those principles. The fundamental principles of professional ethics for professional accountants are: integrity, objectivity, professional competence and due services, confidentiality and professional behavior.

The integrity means that a professional accountant should be straightforward and honest in all professional and business relationships. He should not be associated with reports, returns, communications or other information when they believe that the information: contains false or misleading statement materially, contains statements or information furnished recklessly, omits or obscures information required being included where such omission or obscurity would be misleading.

A professional accountant must be objectively, he should not allow bias, conflict of interest or undue influence of others to override professional or business judgments. A professional accountant may be exposed to situations that may impair objectivity. It is impracticable to define and prescribe all such situations. Relationships that bias or unduly influence the professional judgment of the professional accountant should be avoided.

A professional accountant has a continuing duty to maintain professional knowledge and skill at the level required to ensure that a client or employer receives competent professional service based on current developments in practice, legislation and techniques and should act diligently and in accordance with applicable technical and professional standards when providing professional services.

A professional accountant should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper and specific authority unless there is a legal or professional right or duty to disclose. Confidential information acquired as a result of professional and business relationships should not be used for the personal advantage of the professional accountant or third parties.

A professional accountant must have a professional behavior which means that should comply with relevant laws and regulations and should avoid any action that discredits the profession.

Part B explain how the independent professional accountants must applied the conceptual framework presented in part A in specific situations such us: professional appointment, conflicts of interest, second opinions, fees and other types of remuneration, marketing professional services, gifts and hospitality, custody of clients assets, objectivity in all services and independence-assurance engagements. It provides examples of safeguards that may be appropriate to address threats to compliance with the fundamental principles and also provides examples of situations where safeguards are not available to address the threats and consequently the activity or relationship creating the threats should be avoided.

Part C of the Code illustrates how professional accountants must apply the conceptual framework contained in part A in business. It is presented an exhaustive list of some circumstances experienced by a professional accountant in business that may create threats to compliance with the principles but is mentioned that rather, the framework should be applied to the particular circumstances faced. It also explain: how a professional accountants in business should act when appears the possibility on a conflict; what are his responsibilities and duties for the preparation and reporting of informations; a professional accountant in business must always act with sufficient expertise and which are the threats who can affect his professional training; a professional accountant in business must avoid the situations when his financial interests or receiving inductions are threatening the fundamental principles.

In Romania's social and business environment some would affirm that ethical principles are a theory that can't be applied in practice. There are many managers, entrepreneurs and businessman who believe in a fast way of enrichment and for these reason they don't believe in the ethical principles. They say that to promote honesty is old fashioned and that just an aggressive way of business can bring profits. Fortunately, we can say that the number of those who think in that way is decreasing, but for being realists, the ethical principles never will be respected completely by all the society members. But, a business environment without ethical principles is like a state without laws, in which exists just anarchy and disorder. Therefore, we can affirm that just like a state cannot exist without lows, the business environment cannot exist without ethics principles.

Professionals Accountants need to demonstrate a practical commitment of being ethical and in this way they will contribute not just to the healthy of the business environment, but also to the healthy and welfare of the entire society which they belong.

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MONISM OR DUALISM IN ACCOUNTING?

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Abstract: We are trying to answer in this paper at the question: "Monism or dualism in accounting?" thru analyze of the dimensions and characteristics of the two systems, and also, thru, which the advantage of each system individually offer to different type of users. Also, we simultaneously analyze the both levels at the dualist concept, the managerial accounting and the financial accounting. The meaning of these analyze is to identify the possibility and the opportunity to process thru just one circuit the information's offered by the two accountings, therefore to pass to a monist system of organizational accounting.

Key words: monism, accounting dualism, globalization

The idea that made this article come to life was the request of the german company where we keep accounting records, which asked us to keep a "daily" accounting that will offer the possibility of daily patrimony check and company results. Since an accounting company keeps accounting records, we stated that the request was impossible to be fulfilled and offered as solution operative recordings of the structures that needed daily update of the balance and activities.

Out of this example we conclude that in nowadays Romania there are two accounting levels: financial or general accounting and administrative or managerial accounting. Such an accounting organization is typical for a dualist concept. The question that arises is whether or not this type of organization is in the best interest of the user? If it is, for what kind of users, internal or external? We ask these questions because accounting is not a purpose in itself, as it has to serve the interests of accounting data users. What follows next is the question that sets the name of this article, monism or dualism in accounting?

The question creates controversies as professor Feleagã stated in his book "Accounting treaty", the monism – dualism controversy being one that conveys "good taste to accounting".

The analysis of contemporary accounting, especially under the aspect of destination and of the way of treating and representing accounting data, revealed the fact that accounting doctrine established two concepts of organizing accounting: monism and dualism concept.

Although the meaning of the two concepts has historical roots, their presence in Romanian accounting literature is rather new. The introduction of accounting monism and dualism, with their extended meaning, belongs to Feleagã Niculae and Ionaşcu Ion in the book "Financial accounting", printed in 1993.

As proof of the importance specialist give to the two concepts is the controversy between them, which fundamented numerous studies, professor Jacques Richard, quoted by Feleagã Niculae in the book "Accounting controversies", introduces three dimensions of monism and dualism, defining a formal monism and dualism, a material monism and dualism and an informational monism and dualism.

Formal monism is characterized by simultaneous processing, in a single circuit, of changes determined by external economic fluxes and by internal economic fluxes. The formal monism has two practical forms: complete formal monism and reduced formal monism. In complete formal monism (the most radical form of monism) accounts play the main part. This type of monism characterized Romanian accounting until 1989, with branch accountings, without external users and applicable in a strict centralized economy. Reduced formal monism is characterized by the fact that certain accounting parts are treated "outside accounting" through tables.

Formal dualism separates accounting on two levels: financial or general accounting and administrative accounting. This form of organization characterizes present Romanian accounting.

Material monism represents accounting system organization through which only a type of evaluation is used, usually the economic one. Unlike material monism, material dualism uses additional economic evaluation and other types of evaluations: fiscal, financial evaluation etc.

Informational monism is characterized by directing accounting data to a single user, usually part of the organization's management. The characteristic was also present in Romanian accounting until 1989; in it the unique user of accounting data was the state.

Informational dualism or pluralism is that communication expression through which accounting data is oriented towards two or more types of users.

Professor Feleagã Niculae and his contributors in the book „Financial accounting – an European and international approach", identify four categories of data produced by a company:

- Operational data;
- Financial accounting data;
- Administrative accounting data;
- Data to fulfill fiscal needs.

In this case we can talk about informational pluralism in accounting, not about accounting dualism.

Financial accounting deals especially with recording the changes in the company patrimony and results determined by external fluxes. This type of accounting is characterized by: obligativity, normalization, precision and permanence. Administrative accounting is addressed exclusively to inside users of the company and analyses especially internal fluxes. It is a type of accounting, restriction free, in simple or double party, permanent or temporary, rather operative than precise and its main characteristic is the fact that it can be set up at management's wish, the only objective being to offer useful data.

As a consequence there are similarities and differences between financial accounting and administrative accounting. Although the differences are numerous, certain profound similarities can be identified. Not by chance, in other accounting systems, the data of the two types of accounting form a single functional, integrated circuit (accounting monism in the USA or compromise accounting systems between accounting monism and dualism).

The similarities between the two accounting branches refer to the fact they: are mandatory by law, use the same data from the same documents and periods of time, have as common research object the patrimony and as main objectives its efficient administration and profit increase, use accounts from the same General Account Plan (GAP), etc.

At manager's request, according to data needs and specific company conditions, administrative accounting can be organized in one of the following variants:

- Analytically developing accounts of the financial accounting (classes 1 – 8 of the GAP);
- Using specific accounts (class 9 of accounts in GAP);
- Keeping a personal technical-operative record.

In order to be useful, the accounting data must have the same quality characteristics, even if it is about administrative or financial accounting, namely clarity, relevance, credibility and comparability.

Next we will try to establish if these quality characteristics have the same valence for the two accounting categories.

Clarity is a feature all accounting data must have, indifferently of the level. Debates regarding this characteristic could be toned according to the knowledge level of users, as certain data could be clear to some users while in other cases users may need more details. For instance, in the case of internal users, the main beneficiaries of administrative accounting, who are supposed to have complete data about the company, in many cases less data, are enough for understanding, impossible in the case of a person from outside the company.

Relevance or pertinence represent confirmation and prevision capacity, namely judicially choosing the right meaning level for accounting data, choosing what is really important and what is not. Opportunity and under unitary cost – profit report play an important part in ensuring relevancy. Here, too, the meaning level is different for administrative accounting, where, although details are important, the operativity comes before accuracy and financial accounting, which generally offers less detailed data as it addresses external users. Also the report concerning the cost paid for obtaining the data and the profit brought by using it is addressed to internal users only and the company that pays for it. For an external user that makes a request for certain information, the effort the company makes in order to obtain that information is irrelevant. From this point of view, the situation of the state asking companies through its fiscal institutions, numerous situations, statements and reports that, in most cases, are irrelevant for the company but entail effort, is representative. We shall not mention the cases in which different public institutions request the same data but in a different format. Obviously in this case the relevance of the accounting data remains only a concept.

Credibility is given by the merged influence of faithful representation characteristics, prudence and integrity (complete presentation of economic reality), by propitious balance between quality and quantity features of accounting data. The main role of the accountant, as accounting data producer, is to make it credible, believable for those who use it. This characteristic is very important on both accounting levels set upon the dualist concept.

Comparability is necessary in order to compare data from one period to another and from one company to another. It is the consequence of constantly measuring and presenting the financial effect of the same operations and events within a company and along the time for that company as well as for other companies. The main way to ensure data comparability in accounting, in the case of financial and administrative accounting, is to apply the principle of method permanency.

Another similarity between the two accountings is that explicitly or implicitly, they change what needs to be changed, and are guided by the same accounting principles.

So, explicitly, legal reglementations stipulate the following general principles of administrative accounting: the principle of expense separation, the principle of expense limitation in time, the principle of expense limitation in space, the principle of delimiting productive expenses of those non-productive, delimiting expenses of finished production from those not finished yet, etc.

The principle of expense separation in administrative accounting supposes the separation of expenses that involve obtaining the goods, works, services from the expenses that do not involve the acquisition, production or processing, etc. them.

The principle of expense limitation in time in administrative accounting is found in financial accounting as well as the principle of exercise independency.

In order to apply these principles, OMFP 1.826/2003 suggests using rational methods, consistently applied, which can be wholly assimilated to the principle of method permanency in financial accounting.

Also in administrative accounting, other financial accounting principles can be applied: the principle of prudence, the principle of activity ongoing, the principle of non-compensation, the principle of historic cost, the principles of recording and book-keeping, the principles of quantification (measuring and evaluating), the principles of observation, the principles that establish what and how to organize that part of the accounting that fulfils the need of information of internal users?

Going back to the beginning of the paper, what the german manager requested were in fact operational data as well as administrative accounting data. Accounting data producer must organize his administrative accounting so as to be able to produce data when, how and as many as the manager asks for. What if the manager has no requests? This situation is commonly met in small Romanian companies, where the manager believes that accounting data are unnecessary for a good management. Unlike Romanian companies, the American ones believe in the importance of analyzing administrative accounting data in order to improve the functionality and rentability of different company activities. In this case the manager's exigency regarding the rhythm of data reporting, the monthly, weekly or even daily rhythm, is enhanced when the activity characteristics impose it.

The passage from accounting monism to accounting dualism is nowadays followed by an opposite dynamic: the reverse to an accounting monism, under the effect of globalization, on one hand, and because of IT system perfecting at the level of companies and societies, on the other hand. It has to be mentioned that it is a formal monism (reduced type) because at a material and informational level accounting remains dualist (even pluralist).

A single obstacle obstructs Formal monism: fiscality. In this case quoting the following idea printed in a recent fiscality paper is appropriate: "…financial accounting will become more and more transparent and capable, through standardized financial situations, being able to notify involuntarily cases of fiscal evasion, while at the level of administrative accounting there is still place for the so-called creative accounting…” We should remark the expressions “involuntarily” and “the so-called creative accounting”.

As a conclusion we may say that even if the tendency is to pass to accounting monism (at least at a formal level), it will not happen until accounting will be discharged of fiscality and over-reglementation.

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THE STIMULATION OF SMALL AND MEDIUM-SIZED ENTERPRISES – BETWEEN THEORY AND PRACTICE

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Abstract: SMEs are outnumbering other types of firms in the Romanian economy. For this reason, the importance given to this type of enterprises must increase. One possible way of achieving this goal is stimulating their activity using means for raising the financial and legal support.

Throughout this paper we intend to identify and propose specific procedures for achieving the above mentioned objective, out of which we mention: evaluating the economic impact of the existing regulations concerning the SMEs; simplifying the procedures for obtaining the authorizations and special licenses needed for starting up the business and the ones which are issued after the firm is registered; simplifying the declaration and registration procedures for SMEs; improving the legal environment for SMEs by removing the administrative barriers. The object of our study is providing assistance for SMEs in identifying new ways of increasing and developing their business, and, last but not least, the accounting harmonization with international regulations.

Keywords: small and medium-sized enterprises, structural funds, stimulating methods, accounting implication

1. Introduction

After 1990, the Romanian economic environment has enriched itself with new actors—small and medium-sized enterprises. Today, these small and medium-sized enterprises (SMEs) are active contributors to the Romanian economic development as a whole. In the EU economy, who we are part of since the 1st of January 2007, SMEs are underlying pawns where innovative ideas and especially new jobs are being fostered. According to statistical data there are roughly 23 million SMEs in the EU that ensure about 75 million jobs and represent 99 % of the total number of enterprises functioning within the EU [1].

In this context, *the objectives of the present paper* are mainly directed towards: the place occupied by SMEs in the EU and Romanian economic sphere; the impact of SMEs on the economy's evolution as a whole; the identification of the ways in which economic growth can be stimulated through SMEs, taking advantage of economic and fiscal opportunities offered by the state, and by accessing European funds provided for that purpose; the financial and accounting implications of the presented methods for SMEs' activity stimulation.

The paper uses a deductive approach, moving from theory to practice, sometimes focusing on inductive research that consists in practical case studies aimed at verifying the extent to which certain theoretical aspects that were previously mentioned are validated from a practical point of view.

1.1 Literature review

In "Encouraging Tourism Development through the EU Structural Funds-the implementation of EU programs on Bornholm and the tourism sector's use of them" [2] Benedicte Bull designed a case study and involved 57 interviews with tourism organizations. , funding recipients and regional governments responsible for the implementation of the funds on Bornholm. In "Regional growth, national membership and European structural funds: an empirical appraisal"[3], Jackz Fazyolle and Anne Lecuyer tried to debate groth growth performances of European region over the period 1986 - 1996. John Bachtler and Ivan Turok brings together in "The Coherence of EU Regional Policy: Contrasting Perspectives on the Structural Funds" [4] a rich selection of up-to-date practical experience of EU regional policy from across Europe. In "Structural fund programs as instruments for sustainable regional development - a review of Nordic effectiveness" [5], Clement K. presented the achievements of Denmark, Finland and Sweden through 6 project examples with an associated diversity of approaches. Nicole Koenig and Eberhard E.Bischof f analyzed in "Analyzing seasonality in Welsh room occupancy data" [6] the general relationship between occupancy performance and hotels activities. Adriana Corfu, Zélia Breda and Carlos Costa, in "EU Integration and tourism destination management: The case of Portugal" [7] attempted to provide some theoretical and empirical findings on Portuguese tourism evolution during the two-decade period of EU membership. Leonas Simanauskas and Skirmantas Šidlauskas, in "Efficiency of the EU structural support and its effects on the country's progress" [8] showed the main method used by the European Union to reduce the discrepancies.

2. In fact, what do these SMEs stand for?

One definition that took the form of a recommendation was given by the European Commission in 1996. It was implemented all over the EU territory until 2003 when the said Commission, taking into account the economic development between 1996 and 2003, adopted a new recommendation by which the SMEs were redefined, recommendation that is taken into account in the elaboration of the politics, programmes and measures initiated by the European Commission for SMEs. The new definition entered into force on the 1st of January 2005. Both EU countries and also the accession countries as well as the European Investment Bank and the European Investment Fund—the two institutions acting as indispensable providers of funds for the EU states—are recommended to use the latest definition.

The main advantages offered by these economic entities can be summed up in the following way: they offer products and provide services at lower costs than the big enterprises do; they are flexible and adapt themselves easier to the market requirements, thus enhancing the economic development of the country; they represent the incubator for the future big enterprises; they encourage competition; they offer new jobs.

Moreover, the financial resources of these enterprises are scanty, the financing being, more often than not, self-financing from the owner's pocket. In this way, the SMEs are up against real difficulties in obtaining capital or loans, especially at the beginning of their activity. The limited resources narrow down the possibilities to access new technologies or innovations. This is where one has to step in to redress the unfavorable situation of the SMEs, by raising them from the status of being mere "debutant" in the economic life to that of influential participant. This shall be done through the improvement of the production capacity, the increase of competitiveness in the human resources field and the increase of investments, all of these bearing on the subsequent evolution of SMEs but directly influenced by the financial capacity of the entity.

Consequently, in this paper we focus on the following possible ways of financial stimulation, indispensable on an active EU market: economic and fiscal advantages offered by the state; financing through structural funds (post-accession).

2.1 Economic and fiscal advantages offered to SMEs by the state

Under the state budget law, funds amounting to 0.2 % of GNP are granted each year, both at local and national level, for setting up and funding of SMEs. Also, with a view to improving the access of SMEs to funding, the National Fund of Credit Guarantee for SMEs was set up and the government annually approves stimulation programmes for setting up and developing SMEs, based on programmes compiled by the National Agency for SMEs and Cooperation.

Other advantages offered to SMEs by the state are: for criteria pertaining to turnover, 50 % discounts from the performance guarantee required in public procurement of products, services and works; free technical assistance with a view to facilitating access to specialist services in the public procurement field; first hand access to hiring and leasing available assets of independent operators, national companies and state capital companies; reduction or removal of the required guarantees and early payments for the consumption of utilities and public services provided for SMEs. Some of the fiscal advantages offered to SMEs are: duty-free imported raw materials, needed in the manufacture of products which, in turn, are duty-free on importation; duty-free and tax-exempt importations meant to work up the activity (machinery and equipment); income tax exemption for reinvested profit; other facilities: allocation of budgetary funds to finance development programmes and the set-up and development of SMEs; simplifying the administrative procedures for registration and procurement of opinions, authorizations and licenses; availability of information, assistance, consultancy, research and technologic innovation services; management professional training.

2.2 EU post-accession funds or cohesion and structural funds

A. Generalities

After accession to the EU, the Romanian SMEs shall be eligible for an array of activities co-financed through EU structural funds. Using structural instruments, the funding will help SMEs align with the quality requirements in order to cope with competition from member states and the environment requirements mapped out by the EU. Therefore, the first sector considered is the producing sector comprising investments into equipment, machinery, apparatus, procurement of technology, patents, licenses, qualified services, access to certification of international standards, implementation of environment and quality management systems.

The same instruments will be used in order to grant funds for consultancy services, preparation of business plans, and development of products and strategies for the company and to foster the set-up of new business centers and incubator units.

The structural funds for the creation of economic and social cohesion are the structural instruments used to distribute the European funds during the period 2007-2013. There are three financial instruments, known as structural funds:

- **European Regional Development Fund—**designed to reduce the imbalance between different EU regions. It will fund projects pertaining to all the three objectives of the cohesion politics, covering the following areas: research and technological development, computerization of society, transport, energy, the environment, tourism and culture, urban and rural redevelopment, support for companies and contractors, investments in social, educational and health infrastructure.
- **European Social Fund**—designed to fund priorities from two cohesion politics. The projects concerned will belong to four main areas: increase of enterprise and labour adaptability, improving access to labour market, strengthening social inclusion, promotion of partnerships for reform in employment and social inclusion.
- **Cohesion Fund**—designed to fund major projects on environment and transport infrastructure, being a continuation of ISPA fund for candidate countries.

From the point of view of financing opportunities for SMEs, the three most outstanding operational programmes are: the Sectoral Operational Programme “Increase of Economic Competitiveness”, the Regional Operational Programme and the Sectoral Operational Programme “Human Resources Development”.Summing up the priority axes specific to each operational program above-mentioned, table 1, presents the correlation between the priority axes.

Table1: Correlation Operational Program—Priority axes peculiar to SMEs

OPERATIONAL PROGRAMME	PRIORIT AXES	ACTIONS
OP “Increase of Economic Competitiveness”	1. Innovative production system	- productive investments - support in obtaining qualified services for the implementation of European standards; - support for enterprise internationalization and access to new markets; -consultancy for SMEs; - integration in the chain of suppliers
	2. research, technological development, innovation for competitiveness	-research-development partnerships; - investments in infrastructure;

	3.information and communication technology	-fostering the usage of information technology; - development of e-economy;
	4. increase of energetic efficiency and sustainable development of the energetic system	- improving the energetic efficiency; - turning to profit the renewable energy sources
OP Regional	1. strengthening local and regional business environment	- creating and/or improving local and regional business supporting structures; - renewal of abandoned industrial sites;
	2. local and regional tourism development	- increase the quality of tourism services and the services for the recovery of historical and cultural heritage
OP "Human Resources Development"	1. education and vocational training supporting economic growth and the development of a knowledge-based society	-ensuring quality in the continuing of vocational training;
	2. connection of life long learning	- improve access and participation to continuing vocational training
	3. increase of labour adaptability	- training and support for enterprises and employees for the facilitation of adaptability

B. The financial mechanism

Besides the EU contribution from its own budget, the financial mechanism for the use of Structural and Cohesion Funds imposes strict rules regarding the intervention of the beneficiary state in supporting, through its share of the project's value, the expected and actual achievement of the operational programmers' objectives. The maximum amount of EU contribution is established by the Council Regulation No. 1083/2006, in compliance with EU financial perspective for 2007-2013. At the level of an operational program, Romania is eligible for a maximum Community financing ratio of 85 % for all the three funds: ERDF, ESF and CF [4].

To this effect, the amount of money that Romania will receive as aid from the EU budget through Cohesion and Structural Funds is 19.668 billion euros. 12.661 billion thereof are to be allotted through structural funds within the "Convergence" objective, 6.552 billion euros will be allotted through the Cohesion Fund and 455 million euros will be allotted to the "European Regional Cooperation" Objective.

According to the proper financial mechanism the beneficiary of the project is supposed, firstly, to incur costs for the carrying on of the activities approved in the financing contract. The beneficiary will require that the costs be settled after they are verified for legal, eligible and effective conformity. This might be a disadvantage because SMEs first incur costs from their own sources after which they require the settlement.

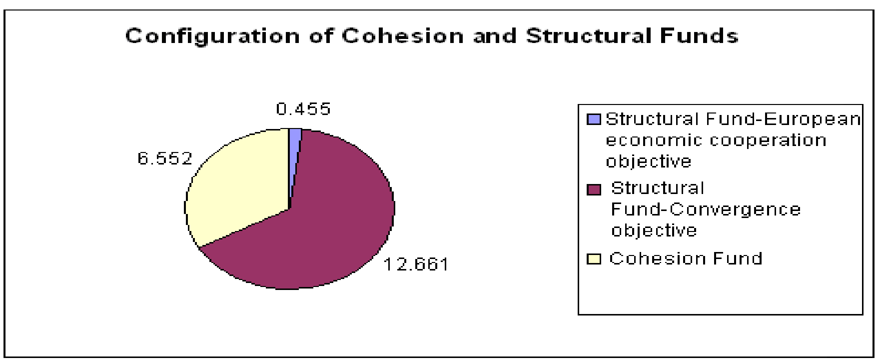

Fig.1 Configuration of Cohesion and Structural Funds

For the reimbursement of costs incurred within a project, a payment application is submitted to the relevant authority. The costs are evaluated by taking into account the eligibility rules and the content of the application. Therefore, in order to be eligible, such cost must meet the following cumulative conditions:

- It must be incurred by the beneficiary between the 1st of January 2007 and the 31st of December 2013, unless otherwise decided by the management authority in the financing contract;
- It must be accompanied by invoices, in compliance with the national legal dispositions, or other accounting supporting documents equivalent to invoices, under which costs are identified and audited;
- It must comply with the dispositions of the financing contract, concluded by the management authority or the intermediate body, for and on behalf thereof, for the approval of the operation;
- It must comply with the national and Community law.

The in-kind contribution can be considered an eligible cost if it consists of lands, buildings, equipment, materials. In this case, it is considered as the beneficiary's own expenditure and must not exceed the total contribution of the beneficiary by more than 20 %, as was settled in the financing contract. In the case of lands, buildings and equipment, their value is certified by an independent authorized auditor. In the case of buildings and equipment, these must be part and parcel of the operation's outcome. The lands and buildings must be free of charge and should not constitute the subject-matter of unsettled disputes.

There is, also, a range of expenditures that are not eligible, such as: the value added tax, interest and other credit commissions, collateral costs supervening in a leasing contract, procurement of second hand equipment, fines and costs. After the afore-mentioned conditions will have been met, the payments owed to the beneficiary can be incurred in two ways, namely: direct payment—the Paying Authority transfers money directly in the beneficiary's account; indirect payment—the Paying Authority transfers money in the account of the Paying Unit attached to the Management Authority and the Paying Unit pays the beneficiary.

The funding of the payment application does not take place where incongruity with national and Community law can be proven. Consequently, precise knowledge by each applicant of the rules concerning Structural Funds allotment is compulsory.

C. The accounting treatment applicable to structural funds

In order for the theoretical presentations regarding the financial and accounting mechanism of the structural funds to be relevant, we will use a numerical example that will bring forward the necessary steps that must be taken from the concluding of the financing contract until the settlement proper.

Stage 1: Submitting the documents which must contain the following: financial and economic analysis; risk analysis; feasibility study; technical project (where applicable); building authorization; environment authorization; environment strategic evaluation; documents confirming the co-funding; details regarding in-kind contribution; property certificate/concession act; accounting documents of the company; fiscal records of the person authorized to submit the financing application and the person responsible with the project; certificate proving that the applicant does not incur debts to the state budget (obtained from the Financial Administration).

Stage 2: The eligible beneficiaries fill in the financing application and the annexes required by the Management Authority.

Stage 3: The financing application is submitted to the Intermediate Body/the Management Authority.

Stage 4: The administrative conformity of the financing application with the internal procedures of each Management Authority is checked.

Stage 5: Then follows the check of the project eligibility and the technical and financial evaluation of the project.

Stage 6: The project is approved and the financing contract is signed.

Stage 7: The investment is carried out through the procurement of equipment approved in the financing contract.

Numerical example: An enterprise procures a piece of equipment necessary for the implementation of the alternative energy system approved through the Operational Program "Increase of Economic Competitiveness", priority axe 4—improvement of energy efficiency and sustainable development of the energy sector.

%	=	404 „Suppliers of non-current assets"	11.900
2131 „Plant and machinery"			10.000
4426 „Input VAT "			1.900

Stage 8: Payment of the debt for the equipment procured:

404 „ Suppliers of non-current assets"	=	5121 „Cash at bank in lei"	11.900

Stage 9: For the reimbursement of the money allotted in the investment carried out within the project, a payment application is submitted to the relevant authority.

Stage 10: The eligibility rules and the content of the application are checked;

Stage 11: Settlement of the investment carried out;

5121 „ Cash at bank in lei"	=	132 „Irredeemable loans representing investment subsidies"	8.000

Stage 12 (only for accounting): The depreciation of the investment over a period of 10 years (for example):

6811 „Expenses with depreciation of non-current assets"	=	2813 "Depreciation of plant and machinery"	1.000

Simultaneously, acknowledging the share of the non-reimbursable loan as current income:

132 „ Irredeemable loans representing investment subsidies"	=	7584 „Incomes from investment subsidies"	800

Conclusion

In conclusion, although the Structural Funds represent for Romania a new field, they should be an impetus to knowledge and to permanent involvement of all possible beneficiaries because, after all, it is in the interest of the beneficiary to get involved. The progress of each EU country depends not only on the funds proposed to be allotted from the EU budget, but mainly on each one's capacity to access these funds, thus proving it is difficult to obtain money and even more difficult to spend it.

Through the present paper we have presented a few ways in which SMEs can be stimulated, taking into account the fact that these represent the backbone of every economy. As this paper shows, the state is not and must not be the only responsible body for the boom of an entity. In the context of the integration into the European Union, the active involvement of each SME in obtaining the funds necessary to subsequent evolution is absolutely imperative. Asking is not enough; it is interest and exactingness that must be shown towards one's own business since financing possibilities are not short.

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ANALYSIS OF A COMPANY'S LIQUIDITY BASED ON ITS FINANCIAL STATEMENTS

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Abstract: The liquidity characterise the financial situation of the company, its ability to convert assets into cash or to obtain cash to meet short-term obligations. Lack of liquidity may affect seriously the continuity of the company activities. Computation and analysis of the liquidity are made by a system of ratios based on the data within the financial statements. An absolute value of a liquidity ratio is not relevant. For a correct analysis of the company's financial situation more liquidity ratios have to be considered and their trend also.

Key-words: liquidity, ratio, analysis, financial statements

Introduction

The fundamental source of the bankruptcy risk consists in the insolvency of the company. Solvency is represented by the capacity of the company to cover all its obligations that result either from previous contracts or from current operations. Solvency must be analysed on short-term (liquidity), as well as on long-term. Thus, liquidity expresses the capacity of the company to meet its short term obligations, that is, to cover its cash outflows with adequate cash inflows and, moreover, to ensure a security reserve for unpredicted events such as the decrease of the cash inflows or increase of payments. Consequently, liquidity may be defined as the capacity of the company to rapidly transform the current assets in cash or to obtain cash to meet its short term obligations. By „short term" we usually understand a period of at most 12 months but, in fact, it is identified with the duration of the normal operating cycle of the company (the period of time that starts with the acquisition of the raw materials and ends with the change of the end-products into cash or equivalent).

According to their gravity, the liquidity problems may determine:

- to lose some opportunities or some lower purchase prices;
- deteriorating of the relationships with business partners, due to the non-observance of the contracts involved;
- delays in the payments of the falling due rates and interests related to the loans;
- difficulties in obtaining of new credits;
- necessity to sell at a loss a part of the assets in order to be able to pay the current obligations.

If a company fails to meet its current obligations, its continued existence is doubtful. That is why measures of liquidity are very important in financial analysis. In our material, we present the liquidity measures based on data from financial statements. We have in view to raise the advantages of using of these measures in a company's liquidity analysis, also their limits and the potential adjustments to these analysis tools.

Liquidity measures

Computation and analysis of the liquidity are made by a system of ratios. These liquidity ratios characterise the financial situation of the company, its capacity to generate adequate cash for payments. The data on which the liquidity ratios are computed can be found within the components of financial statements: balance-sheet, profit and loss account, cash flow statement and notes.

Usually, the company's liquidity is measured by comparing the value of the current assets with the value of the current liabilities (on short-term). The current assets is represented by the cash and other assets that are expected to be realised in cash or sold or consumed within one year (or the normal operating cycle of the company if greater than one year). Current assets category includes: inventories, accounts receivable, short-term investments, cash and cash equivalents, as well as prepaid expenses. If current assets include items that have a life cycle that is longer than twelve months, the sums that are assigned to the next financial year must be disclosed into the notes. Short-term investments must be presented as current assets only if they are expected to be sold in less than twelve months (even these titles have a higher liquidity, the intention of the management is prior to their liquidity potential). Current liabilities are obligations expected to be satisfied within a relatively short period of time, usually one year. Typically, these include: accounts payable, short-term loans (includes bank overdrafts and all other interest-bearing short-term debts), accrued payments, interest, current tax and dividends due.

Liquidity ratios, as any other ratios that are use in financial analysis, are not relevant as absolute values. They must be computed and interpreted for a longer period of time (that must allow to observe the trend over time for the analysed entity) or by comparisons through different entities. Analyzing the trend over time for a certain company or the comparison among different companies is often enlightening.

a) Current ratio

The most often used liquidity measure is the current ratio, that is computed by:

Current ratio = Current assets / Current liabilities

This allows to measure [1]:

- current liability coverage. The higher the amount of current assets to current liabilities, the greater assurance we have that current liabilities will be paid;
- buffer against losses. The larger the buffer, the lower the risk. The current ratio shows the margin of safety available to cover shrinkage in noncash current asset values when ultimately disposing of or liquidating them.
- reserve of liquid funds. The current ratio is relevant as a measure of the margin of safety against uncertainties and random shocks to a company's cash flows. Uncertainties and shocks, such as strikes and extraordinary losses, can temporarily and unexpectedly impair cash flows.

The current ratio is appreciated as favourable if it has a value over the unit, lying between 2 and 2.5 [2]. The higher the ratio, the greater protection against lack of liquidity that could be generated by dues repayments. But a current ratio much higher than 2 can signal an inefficient use of the resources.

The advantages of the current ratio are: simplicity of its computation, availability of its data, its understandability. But current ratio also has some important disadvantages that are going to be presented in what follows. Even these disadvantages have not restricted the application area of this ratio, it is useful to be known and used when interpreting the value of the current ratio. These disadvantages are:

- it has a static character, measuring the resources available at a point in time to meet the current obligations;
- its data also contain non-monetary items or items that do not suppose input or output cash flows;
- does not distinguishes between various types of current assets, some of them being less liquid than others;
- does not measure the adequacy of the input cash flows (determined by the liquidity of the current assets and by the credit politics of the company) to the necessary output cash flows (determined by the liabilities exigibility). As a consequence, the ratio can have a "good" value and the company can have a lack of liquidity.

Moreover, when estimating the value of the current ratio we have to take into consideration the field of activity of the firm, as well as the evolution of the value of the ratio. Cash needs depend, in a significant manner, on the specific of the activity. Some business may function very well with a very low liquidity ratio. Others – especially those with a long manufacturing cycle – usually store up a lot of cash in stocks and, as a consequence, present high values of the current ratio. The ratio has to be analysed in its evolution, from a period to another. It is not enough the current ratio to be over unit, but it is necessary for its sense to be growing. A decreasing evolution of the liquidity points out a falling-off activity.

In what follows, we shall present some aspects that are not taken into consideration when setting the current ratio, but influence the cash inflows and outflows. As we already shown, the current ratio compares the current assets, as available cash resources, with current liabilities. But these resources do not necessarily suppose future cash inflows and liabilities do not necessarily suppose cash outflows.

The input cash flows depend on factors that are not included in the current ratio, such as: sales, cash expenditures, profits, changes in business conditions. For example, in the case of inventories, the determinant factor is represented by the sales. Sale is the one who initiates the conversion of inventories to cash. The future cash inflows depends on the profit margin that can be realised. Neither the sales level, nor the profit margin do not appear in the formula of the current ratio. In the case of the accounts receivable, the main factor is also represented by the sales. Modifications in the level of receivables depend on modifications in sales. Receivables are not necessarily a measure of the future cash inflows. These last ones are influenced by the credit policies and by the collection methods. At the same time, not all accounts receivable suppose future cash flows. It is the case of postponed or overpaid taxes, that do not generate cash inputs. Short term investments are appropriated for cover of current obligations. If are evaluated at their fair values, they allow the estimation of the future cash inflows (net realizable value). Presentation at the historical cost does not allow this. The cash disclosured in the balance-sheet does not really have connections with the level of the activity and, as a consequence, it is not recommended to make previsions on this basis. For example, the value of the cash at the end of a financial exercise can be very high if the company intends to acquire, within the next period, a long-term asset. Moreover, many firms rely on cash equivalents such as open lines of credit, that do not appear in the formula of the current ratio (as long as they are not used) neither as assets, nor as liabilities.

Current liabilities, that is the denominator in the computing formula of the current ratio, depend on sales in a great proportion, too. Purchases increase together with the increase of the sales, so current liabilities to the suppliers increase, too. The exigibility of these attracted funds, the moments of the cash outflows respectively, depend on the trade credit periods stipulated in contracts. But current liabilities do not include some important elements that affect future cash outflows. It is the case of future payments, associated to some certain obligations that do not appear in the balance-sheet, such as: construction contracts (that imply substantial payments that are done along with the execution of the work), lease contracts (rental expenses in case of operating lease, respectively interest in case of financial lease), post-retirement benefits, etc. These payments are mentioned only in notes, without being recognised as liabilities in the balance-sheet. On another side, current liabilities include elements that will not necessarily generate cash outflows. Here we talk about collected advances, current deferred tax liabilities or temporary differences of a recurring nature (such as depreciation).

We also have to remark that the computing algorithm of the current ratio supposes the liquidation of the company. But this is contradicting the usual going-concern of the activity that assumes the current assets as well as the current liabilities are in a continuous movement: new receivables replacing collected receivables, new payables covering payables due.

Current ratio can be influenced through management techniques (such as window dressing). Thus, when the financial exercise comes to end, inventories can be reduced (by postponing new stocks acquisition) as well as receivables (by forcing their collection). Cash obtained like this is used to pay, in advance, current liabilities. By means of example no.1 we show how an anticipated payment can influence the value of the current ratio [1]:

Example no.1. The current assets and liabilities of the company are the following:

	Before Payoff	**After Payoff**
Current assets	200,000	150,000
Current liabilities	100,000	50,000
Current ratio	2	3

The current ratio increases from 2 to 3 by making an earlier-than-normal payoff of 50,000 u.m. of current liabilities.

b) Quick ratio

A more restrictive method to compute the liquidity is represented by the quick ratio. The difference from the current ratio consists in excluding inventories from the numerator of the computing formula. We obtain:

Quick Ratio = (Current assets – Inventories) / Current liabilities

The main reason for excluding the inventory figure is that its liquidity is less secure, as temporal moment and as value, as well. Another reason is represented by the lack of uniformity in inventory valuation. Evaluation methods can be used in a discretionary way by the management of the company.

So, quick ratio (also called acid-test ratio) includes those assets that are most rapidly convertible in cash: cash and cash equivalents, short-term investments, accounts receivable. A value of the ratio between 0,8 and 1 is considered to be optimal [3]. Over unit values indicate that inventories are not financed from short-term liabilities. The informational value of this ratio reveals through comparative analysis in time and through comparison with the current ratio.

c) Immediate liquidity ratio

Immediate liquidity ratio (also called effective liquidity) is the most restrictive method to compute liquidity. It takes into consideration, at the numerator, only cash, cash equivalents and short-term investments. The ratio ensures the comparison of the most liquid current active elements with the liabilities that are immediately exigible:

Immediate ratio = (Cash + Cash equivalents + Short-term investments) / Immediate exigible liabilities

The recommended value of this ratio is at least 0,5. If at the denominator we take into consideration all current liabilities:

Immediate ratio = (Cash + Cash equivalents + Short-term investments) / Current liabilities

then the value of the ratio shouldn't be smaller than 0,2 – 0,3. Too high values of the ratio indicate, in most cases, an inefficient use of the available resources (excepting the situation presented above, when the company preserves cash over the normal value, in order to acquire an non-current asset). A small value of the immediate liquidity ratio does not necessarily represent an alarm signal, if the company owns other current assets, with a high degree of liquidity.

In the specific literature we can also find another liquidity ratio, that compares the very liquid assets with current assets:

Immediate ratio = (Cash + Cash equivalents + Short-term investments) / Current assets

This ratio expresses the liquidity degree of the current assets. The higher this ratio is, the assets are more liquid.

d) Working capital – measure of the liquidity

Working capital, computed on the basis of short-term elements in the balance-sheet, is the difference between current assets and current liabilities, which makes it a measure of the liquidity. The actual format of the balance allows the immediate observation of the working capital at the beginning and at the end of the financial exercise, respectively. But the computing relation above does not confer enough relevance to the working capital, as an expression of the liquidity (example no.2).

Example no.2: We consider two companies, A and B. The sum of the current assets and liabilities reported by the two companies are the following:

	Company A	**Company B**
Current assets	20,000	110,000
Current liabilities	10,000	100,000
Working capital	10,000	10,000
Current ratio	2	1,1

Even the working capital is the same, 10,000 eur, the situation is not the same for the two companies. This is indicated by the values of the current ratio, 2 for company A and 1,1 for company B.

But a relevant indicator we obtain by relate the working capital to other financial variables, such as the sum of the sales or the total assets.

e) Working capital to sales ratio

Whereas the previous liquidity ratios use balance sheets figures only, here we take into account the ongoing operations by including a value from the profit and loss account. It will often highlight a trend the other ratios miss. It is possible to have a stable current or quick ratios while this ratio is falling. This usually happens when sales grow a lot and the working capital maintains constant. It is considered that an abnormal growth of the sales, when comparing to the resources disclosured in the balance-sheet, may constitute a danger signal of bankruptcy. The term „overtrading" is used to describe such a situation [4].

If we consider that sales figure reflects, to some extent, the operating cash inflows, then we can say that the ratio relates the short-term surplus liquidity to the annual operating cash flow.

The liquidity of the working capital can also be analysed by means of the percentage hold, in the total of current assets, by every component (example no.3).

Example no.3: The structure of the current assets of a company, for years N and N+1:

Current assets	Year N (eur)	%	Year N+1 (eur)	%
Inventory	30,000	30	50,000	50
Accounts receivable	40,000	40	30,000	30
Cash	30,000	30	20,000	20
Total	100,000	100	100,000	100

Even the value of the current assets maintained at 100,000 eur, their liquidity considerably depreciated. We notice a decrease with 10% of the weight, both of cash and liabilities. In return, the weight of least liquid current assets (that is, inventories) has grown. If current assets are presented in the balance-sheet at their total value, information concerning their structure should be presented in notes.

f) f) Cash flow ratio

Cash flow statement is a very important component of the financial statements, due to the information that it contains. The analysis of the liquidity of an entity cannot avoid considering this information source. Considering the fact that liabilities pay in cash, a comparison between current liabilities and cash flow generated by the operating activity becomes very important. Cash flow ratio makes such a comparison:

Cash flow ratio = Operating cash flow / Current liabilities

The disadvantage represented by the static character of the current ratio of liquidity is eliminated by this computing algorithm. In the numerator of the relation, current assets are replaced by a dynamic variable, namely the operating cash flow. This cash flow expresses the measure in which the basic activity of the company generated enough liquidity to meet the liabilities, without considering external financial sources.

Conclusions

When analysing the liquidity of a company, it is recommendable to take into account all available information. If the analysis is made by an external user of the financial statements, that cannot access the internal information of the company, he must use all relevant data and not only those in the balance-sheet. As has been proven, the ratios computed only on the basis of the balance-sheet are not enough. Even if they are important, the information offered by these ratios must be completed with information offered by other ratios mentioned in our article. A great disadvantage of the classical ratios, based only on the balance-sheet figures, is that they do not grasp temporal correlation between cash inflows and cash outflows caused by the falling due of the debts. This disadvantage can be avoided, in a significant manner, by using relevant data from:

- cash flow statement (especially when this are prepared through the direct method)
- notes on the financial statements (for example, day's sales in receivables, day's purchases in accounts payable, inventory turnover).

If this is possible, interim reports must be also analysed. These reports offer information that are available at certain moments along the year (in Romania, halfyearly reports are compulsory only for the information needs of the government institutions). They allow a better approximation of trend of a certain ratio, as well as the tracing out of the window-dress situations (that are more difficult to be realised during the year).

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THE BOOK-KEEPING OF INSIDE -COMMUNITY TRANSACTIONS

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Starting from the reason that since the first Janury 2007 in the frame of foreign/abroad trade are not included the commercial operations or economical participation operations or technical-science operations in relations with stataes members of European Union, in the work presented below I intended to approach the way to evidence the inside-community transactions book-keepimg, taking into account the aquisitions and inside-community goods deliveries, illustrating the way the fiscality influences the book-keeping.

Key words: transactions, acquisition, delivery, inside-community

Introduction

The active participation to international work split/division represents an essential component of development process from every country. Illustrating relations established inside the world's countries in development process of production and international trade, the international work split is a worldwide phenomenom, which actions in the frame of one worldwide/aggregate inter-related economy.

In present times, a lot of enterprises adopt affairs strategies which focus the entirely global market, strategies which inside frame are made various international economic forms of transactions, such as: international trade operations, alliances/unions and international co-operations/participations, foreign implement or combinations between these elements.

The foreign trade as different branch of one national econoy includes commercial operations or economic, tehnical-science participations in abroad relations related to sell-buy process of wares, works, services, licenses, consignment or deposit, representation or allowances, the financial operations, ensurrances and, generally, any document or fact of trading.

Accordingly to this definition, the foreign/abroad trade includes *two basic elements,* such as:

- international commercial operations;
- participations and international economic co-operation.

The international commercial operations represents a form of inter-relations between entities and national economies in the sphere of commercial trade, including :

- the international trade with wares/goods (export of wares, import of wares);
- the international trade with commercial services (the invisible commerce);
- the combined commercial operations.

The participations and international economic co-operation represent a developed form of economical connections between states in order to achieve a common strategy, for a long period, in various activity areas, including:

- participation on contract bases;
- strategy co-operations as participations, holdings etc.;
- co-operation between institutions.

Taking into account the fact that starting from the first January 2007 the foreign/abroad trade does not include the commercial operations or economic co-operation or tehnical-science operations in relations with the member states of Europen Union, in the following presentation I have proposed to illustrate the way of accounting representation of inside-community commercial transactions, respectively:

- the inside-community acquisition of goods;
- the inside-community deliveries of goods.

The book-keeping of inside-community commercial transactions

The inside-community commercial transactions are related to acquisitions and deliveries of goods which are made between the member states from the community space.

Are considered *inside-community acquisition of goods* to obtain the right to dipose, as an owner, by the tangibles goods send or transport to the indicated address of the supplier, the buyer, or any other person, inside the account belonging to the supplier or the buyer, to a member state, different from the exit point of transport or send the goods.(Article no. 130 from Law no. 571/2003 regarding the Taxes Code).

The delivery inside-community represents a delivery of goods which are send or transport from a member state into an other member state by the supplier or the person to whom are made the delivery or by other person in the account of those. (Article no. 128, paragraph. (9) from Law no. 571/2003 regarding the Taxes Code).

Related to manner to illustrate into book-keeping the acquisitions and inter-community deliveries of goods, all these issues are proceeded after, first, was made an analysis regarding the tax treatment of value added tax for the respectively operation.

a) The book-keeping of inside-community acquisitions of goods

We appreciate that is necessary that before registration into book-keeping of inside-community acquisitions of goods to make some specifications from tax point of view, respectively :

- the place of inside-community acquisitions of goods is considered to be the place where are situated the goods in moment to which are settled their sending or transport;
- value added tax payment for an inside-community acquistion will be always the obligation of person which are proceeding the acquisition;
- the romanian persons registred from value added tax considerations, will apply the inverted taxation procedure by registering value added tax from Romania in the invoice received from the supplier belonging to an other member state.
- the value added tax are registering both as deduct value added tax also as collect/gather tax into the same account;
- in situation when the supplier don't make the invoice until the 15 th of the next month for th efact which produced the tax, the buyer writes down an self-invoice and in the moment when receive the invoice from the supplier are make references on both invoices regarding that issue.

a1) We assume that a romanian taxed person registred from value added tax point of view acquires wares in total value of 5.000 euro (to the index of 3,7 ron/euro) from a taxed person belonging to France, to which supplies it's valid code from value added tax point of view, extant same time the transport proof.

This situation generates/engenders in accountacy/book-keeping the following registerings:

- acquisition of wares from community space:

371 „Goods purchased for resale”	=	401 „Suppliers”	18.500 ron

- same time are illustrating the deduct value added tax which is gathered:

4426 „ Deduct VAT”	=	4427 „Gather/Collect VAT ”	3.515 ron

a2) We assume that a taxed free person which has not surpassed the maximum of 10.000 euro acquires wares in total value of 1.000 euro (to index 3,7 ron/euro) from a taxed person from Italy registred from value added tax point of view.

The place of inside-community delivery is Italy , and the italian supplier writes down the invoice with value added tax in percentage of 20%, due the fact that is not fulfilled the condition that both taxed persons to be registred in value added tax goals and operates the general rule. In order to don't overcome the ceiling, the romanian unit is free from value added tax payment in Romania, but pays the value added tax in Italy, the tax which will be not recover due the fact that is not registred from value added tax goals.

This situation engenders in book-keeping the following registering:

- acquisition of wares from Italy:

371 „Goods purchased for resale”	=	401 „Suppliers”	4.440 ron

a21) We assume that a legal romanian person surpassed the maximum of 10.000 euro and ask for registering from value added tax goals obtaining a valid registering code which could be used only in relations with partners from European Union and which don't give the right to deduce the value added tax in Romania.

In this situation, the italian partner will write down the invoice without value added tax, but the legal romanian entity will calculate and pay the value added tax in Romania, writing down the Rehersal/Recapitulative Declaration and the Specially Claim.

In book-keeping are generate the following registerings:

- acquisition of wares from the italian partner :

371 „Goods purchased for resale”	=	401 „Suppliers”	3.700 ron

- illustrating the value added tax payd to romanian state:

371 „Goods purchased for resale ”	=	446 „Other imposits, taxes and assimilated amounts payable” - distinctly analytic -	703 ron

- duty payment to the state budget :

446 „Other imposits, taxes and assimilated amounts payable” - distinctly analytic -	=	5121 „Cash at banks in ron”	703 ron

a22) We consider that a romanian legal person surpassed the ceiling of 10.000 euro, but are not registered from value added tax goals. In this situation the italian partner writes down the invoice with value added tax, and the romanian legal entity will pay both the tax calculated by the legal entity from Italy also the value added tax from Romania, writing down in this situation the Rehersal/Recapitulative Declaration and the Specially Claim.

In book-keeping are generate the following registerings:

- acquisition of wares from Italy:

371 „Goods purchased for resale”	=	401 „Suppliers”	4.400 ron

- illustrating the value added tax payd to romanian state:

371 „Goods purchased for resale”	=	446 „Other imposits, taxes and assimilated amounts payable” - distinctly analytic -	703 ron

- duty payment to the state budget :

446 „Other imposits, taxes and assimilated amounts payable” - distinctly analytic	=	5121 „Cash at banks in ron’’	703 ron

b) The book-keeping of inside-community deliveries

Even in the case of inside-community deliveries of goods is necessary to make some specifications regarding the exempt, which is given in the following conditions i:

- the supplier must to issue an invoice which must to contain the elements mentioned in article no. 155 from Law no. 571/2003 regarding the Taxes Code;
- the invoice will contain also a valid code for value added tax, communicated by the beneficiary from other member state;
- the supplier has to obtain justificatory documents for the transport made in other member state, which must to present to control officilities at their demands: command, offer or contract, documents of transport and ensurrance, payment documents etc..

b1) We assume that a romanian taxed person registred from value added tax point of view deliveries to a Greece legal entity a bunch of wares in total value of 3.000 euro (to index of 3,7 ron/euro). Is known the fact that the beneficiary communicates to the romanian supplier it's code of value added tax from Greece. In This situation the invoice is writing down in foreign currency, without value added tax, with mention: „ inverted taxa-exempt with right to deduce”.

In book-keeping is make the registration :

- delivery of wares to the greek partner :

4111 „Customers”	=	707 „Revenues from wares sell ”	11.100 ron

The inside-community delivery of goods, value added tax free are registred to the inside-community deliveries sentence/position Value Added Tax Claims and in Recapitulative Declaration which are transmit to teritory tax officiality for each year quarter during which takes place the inside-community deliveries (including transfers).

b2) In the case that thes three conditions mentioned before are not fulfiled, the delivery is not exempt from value added tax(the romanian legal entity is registred in value added tax goals).

This situation engenders in book-keeping the following registering:

4111 „Customers”	=	%	13.209 ron
		707 „Revenues from wares sell ”	11.100 ron
		4427 „Collect VAT ”	2.109 ron

Conclusions

From the previous examples it results the fact that before registering into accountancy/book-keeping, an operation which takes place between the member states of community space, has to be analysed from tax treatment regarding value added tax point of view, responding in this sense to the following answers :

- Is the operation made by a taxed person ?
- Is the operation located in value added tax area?
- Where is the place of operation prooved with documents? In Romania? (the place where is finalised the transport for inside-community acquisitions of goods, the place where starts the transport in the situation of inside-community deliveries of goods).
- There is exemptions?
- Is the romanian legal entity oblige to value added tax payment ?
- Is it some specific obligations regarding operations registering in Value Added Tax Claim, the Rehersa/Recapitulative Declaration, the Specially Claim etc.?

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BALANCE-SHEET THEORIES AND THEIR COGNITIVE DYNAMISM

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Abstract: All over the time, the accounting theorists and practitioners focused their attention on the synthesis accounting documents because, by means these documents, the financial position and the corresponding results are periodically rendered. Thus it is essential that the way this presentation is made should allow both some accurate comprehension of any company's economic reality and carrying on comparative analyses and forecasts regarding its subsequent evolution. This is the very reason for having been looked for an adequate model to help these purposes to be accomplished. Hence, a series of balance-sheet theories issued. The aim our paper hints at was to point out some theoretical aspects, specific to the classic theories on the balance-sheet, aspects that still prove to be of present interest.

Key-words: balance-sheet, static, dynamic, organic, multiple, theories

Introduction

It has become common knowledge that the very first two components of the annual financial statements, i.e. the balance-sheet and the loss and profit account, are the ones to focus most of their users' interest. Nothing unexpected as long as this is to be considered the very aim the financial statements hint at, namely the bringing up of the financial position and the profitableness the company reports. The financial position, as well as its change, is rendered in the balance-sheet, while the results, both current and previous, are disclosured in the loss and profit account. The presentation of the values of the two subsequent financial exercises allows an instant view on the annual changes recorded.

The balance-sheet displays the synoptic and systematic value of the business accounting data, concerning the economic means of the company, their resources and the final results. To some degree, they could reflect the level of both quality and quantity indicators, describing the company's activity. By means of the analysis based on the data within the balance-sheet, there could be considered some correlations between resources and means, between their structures and components, in order to reach conclusions regarding the ratio between the means the company possesses and the objectives it is to attain. The analysis might interest the profit and loss account which focuses on the financial database of the management over a given period of time. The analysis function of the financial accounting – through the comparative calculus – acquires consistency which allows it a survey of the present related to the past. It is to be examined and compared the present situation in relation with the initial one, the recent outcomes with the results recorded previously, in the hope of making capital out of past experiences, or of taking decisions about future actions.

The classic balance-sheet theories

The importance and the advantage the balance-sheet has for the management of the company have been stirring both the theorists' and the practitioners' concern in this field of activity. They elaborated and founded a series of theories on the balance-sheet, theories differing from each other in their perspective on the content, the purpose and the evaluation bases [1]. The most significant theories on the balance sheet are:

1. The static theory on the balance sheet, elaborated by Walter le Coutre, that supposes drawing up the balance-sheet in a way to show the situation of the assets and the financial result at a particular moment, that is to say the company's wealth. The balance relation defining this model is:

$$\textit{Assets - Liabilities = Net worth} \pm \textit{Financial Result}$$

The financial result is rendered as a financial source, if it is positive, and as a circulating capital in reimbursement, if it is negative. Consequently, the income-expenses difference that constitutes the financial result means – within the balance sheet – a result characteristic of the period of time that encourages an increase or a decrease in the company's wealth [2] the same way the assets–liabilities difference suggests the situation of the owners' funds. In this particular instance, the balance sheet does not reflect the way the financial result emerges. The supporters of this theory, Herman Veit Simon, H. Nicklisch, define it as an organic theory, due to the organic relationship the company entertains with the market it depends on, while the theory's opponents (E. Schmalenbach, mainly) called it a static one, just to enhance its opposition to the dynamic theory, by underlining the priority the balance sheet (at a given moment) has over the loss and profit account (over the period of time) [3].

According to the static theory, the assets must include the inventories, accounts receivable, fixed assets as well the intangibles on condition that, for the last ones, there had been made expenses liable to be directly allocated. As for the liabilities there should be recorded: the share capital and the reserve funds (the revenue reserves and the capital reserves) along with the debts (if the last ones suppose legal obligations). Such a perspective allows an analysis of the assets' structure, mainly the relation between the fixed assets and the circulating ones, of the liabilities, that is the relation between proper sources and debts, as well as the balance between assets and liabilities.

The evaluation of the assets within the static balance-sheet counts on the individual evaluation, supposing the going-concern activity, taking as a base for the assessment the historical cost (the purchasing cost or production cost, accordingly). The use of the purchase cost or the production cost as a high-value limit encourages substance preservation.

Herman Veit Simon remarked some shortcomings of the static balance-sheet, and suggests that it should be given a dynamic pace, by means of the introduction of some regularization posts and he also found it appropriate to the valuation done at the selling price of the goods to be sold (price that is confined to the price used on the market). The regularization asset-posts hint at the rights to future services on payments in advance, while the regularization liability-posts hint at future obligations to do some services in return for the amounts the commercial partners pay in advance.

2. The dynamic theory, originated by E. Schmalenbach, states the determining of the annual economic results as the main objective of the balance-sheet. In keeping with this theory, less attention should be paid to the amount and the structure of the company's worth and more attention should be paid to the changes it is subjected to at a specific moment. The valuation of the elements of the balance-sheet is done in such a way that the profit resulted from the economic activity could be compared with the previous results or with those specific to different other periods and the efficiency of the activity performed could be measured. The assets posts are thus considered elements foreseeing expenses and products to turn into results. For this reason, they have a temporary status within the balance-sheet [4]. E. Schmalenbach does not show much interest to the result got through a temporary business management but to the way this result was achieved: “The profit of a company is the latter's dynamic manifestation, the former being the additional income compared to the expenses of a company, and representing the measure of profitableness.”

The promoter of the dynamic theory divides all the company's activity in periods, or in sub periods (i.e. the financial year). For this purpose he introduces the concepts *revenues* and *expenses* which he distinguishes from the notions: *receipts* and *payments*. The balance-sheet is acknowledged the role of taking over “the suspended posts” (the assets and the liabilities) which, excepting for the clear payments (expenses included), are based on the fact that the economic events do not influence the result the same period when the inflows and the outflows are registered. The balance-sheet functions as some regularization account whom Schmalenbach suggestively calls: “the power deposit of the company” [3].

In order to permit the results to be compared, the valuation based on the market value is not desirable (as it could undergo changes), but the cost valuation. It is yet accepted some assessment in keeping with the price of the day for the fixed assets, as they are protected by the market fluctuations. This dynamic theory on the balance-sheet is also influenced by a prudence principle that is the profit is stressed on as soon as the goods are realized and not when the market value of the unsold products rises. Schmalenbach recommends that the result should be handled carefully, finding an overestimated profit more unsafe than the underestimated one.

The author of the dynamic theory has the merit of contributing much to the theory and the practice of the financial reporting, establishing some theoretical concepts concerning the drawing both of the balance-sheet and of the profit and loss account. He also insisted on the fact that the main purpose the dynamic balance-sheet looks for is giving the external users accounts and, just for this reason, it must be as objective as possible.

3. The organic theory, stated by Fritz Schmidt, represents a dual concept that supplies the balance-sheet with two functions, namely finding the results at a certain moment and getting knowledge of the means and the resources at work [5]. So, the balance-sheet displays both the company's wealth at a particular moment and some results' calculus. Every single company is considered "a cell in the economy's body" so one could appreciate the result of the company as being positive only if it keeps its relative position within the entire economy, managing to maintain its economic substance [3]. Thus, the profit as the result of the inflation must be distinguished from the real profit of the time period.

The important element of the theory is considering a valuation model based on the possibility the expenses are covered, calculated at their repurchasing cost, under a going concern assumption. In this instance, the financial result represents the difference between the selling cost and the reproduction cost, and not between the selling cost and the purchasing cost (for goods), or production cost (for products).

Apart from its being able to monetarily express the value and the inner progressive process, the theory of the organic balance-sheet makes use of quantitative expression, stating that, this way, it could assure a steady productive rhythm of the assets.

Other balance-sheet theories

In the specialized literature, there are mentioned some other theories such as: the integrated theory, the financial theory, the forecast balance-sheet theory, etc. Many of these particular ones are developed approaches to the above-mentioned theories.

We can't finish without dealing with a recent theory, i.e. the theory of the multiple balance-sheet professor M. Ristea develops in his "The balance-sheet in the patrimony administration" (we are to employ further on the "patrimony" term even if, nowadays, it is considered outdated). According to the author's opinion, the balance sheet is allotted a series of double-functions, based on the double representation of the patrimony [2]. So:

- the balance-sheet represents a *global* and a *structural* model. It synthetically renders the patrimony, but it also reflects the motions involving the patrimony's elements (assets and liabilities);
- the balance-sheet represents a *state* and a *motion* model. It shows the patrimony's condition at a certain moment, by means of balances of assets and liabilities accounts. It also reflects the patrimony's changes. This particular one could be described in the form of a matrix of the motion relations (i.e. inflows, outflows, and processes), between the patrimony's elements. This way defined, the balance-sheet should present an accounts system (and an implicit financial-economic indexes system) to characterize the financial position, the financial result as well as the financial position's changes;
- the balance-sheet represents a *static* and a *dynamic* model. The static characteristic is determined by the fact that the balance-sheet is drawn for a period of management. But delimiting these periods of management means analyzing the changes from one period to another. This continuous-flow spreading of the balance-sheet supplies the model with a dynamic character;
- the balance-sheet represents a *reflection* and a *control* model. The balance-sheet assures a subsequent representation of the relations between assets and liabilities but it must offer anticipatory data regarding the relations about the preservation and the rising of the company's wealth. Such an informative perspective on the balance-sheet is based on the fact that the equilibrium relations characteristic of the double representation (*Assets=Liabilities±Financial results* and *Expenses±Financial results=Revenues*) are, at same time, efficiency relations.

Taking into account the complex role the balance-sheet should perform, it should be drawn in the form of a set of documents to contain:

- the account balance-sheet, as a basic model, to describe the patrimony as a whole and to focus on its structure;
- some other models in relation with and converging to the account balance-sheet that are meant to show: the financial result and the profit's allocation, the revenues and the expenses, the state and the motion of the assets, the state and the motion of the liabilities;
- the explanatory report, as an analysis model, to encourage the results-interpretation process.

Conclusions

Even if developed at the beginning of the 20^{th} century, most of the concepts specific to the three classical theories are also to be found today in the rules concerning the elaboration and drawing of the balance sheet and the profit and loss account. As far as an assessment is concerned, are there to be maintained both the assessment at the historical cost – characteristic of the static and the dynamic theories – and the assessment at the current value at the moment when the financial statements are drawn – characteristic of the organic theory. The matter of advantages or disadvantages of the employing of the two valuation's bases is still debated and analysed among the accountant theorists and practitioners. The going-concern principle that stays for the basis of the three classical theories on the balance sheet is still one of the main concepts looked for at the elaboration of the financial statements. The concepts of both the financial and physical capital maintenance – belonging to the organic theory – are still available. It is also to be noticed the availability of the relation concerning the company's wealth – from the static theory of the balance sheet – which is used to discern the financial position revealed by the present balance sheet (assets – liabilities = owners' funds).

The actual pattern of the financial situations, a mixture of models specific to various previous theories on the balance sheet, appeared as a natural consequence of the users' needs for more and diverse information. Apart from the revealing the instant value of the assets and the liabilities, the financial statements must as well show the way the results are made up, and the cash flows so as to make it possible the study of the degree to which the revenues and the expenses that influenced the financial result were collected and paid. It also must disclose the changes the company's capital underwent. The importance paid to the financial statements' notes is greater and greater nowadays. By means of these notes, it is asked that all the additional data to be disclosured, data liable to contribute to a more accurate report addressed to the users of these financial statements. This set of synthesis accounting documents must permit both a retrospective analysis and a prediction of the company's evolution.

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THE ELABORATION OF THE FIRM'S STRATEGY BY VALORIZING THE DATA OF THE MANAGERIAL ACCOUNTING

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The strategy of domination through costs is the most popular from all the strategies at the microeconomic level. This opinion is sustained by the fact that the competition fight is the most often held by means of price. This paper refers to the comparative advantage who has the power to determine the consumer to buy the product or service which has the highest quality standards compared to the same product produced by another firm. The paper is focused on a series of advantages and disadvantages of the strategy of domination through costs, taking into consideration the importance of the sources of the cost advantage, and synthesize the fields of reducing costs.

Cuvinte cheie: strategy, advantage, costs

The strategies elaborated by the managerial bodies have an essential role in conceiving and funding the firm's activity. Presented under the form of forecasts, these strategies direct the development of every enterprise, bringing quite often efficiency to the entity with for which they act enlarging the market share and profitability.

Strategy comes from the Greek word "strategio" which means general and which resulted from the unification of two words "stratos" meaning army and "agein" meaning to lead. The complete Market Economy Dictionary defines strategy as follows: "term from the military field, extended in a managerial direction, through which one understands the assembly of the major objectives of the enterprise for a long term period, the main ways of achieving it, together with the allotted resources".

The firm strategy comprises a set of medium and long term objectives referring to the assembly of activities, or to their major components, the volume and the structure of the disposable resources, main actions, the main responsible person and executers, the financing sources, the final and intermediate terms, the global and partially efficiency indicators. It serves as a base for the elaboration of the short-term and long-term development strategy at the level of each unit.

It results that a strategy will concentrate in defining the field of activity: setting the major objectives of the enterprise, the setting of the policies and plans for attaining the objectives, determining the managerial board responsibilities and at the same of those who are shareholders, employees, clients, suppliers, setting of the disposable resources necessary to achieve the strategy.

The strategy represents a product of the strategic managerial process and comprises some defining characteristics: possesses a large number of aggregate information, it subordinates itself to the settled objectives, is interchangeable with the objectives, defines the major directions of the firm future activity and do not mark the beginning of its transposing into being, is the base for the elaboration of the strategic planning.

In order that a strategy presents utility for the organization it is essential to aim an assure the obtaining of the comparative advantage referring to the product cost or quality. Those strategies that permit the firm to the obtaining of a competitive advantage are called competitive strategies.

Referring to one or many component elements having an essential importance for consumers, the comparative advantage has the power to determine the consumer to buy the product or service which has the highest quality standards compared to the same product produced by another firm.

In M.Porter's [1] opinion, the competitive advantage reduces itself to ensuring a reduced cost or a product and service which differs itself through quality from other offers with similar products already existing on the market. As the competitive advantage is concerned the source can be innovation which means a newly conceived product, technology and equipment, management, trading, financing, or staff.

The basic condition under which the competitive advantage is lively is represented by its durability, respectively the possibility of its maintenance for a longer period of time. Under the circumstances in which this condition is not fulfilled one cannot talk about a competitive advantage of the strategic type, but of an occasional one or about the valorization of an opportunity. M.Porter [2] has delimitated a number of five generic strategies such as:

1. general leader as concerns the manufacturing cost;
2. a differentiation at the level of the whole activity sector;
3. a focalized differentiation (at the level of a segment);
4. the focalized strategy of the minimum manufacturing cost;
5. the strategy of the most competitive manufacturing cost.

The strategy of domination through costs is the most popular from all the strategies at the microeconomic level. This opinion is sustained by the fact that the competition fight is the most often held by means of price. Choosing this strategy, a firm having classical manufacturing systems proposes itself to become the producer with the lower cost of that kind of industry. The firm will have a competitive goal large, serving many market shares, being able to operate even within industries having a linking between them.

The supremacy through cost supposes the identification and the exploitation of all the sources of advantage in cost. The producers having the lowest cost sell a product or place their cost advantages on harvesting the absolute costs from all the possible sources. In the situation in which the enterprise succeeds to achieve and sustain the general cost of leader, it will get performances above the average in its industry and it will be able to impose prices at the industrial level.

For equivalent prices or even smaller than those of the competition, the leader position with minimum costs may have results in bigger profits. In the specialty literature it is mentioned that in order to greater diminish the cost of the finished products, the firm acts frequently for the maximization of the production in order to get its own economies for the mass production and for the large series production, too.

Successfully using the costs strategy asks from the part of the organization an activity and a concentration of accounting information directed upon costs. In this situation the aim is:

- determining activities and zones generating costs, respectively those zones where there exist resources consume;
- determining responsibilities for each type of activity;
- a more efficient organization and administration of the general activity of the firm;
- to fundament the internal decisional process.

The option of a firm directed towards the choosing the costs strategy is determined by the perspective to get some advantages such as:

- realizing some superior incomes reported to the average registered in the same kind of industry, because those producers obtaining goods and services at lower costs than those of the competition have the possibility to use this advantage linked to cost in order to determine a larger limit of profit;
- getting a front position in relation with its competitors and which results from the possibilities to offensively compete based upon prices in order to extend the activity on the covered market share and in order to protect in case of a “prices war”;
- getting a secured limit of profit in front of powerful clients, as their pressure to diminish prices can be exercised only up to the surviving level of the next competitor on the market;
- adopting an offensive attitude even in relation to powerful suppliers. The greater efficiency which is obtained it will offer the firm a larger interval for negotiating prices in case of raw materials and necessary energy;
- obtaining a powerful position in relation to the potentials entered on the market, because reduced costs constitute a barrier but also a weapon to fight the disturbances created on the market by a new comer;

- the possibility to use reduced prices as a competition weapon having its efficacy in order to defend the substitution product or services offered by the competing firms at competitive prices.

Applying the strategy of domination through costs oblige firms to find those zones which can be potential sources of economy, respectively of reducing costs. M Porter considers that the cost relative position of a firm depends on the “important motion forces of cost” and they are the determining structural factors of the cost of an activity and they differentiate themselves through their control degree exercised by the firm upon them The motion forces determine the behavior of costs inside of an activity, reflecting any link or interdependence relation which may influence it.

The cost performance of a firm for each separate activity cumulates itself in order to determine the relative cost position of the firm. Besides these factors, P.F. Drucker gives a major attention to the quality of information. “The biggest problem confronting us in future is the obtaining of some correct external information in order to be able to take correct decisions. This fact depends upon the internal market, the changes in clients and distribution channels.” [3].

The factors that M.Porter considers to be decisive in winning the cost advantage are: scale economy, learning, the capacity used pattern, links, interdependence relations, integration, coordination in time, discretionary policies, location and institutional factors. In other words, we can consider that the main factors contributing to costs reduction are:

- the results obtained as a consequence of the experience and to the knowledge transfer;
- reduced production costs due to a severe control of the used materials;
- the integration degree that influences differently from one industry to another;
- the degree of use of the production capacities;
- the moment of entering the industry. Experience may bring advantages such as notoriety, formation effect etc; but it can also be followed by disadvantages such as necessity to find suppliers, to form distributors, clients etc;
- privileged access to some sources that are offered at competitive prices;
- relations with institutional partners (government, labor unions, public power etc) that are inaccessible to the other competitors and which permit to realize an important economy such as: financial exonerations, the absence of social conflicts, good prices etc;
- scale economy in different elementary activities.

The competitive cost advantage can be created and sustained in two ways:

- a rough control of using the cost instruments comparing it to the achievements of the competing companies and adopting the adequate measures in this direction;
- through re-analyzing the structure of the activities-cost chain in order to determine the background corrections necessary to a significant reducing of cumulative costs.

When doing the strategic analysis of costs it is necessary to run through several stages which suppose: the identification of the activities and sub-activities generating expenses, settling factors which act upon costs, determining competition costs, identification of the elements that differentiate the own costs from those of other producers, shaping the strategic directions in order to reduce costs, applying and checking the strategy.

The most common ways of achieving the economies in the field of costs aim the material and salaries expenditures. If we refer to the factor capital production, a prime package of measures to reduce costs aims the materialized labor expenditures. In this case, one can act in the following directions:

- using some larger spread and cheaper raw materials, other materials, fuel, energy etc;
- the promotion of some new and modern manufacturing technologies;
- the reorganization of the technological processes;
- re-projection of the already manufactured products applying a reduced consume of materials;
- re-evaluation of the consuming norms and/or the elaboration of some new ones;
- finding some ways to reduce the number of failures or their re-valorization;

- improving the organization of the supplying , dispatch and production activity;
- the growth of the rotation speed of the working capital;
- the acquisition of machines and equipments, performing installations in order to reduce the reparation expenses;
- intensive use of the production capacities in order to reduce the writing off level for each product;
- acquisition of some machineries at a competitive price, corresponding from a technological point of view;
- avoid uploading or under loading of the machineries.

Acting, in the direction of reducing costs, upon the factor production and labor, we refer especially to the ways of enhancing the work productivity:

- the increasing of the technical level of production through the introduction of automation, robotizing and cybernetics in the manufacturing processes. In this situation one can get a greater production having the same quantity of work and having implications in the diminishing the other expenditures;
- the improving of the professional training of the human resources by employing a high caliber staff; the permanent assessment of the personnel, the organization of qualification training etc;
- the promotion of a competent management for the entire economic activity by adopting some measures aiming to reduce the work volume, the planning of the production and an operational control of it, launching into manufacturing process of some new products and the development of the existing ones, increasing the efficacy of those activities having an auxiliary and service character, the improving of the basic activity of the firm etc;
- providing the material incentive of the employees by creating a prizes system for special results and the realization of high level products, the allotting of some extra payments for extra-working hours and other motivating procedures;
- increasing the quality of labor conditions and of the socio climate of the firm.

Improving the activity of the technical-material supply represents a way to reduce cost, and it can be materialized through:

- raw materials and materials stocks redirection;
- rationalizing the warehouses activity;
- simplifying the supply program;
- shortening the distribution channels;
- settling solid contracts with suppliers respecting products quality;
- reducing dispatch expenses has its contribution in minimizing costs through:
- organizing its own net for goods dispatch;
- developing the service activity during the guarantee, and post-guarantee period
- employing trained staff in the field;
- setting a solid market policy.

The administrative-operational expenditures, being considered constant conventional expenses, they can be reduced, mainly through the increase of the production volume. Their contribution at reducing production cost can be determined through:

- re-projection of the administrative apparatus;
- reducing the office supply.

Taking into consideration the importance of the sources of the cost advantage, we can synthesize the fields of reducing costs as follows:

ACTION AREA	USED INSTRUMENTS	EFFECTS
Used materials resources	- decreasing the consume of raw materials, fuel, energy , water etc; - using some new non-conventional cheaper resources.	- the modification of the proportions between the material resources and the salary ones; - reducing the total costs and prices; - occupying new market shares.
Work productivity	- qualification, re-qualification and self improvement of the labor force; - assuring a certain rhythm in the employment supply, increasing the degree of organizing the work and its discipline.	- improve the physical productivity per each working people; - reducing costs and implicitly the profit increase; - increasing the net profit.
Achieved production	- introduction in the production process of some new products; - re-projection and modernization of the existing production.	- improving the products quality; - reducing expenses resulted from non-quality.
Production capacity	- enlargement of the production capacity; - the increase of the degree of using the production capacities.	- increasing the physical production; - the increase of total costs; - reducing the costs per unit; - the decrease of the costs of some sub-activities .
Production quality	- re-organizing and improving the management of the material and human resources, of the organizing processes and leading the scientific research activities	- increasing the costs of prevention and faults identifying; - reducing the costs generated by non-quality; -the increase of products quality.
Introducing the technical progress	- improving the ways of valorizing the firm resources.	- the increase of the physical activity; - decreasing of the specific consumes; - increase profit.
Management activity	- operative monitoring of the expenses for each employee and determining some deviations of the effective expenses from the provisioned level using all the information linked to costs and taking decisions in this sense and through the analysis of the opportunity and investment costs.	- identifying the causes determining the increase of costs; - an absolute economies in the structure of the relative costs; - eliminating or maintaining in the manufacturing process of some products.

Table 1: The fields of reducing costs

The strategy of domination through costs, besides a series of advantages, it also has some evident disadvantages:

- exercising a pressure upon the financial resources of the firm which fulfills an essential role in the introducing of the technological news in order to significantly reduce production costs;
- performing massive investments in technologies, in the circumstance in which buyers preferences are oriented towards products or services having new characteristics offered by competitors, a fact that implies the risk of the strategic inflexibility;

- the loss of advantages and efficiency bonus generated by the previous investments, in the moment of the producing of the technological changes made in order to reduce costs;
- the exclusive focalizing upon the ways to reduce production costs and neglected the changes of products in the consumers' preferences regarding the quality of the products and services, ways to use, reduce the demand elasticity in its ratio with price etc;
- the exclusivity of applying the strategy under the conditions in which on the entire market there are acting many firms. From this reason the respective competition is very intense.

The profit perspectives opened by the appliance of this strategy become materialized not only for the firm which succeeds to win the competition and shape itself in a leader position on the market as long as prices are concerned, fact that is capable to determine the other competing firms to abandon the respective strategy.

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GREEN ACCOUNTING – A CHALLENGE FOR THE ACCOUNTANT SPECIALIST

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Abstract: Green or environmental accounting describes an effort to incorporate environmental benefits and costs into economic decision-making. Corporate environmental accounting is concerned with a business's environmental impact, national environmental accounting tries to accomplish the same at a national level.

Key words: green accounting, sustainable development, environmental protection

We all wish to live better and better. But we ask ourselves if the planet is it still viable, if it can still satisfy our wishes without affecting it?

The emergence of some important problems concerning the environment has altered the indifference in some of us and stimulated the initiative of others regarding the necessity of doing something to remediate those problems.

This way, the specialists have come to the conclusion that the liaison between a safer environment and the hope of an increasing quality of the people's lives involves taking some decisions.

In conclusion, at The United Nations Conference for the Environment, taking place in Rio de Janeiro, in 1972, the term *sustainable development* was for the first time used. The message of this conference was to find those strategies which offer the possibility to protect the resources of the natural environment in the process of social and economic development, in other words, to achieve a sustainable development.

From that moment onwards, this concept has signaled people's doubts about the future of the planet. This way, in 1983, The World Committee for Environment and Development was founded. In 1987, in the Brundtland Report, published by this committee, the main problems of the environment were underlined.

In this report, sustainable development was defined as a strategy of economic development intended to harmonise the economic and social progress, without affecting the natural equilibrium of the planet for a development which must respond to the actual necessities without affecting the capacity of next generations to satisfy their own necessities.

Some time later, in 1992, at The United Nations Conference for Environment and Development, taking place in Rio de Janeiro, concrete directions of action for environmental protection were established, from among which we can mention: the elaboration of a guiding document for the administration of the environment in almost all the world (21st Agenda), the cooperation between the poor countries and the rich one, the harmonization of the concept of economic increase with sustainable development, the rights and the obligations of the states concerning the environment.

In 2002, at The World Summit for Sustainable Development, which took place in Johannesburg, it was stressed the fact that the main actor on the world market which must take action for the realization of sustainable development is still the enterprise, which is interested more in itself than in the others, even ignoring the environment.

Being conscious of that, more and more enterprises have started to take into consideration the environment in their programs and action plans, especially when they observed the improvement of their own image, a better satisfaction of the clients and, through this, a competitive advantage.

This fact led to the elaboration of some norms ‘to facilitate the enterprise managers’ understanding of the necessity of integrating the environment in their administration, and to facilitate the development and improvement of the environmental administration system’[381].

In Romania, this objective of major public interest, namely the environmental protection, is regulated by The Governmental Urgency Ordinance no. 195 in 2005 approved and modified by Law no. 265 in 2006.

The Ordinance mentioned above refers to the economic and social activities with impact over the environment (dangerous substances and different waste; chemical fertilizers and pesticides, radiations), natural resources protection and the biodiversity preservation (the waters and the aquatic ecosystems; the atmosphere; the soil, the subsoil and the terrestrial ecosystems; protected areas and natural monuments; human establishments).

According to the ordinance mentioned above, for the realization of the European integration process, the principles which govern the entire activity of environmental protection are settled, and they marked out the directions of economic activity rules to accomplish the sustainable development objectives, elements which take into account the public interest and which constitute extraordinary emergency situations. This way, the system of environmental management was defined as ‘a component of the general management system which includes the organizational structure, the planning activities, the responsibilities, the practices, the procedures, the process and the resources for the elaboration, the application, the realization, the analysis and the maintenance of the environmental policy’[382].

The realization of sustainable development by the enterprises determines the appearance of ‘green accounting’ or ‘ecological environmental accounting’. This was also determined, on the one hand, by the necessity of resolving the increasing problems of the natural environment and by the necessity of taking pertinent decisions concerning the environmental policy of the enterprise, and, on the other hand, by the growing concern of the different users of the financial statements regarding the impact of the enterprise over the environment.

Green accounting represents ‘a process of identification, calculation, control, analysis and reporting of the costs generated by the enterprise-environment relation, resulting from the prevention, the limitation and the elimination of the effects of ecological disasters with a favorable impact over the company and the environment’[383].

The idea of identifying, calculating, controlling, analyzing and reporting the costs generated by the company-environment relationship also has at its basis the fact that this cost sometimes has an order of magnitude which is closely related to that of the company’s benefit. Thus, the environmental costs represent the potential sum of maximizing the profit by taking environmental measures. Practically, these expenses regarding the company-environment relationship could be avoided by adopting an efficient policy of environmental protection, and, therefore, the company will be exempted from possible recoveries of environmental damages, fees or penalties owed to organizations which protect the environment, etc.

The methodology of administering the costs generated by the company-environment relationship which is facilitated by green accounting comprises two stages:

1. the former stage consists of identifying, collecting, and controlling the costs generated by the company-environment relationship and of elaborating the environmental financial statements (reporting);
2. the latter stage consists of analyzing and interpreting the data in the environmental financial statements and, on their basis, decisions are taken regarding the correcting measures to be introduced so that, in the future, it could become possible to reduce at least those costs paid in order to remove the environmental damage, according to the principle saying that ‘it is better to prevent rather than to combat’.

The costs generated by the company-environment relationship are collected from among the following:

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[381] Tabără, N., Nuță, F. M., *Normalizare şi globalizare în gestiunea şi contabilitatea mediului*, in <*Finanțe Publice şi Contabilitate*>, no. 5/2007, published by The Ministry of Economy and Finaces.

[382] * * * *The Governmental Urgency Ordinance no. 195 on December 22, 2005*, approved by The Environmental Protection Law no. 265/2006

[383] Caraiani, C., Jianu, I., *Contabilitatea verde – o perspectivă a schimbării în contabilitate*, in <*Contabilitatea, expertiza şi auditul afacerilor*>, no. 5/2007,Published by C.E.C.C.A.R., București 2007.

- the acquisition prices (or production costs) for machinery, equipment, means of transport,
- or the acquisition prices of ecological raw materials which, being higher than the ordinary ones, ensure an increased level of environmental protection and, consequently, they ensure the prevention, decrease and even elimination of costs generated by environmental pollution;
- fees or penalties resulting from polluting the environment.
- The structure of the costs deriving from the company-environment relationship could be
- the following:
- the costs of preventing the noxious effects over the environment resulting from the company's activity;
- the costs of limiting or abolishing these effects;
- the costs of regenerating the affected environment.

The documents used in the determination and analysis of the evolution of environmental costs are represented by:

- the environmental report, defined in G. U. O. no 195/ 2005 as being part of the
- documentation of plans and programs, and which identifies, describes and assesses the potential significant effects over the environment, their application and their rational alternatives, taking into account the objectives and the corresponding geographical area, in compliance with the enforced legislation;
- the environmental balance sheet, defined by the same regulation as a document
- elaborated by individual or corporate bodies attested by the law, aiming to obtain the notification for establishing environmental obligations, or to acquire the environmental licence which contains the elements of technical analysis, by means of which one could get information about the activity's causes and consequences of cumulated, anterior, current or prospective negative effects, so as to measure the real impact on a certain location;
- the risk evaluation study, which completes the environmental balance sheet, in case there
- is a significant impact over the environment;
- the primary documents, functioning as informational support, in which the costs generated
- by the environmental protection are recorded; these documents are similar to those employed for recording the other company costs;
- the general chart of accounts, including subsidiary accounts specific for the company-
- environment relationship;
- compulsory accounting books, which present, in corresponding subsidiary accounts, the
- costs involved in the company-environment relationship;
- synthesis documents and environmental accounting records (a distinct set from the
- compulsory ones) which reflect the company-environment relationship.

The work force involved includes:

- the agents issuing the primary documents;
- the environmental protection department which verifies the way in which the company-
- environment relationship develops;
- the accountancy and financial department which registers the transactions and the events
- related to the company-environment relationship;
- the economic analysis and diagnosis department, which analyses the ratio between the
- costs and the benefits generated by environmental protection, the extent corresponding to the various categories of environmental costs within the total environmental costs and within the total costs of the company, also making proposals about measures to be taken so as to improve the company-environment relationship, etc.;

– the company’s management taking environment-related decisions.

Ecological accounting can be used in different contexts and with different meanings[384]:

– in the context of the national accounting, the green accounting is named the accounting of natural resources and it has a macroeconomic dimension, it offers information about the consumption, the quantity and the quality of natural resources, which can be regenerated or not;
– in the context of the financial accounting, green accounting refers to the financial estimation and reporting of environment costs and debts related to them, according to the accounting standards;
– in the context of the managerial accounting, the green accounting is orientated to offer the necessary information in taking economic decisions concerning the investment, the level and the structure of the production and other things, starting from the environmental costs of an organization / a department / a line of production / a system.

The system of national accounting can offer an image of the relation existing between environment and economy, unifying the information offered by the entities concerning the environment. The first "satellite-accounts" of the environment were published in 1986. Those accounts were covering the next areas: the continental waters administration, the elimination and recovering of waste products, the protected natural spaces (national parks, regional parks), the protection of maritime spaces, or hunting.

In the actual stage regarding the reflection of national accounts at the international level, a planetary evaluation of the natural patrimony and an evaluation of the deterioration suffered by the environment are still very difficult to do. The preference is to elaborate physical accounts able to describe the whole natural patrimony of a country with its different components, presenting, on the one hand, the uses of natural resources, and, on the other hand, presenting the degradation of natural environment caused by the economic activities.

Still, the specialty literature offers some examples of accounts, also presenting the account shown bellow, which tries to cover the entire natural patrimony.

The environment account[385]

Resources	**Uses**
Initial Inventory	
- High estimation adjustment of the known reserves	- Low estimation adjustment of the known reserves
- Natural increase	- Natural decrease
- Increase of man-made elements	- Artificial decrease
- Imports	+ Samplings
+ Pollutions	- Exports
= Final Inventory	

Just as with financial accounting where the double effect is at the basis of transactions’ logic, in the case of ecological accounting the same principle operates: affecting an element corresponds to replacing and counteracting the deficiency or the evil done. The synthesis of this information can be reflected in the annual financial statements by introducing some green headings. An example of an ecological balance sheet, adapted by Professor Neculai Tabără, after reading the example presented by Raffegeanu in the work *Memento Practique Francis Lefebvre Comptable*, presents the next headings:

384 Caraiani, C., Jianu, I., *Contabilitatea verde – o perspectivă a schimbării în contabilitate,* in <*Contabilitatea, expertiza şi auditul afacerilor*>*,* no. 4/2007, published by C.E.C.C.A.R., Bucureşti 2007.

385 Tabără, N., *Contabilitatea naţională a României*, published by Sedcom Libris, Iaşi, 2005.

1. inventories for the environment protection (equipments used for the environment protection, equipments for the recycling or the economy of energy, equipment which reduces the pollution and other negative effects);
2. flow associated to the usage of equipments destined to protect the environment (the amortization of equipments; works, supplies and exterior services; staff expenses attributable to the environment protection activities; the purchasing cost of the energy destined to the maintenance and to the functionality of the equipments; pollution royalties paid; depollution bonus received; subsidies and loans with special interest rates acquired for the financed equipment; provisions for risks);
3. flow associated to the production activity (the purchasing cost of the energy and raw material on the physical unit of sold product; purchasing and sale of lands);
4. natural patrimony of the enterprise (built and non-built land areas);
5. flows (the volume of spent energies on the physical unit of sold product; the volume of net emissions of pollutants and residue inventories; sold and bought land areas).

The fair view of the financial position and the fair view of the enterprise performance will be completed if we add the information about the implementation of the environmental policies concerning the impact of the company's activities over the environment and over the population (here we also include the financial statements' users).

In our country this information is presented now in the environmental report, defined by The Governmental Urgency Ordinance no. 195 in 2005 as a part of the plans or programs documentation, elaborated by the companies, which identifies, describes and evaluates the possible effects which could have a major impact over the environment, and which also analyses the rational alternatives of those plans and programs, taking into consideration the objectives and the geographical area involved. The companies which respect themselves include some indicators in this environmental report, as: the land area allocated for the wastes administration, the number of the elucidated or investigated incidents in a determined period, gas emissions with specific greenhouse effects, recycling rates for different wastes.

Moreover, ecological environment accounting is also a managerial tool, with many goals: the control of environment costs; the realization of investments in less polluting or even in ecological technologies; the promotion of some production process and the promotion of some less polluting products, improving environment-related performance.

The traditional accounting methods do not take into consideration the environment costs and the performance concerning the environment, whereas environmental accounting includes the calculation of environmental costs structured as follows[386]:

1. conventional calculation of the environment costs, having as objectives the detailed reporting of environmental protection costs and noxious factors costs which affect the environment;
2. calculation of costs related to losses, which includes: the prevention costs, the protection costs, the material loss costs, the costs of the loss generator flow;
3. cash flow accounting, which identifies and analyses the totals costs concerning both the used materials and the flow generated by them, the loss generated, the efficiency of the usage of materials and energy aiming at generating a minimum level of loss.

As far as the investments in depollution or antipollution technologies are concerned, including the quality of raw materials and materials used, they contribute essentially to the prevention, diminution or even elimination of the noxious effects over the environment.

Lastly, we present some advantages that companies could have by implementing ecological environmental accounting:

- informing the enterprise about the effects of the activity over the natural environment and over the population;
- sustaining the decisional process concerning the action plans for the environmental protection;

[386] Dumitrană, M., Caraiani, C., Dascălu, C., *Contabilitatea şi mediul ecologic – viziune conceptuală şi informaţională*, în C*ongresul al XVI – lea al profesiei contabile din România,* Ed. C.E.C.C.A.R., Bucureşti, 2006.

- the increase of the financial statements users' trust and also the attraction of new investors;
- the realization of sustainable development.

In conclusion, ecological environment accounting attempts to measure the performance of an organization and of a national economy in relation to the environment and, in economic terms, by means of the monetary evaluation of environment costs associated to the development and functionality activities, and the evaluation of economic benefits brought by an advantageous environmental management and other measures.

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STRATEGY COMMITTEES IN CORPORATE GOVERNANCE

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Corporate governance has for some years been one of the most intensively discussed topics in business. Until now, accounting and compliance issues have primarily been at the centre of the debate. However, some authors have started to point out that it might be time to let these discussions move backstage and to focus on alternative aspects of corporate governance such as the question of how a board of directors may and should exert influence on the corporation's strategy. Corporate governance is concerned with the resolution of collective action problems among dispersed investors and the reconciliation of conflicts of interest between various corporate claimholders. The objective of this article is to determine which role strategy committees play and have played within the corporate governance concept and to establish which tasks these committees routinely perform.

Key Words: Startegy Committee, Corporate Governance, Development, Board

Introduction and Literature review

Research findings on the processes and conduct of boards of directors are generally very scarce (Charkham, 2005). And especially the topic of boards' involvement in strategic processes has received very little attention to date. Yet, while accounting and compliance issues have taken centre stage in most of the discussions, the ongoing corporate governance debate starts to direct researchers' interests to the board's role in strategic planning as well. In this context, the installation of strategy committees is sometimes recommended (Welge, 2005).

In order to understand and assess the role and tasks of strategy committees in corporate governance and in German and Swiss corporations in particular, a substantial knowledge base had to be built, drawing from secondary as well as primary sources.

Secondary sources such as textbooks and publications in journals and on the internet were first of all used to establish an insight into the theory of corporate governance and to provide an overview of how directors' involvement in strategy integrates into the corporate governance framework. Moreover, an overview over the academic debate on strategy committees of the 1970s and 80s is provided, including a discussion of the benefits and drawbacks of board participation as suggested by proponents and opponents of the idea. Finally, the historical development as well as advantages and disadvantages of specifically strategy committees are depicted.

The Strategy Committee

Committees represent a means available to the board of directors to develop an organisational structure in order to support the internal allocation of tasks (Müller- Stewens and Lechner, 2006; von Werder, 2005). They do not constitute permanent units, but traditionally only become active at certain intervals in order to either prepare or make decisions (von Werder, 2005). Among the topics which a committee may be asked to explore in detail are investments, financing, the nomination and compensation of management as well as explicitly the strategy of the corporation (Government Commission German Corporate Governance Code, 2005).

Concerning strategy committees, first of all it has to be noted that the precise nature of the committee may again vary depending on its function, that is whether there is a mandate for the formation or simply for the oversight on the strategic planning process, on its composition, chair and integration with the remaining board committees (Beekun, Stedham & Young, 1998; Harrison, 1987). Consequently, various authors pointed out a series of options concerning the design of a strategy committee.

Most notably and persistently, Andrews (1981a,b, 1987) has called for the introduction of a strategy committee composed exclusively of outside directors. This committee would not necessarily have to become familiar with detailed discussions shaping specific strategic alternatives, but rather be concerned with the management of the strategic process within the company as well as the evaluation of strategic choices and the CEO's performance.

Wommack (1985), envisions a strategy committee which could function as a vehicle for the establishment of formal procedures and routines to facilitate board involvement in strategic matters. Once a routine has developed, the committee could after a few years then be enlarged to include all outside directors. Wommack (1985) emphasizes that it should be the committee's role to discuss, debate, modify and ultimately approve strategy, while the responsibility for developing proposals should remain with management.

According to Harrison (1987), committees may become involved in the strategy process in various manners. They may for instance perform a strategy formulation role or simply have an oversight function. He continues in suggesting that it would be the most reasonable approach to allocate the task of strategy formulation to a strategy committee and leave the full board in charge of strategic oversight. The appropriateness of the introduction of a strategy committee will depend on a set of conditions, Harrison (1987) further claims. He outlines that strategy committees are most valuable to companies, which have recently appointed a new CEO, face rapid change, or where management has not been actively concerned with planning. On the other hand, a committee may not be as effective in situations where the full board is already considering strategic issues, where other committees perform a strategic function, or where the firm's business is very narrowly defined or stable. Regarding the composition of strategy committees, Harrison (1987) found that on average four outside and two inside directors built the committee and presented data on the most common types of directors to form part of a strategy committee (see Figure 1). Finally, he draws attention to the importance that should be given to the coordination of the various board committees' activities as well as to the securing of CEO support.

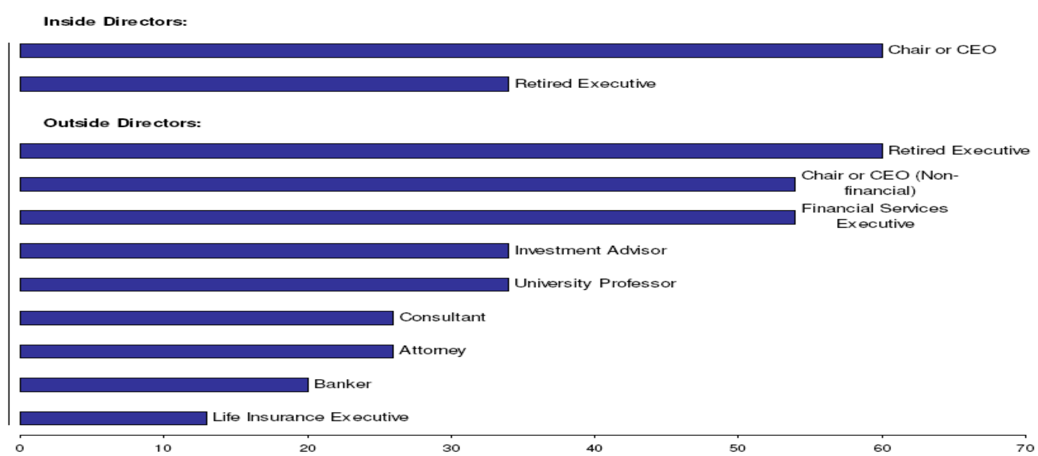

Figure 1 Composition of Strategy Committees Adapted from Harrison (1987), p.121

In line with Harrison's (1987) illustrations, Zahra (1990) reports that strategy committees are found to perform a wide range of tasks such as the review of corporate missions and strategies, the evaluation of competitive positions as well as the definition of diversification targets and of criteria to evaluate these targets. Texas Instruments' corporate objectives committee is mentioned as an example of a strategy committee, which establishes organisational missions and guidelines for managerial actions to be taken.

In contrast to Andrews' (1987) beliefs, Henke (1983) feels that the strategy committee should not be reserved to outside directors only. Instead, he thinks that the committee should consist of a balanced number of inside and outside board members. Depending on the complexity of the business and the time requirements associated with it, a group of four or six people is considered to be an appropriate number. It is recommended that meetings take place regularly or at least once a quarter throughout the year.

A rather different model than those mentioned above is presented by Donaldson (2000), who advocates the installation of a "strategic audit committee" (p.54). This committee would be composed of ideally three outside directors and endowed with the authority to establish criteria for and methods of strategic review. The committee's duties would include not only the selection of the review criteria, but also the oversight over the required data collection processes, the identification of topics for discussion with management, and the ongoing update of the remaining board members on strategy issues. In contrast to other proposals, Donaldson (2000) however suggests that the committee should meet only about once in three years, for he claims that it may otherwise run the risk of drifting from a strategic into a rather operational review and of mistaking insignificant changes in specific indicators for important trends. Yet, he admits, that the frequency of meetings will also be determined by the degree of turbulence in the company's environment and the nature of the industry the corporation operates in.

In order to get an impression of the reception of the strategy committee idea in practice, an overview of the historical development of these committees shall be helpful.

Historical Development of Strategy Committees

As reported e.g. by Rosenstein (1987) and Harrison (1987) the 1970s saw a sharp rise in the introduction of audit, compensation and nomination committees. In the early 1980s, a number of studies however concluded that despite an increasing emphasis on board involvement in strategy, only very few corporations had actually installed a strategy committee (Brown, 1981 as cited in Harrison, 1987, p.117; Ballout, n.d. as cited by Harrison, 1987, p.117; Harrison, 1987; Henke, 1983). Henke (1983), e.g. analysed data from 227 predominantly manufacturing companies and found that only 13.2% of the corporations used a committee to address strategic planning (see Figure 2).

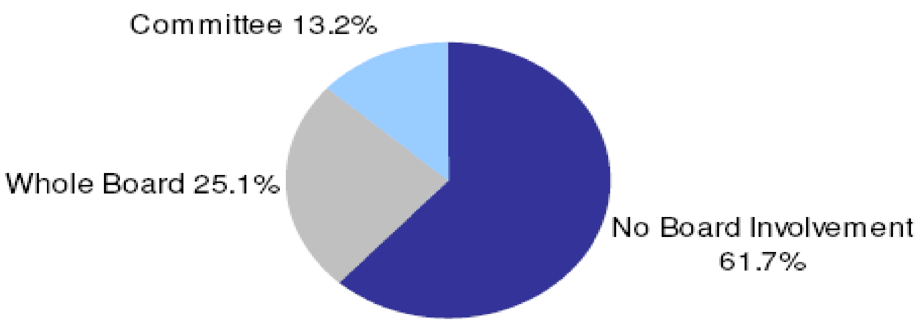

Figure 2 Manner of Board Planning Involvement in Firms Practicing Strategic Planning Adapted from Henke (1983), p.89

Furthermore, Harrison (1987) in his examination of 1982 proxy statements of 753 large American manufacturing firms could only detect 15 corporations which had reportedly introduced strategy committees. He concedes that this figure might underrepresent the actual number of strategy committees because the disclosure of this type of information on proxy statements was not required by the SEC at the time. To support the validity of his research findings, Harrison (1987) however points to the studies of Brown (1981 as cited in Harrison, 1987, p.117), Ballout (n.d. as cited by Harrison, 1987, p.117) and Henke (1983), who reported similar findings. Brown further discovered that, with the exception of two strategy committees created in the 1960s, all were established between 1972 and 1980 (see figure 3).

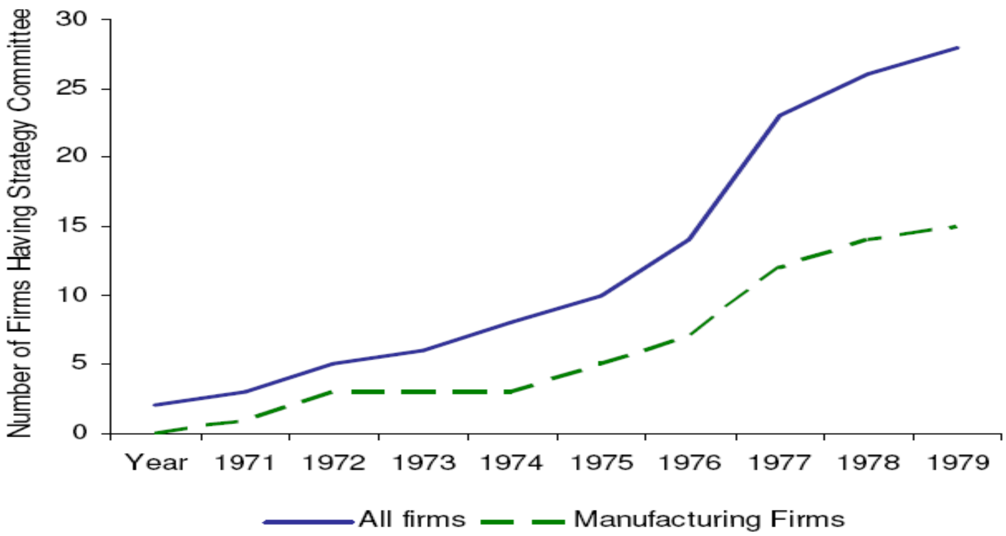

Figure 3 Strategy Committee Existence Adapted from Harrison (1987), p.118

In accordance with these findings, Rosenstein (1987) has noted that there was "no proliferation of strategy committees comparable to the rush to the audit and the nominating committees in the 1970s" (p.31). Yet, as already mentioned, he claims that by 1979 there were indications that in large US corporations, the typical board might be "on the verge of a significant degree of involvement in strategy, possibly through the addition of another major committee" (p.31).

Yet, during the 1980s, an increase of strategy committees was not to be observed (Harrison, 1987; Rosenstein, 1987). In the face of an only inconsiderable establishment of strategy committees, Andrews (1981b) suspects that his persistent calls for the introduction of such a committee might have been ignored mainly because many CEOs oppose board involvement in strategy processes. He suggests that consequently, they seek to limit directors' participation to a minimum and most importantly to keep the consideration of strategic matters out of the reach of an especially informed and qualified committee. Towards the end of the 20th century, Dimma (1998) observes that strategy committees remain uncommon. Nowadays, executive, audit, nominating, compensation, and finance committees are said to be typically installed, with audit committees being compulsory for US listed companies according to sec. 301 SOX (von Werder, 2005). Carey and Patsalos-Fox (2006) highlight that there has been a fourfold increase in the number of board of directors' retreats devoted to strategy, but claim not to have detected a sole US company which has introduced a committee to deal with the review and formulation of strategy. Nevertheless, they suggest that directors' involvement in strategic questions may soon arouse more interest, as attention starts to turn away from compliance issues and new sources of shareholder value are sought.

Benefits of a Strategy Committee

Despite the low empirical use of strategy committees, its installation has continually been recommended (Andrews, 1981a,b, 1987; Donaldson, 2000; Harrison, 1987; Henke, 1983; Welge, 2005). It is argued that a number of advantages may be derived from the establishment of a strategy committee (see table 1).

The various suggestions brought forward may be condensed to basically six major benefits of strategy committees. First of all, a committee is believed to economise board time and concentrate directors expertise on a set of specific problems (Andrews, 1987). Secondly, the existence of a strategy committee is claimed to increase directors' involvement in strategic matters (Harrison, 1987; Henke, 1983; Welge, 2005; Wommack, 1985). This idea is supported by the insight that increased size may inhibit board involvement (Goodstein, Gautam & Boeker, 1994;) insofar as the installation of a smaller committee should then have a favourable impact. Moreover, board members are supposed not only to be more involved but also better informed and more capable of discussing corporate strategies if a committee is introduced (Harrison, 1987; Henke, 1983). Next, the presence of a strategy committee might render directors in a stronger position toward the management team and increase their influence on strategic decisions (Dimma, 1998; Henke, 1983). Furthermore, the committee's work allegedly raises awareness for strategic planning processes and strategically relevant issues and helps ensure the structured and formalised examination of important topics (Harrison, 1987; Henke, 1983; Wommack, 1985). Finally, the mere existence of a committee was found to convey an impression of responsible activity and structured analysis to the external environment, irrespective of the true proceedings within the committee (Donaldson, 2000; Harrison, 1987).

Drawbacks of a Strategy Committee

As to the disadvantages of strategy committees there are three significant arguments (see table 1). First of all, the committee may expose board members to increased liability risks (Harrison, 1987). Secondly, a divide between those directors concerned with strategy matters and those who are not directly involved may be induced (Andrews, 1981b; Dimma, 1998). And finally, a strategy committee is claimed to risk crossing the line which separates the roles of the board from those of management (Dimma, 1998).

Benefits	Drawbacks
- **Economisation of board time** - **Increase in directors' involvement in Strategy** - **Improvement of directors' knowledge** - **Improved position of directors towards management** - **Raised awareness for strategic planning** - **Conveyance of positive impression on environment**	- **Increased liability risks for directors** - **Divide between committee members and remaining directors** - **Risk of board assumption of managerial duties**

Table 1 Benefits and Drawbacks of Strategy Committees

Conclusions and recommendations

The strategy committees are deeply embedded in the context of continuously evolving corporate systems and that's the reason why special attention should be given to such issues involving strategic decision-making processes.

Now that a theoretical foundation regarding strategy committees in the context of boards' involvement in strategy has been established against the background of the general corporate governance debate, it shall be of further interest to investigate the role and tasks of strategy committees in large German and Swiss corporations today.

Yet, only four companies have installed strategy committees. Upon a comprehensive review of the literature, one may ask why so few corporations have taken this decision. The advantages of installing a strategy committee seem striking. In light of the much debated globalisation of today's economy and steadily augmenting competitive pressures, companies should seek to tap into all potential sources of competitive advantage available to them. This includes the expertise of board members, their experience and analytical competencies. While it is difficult to specify what exactly the optimal committee's design would have to be, it may be suggested that they be composed of four to six non-executive directors, who take the chance to intensely discuss future business opportunities and the corporations' strategic direction.

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THE OUTSOURCING OF INTERNAL AUDIT – IT IS A SOLUTION IN INCREASING THE QUALITY OF INTERNAL AUDIT?

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Abstract. The dynamism of the economical environment where companies activate suppose for them a continuously search of solutions for improving over the control of activities developed. A solution is to adopt the internal audit function, and this offers answers to the questions which usually the manager of the company asks himself about how he or she and his collaborators could have a good and efficient control over the activities developed. For the positive results of the implementation of the internal audit function is necessary to be an independent function, without pressures or other influences which could stop the achieving the settled objectives. We will try to find in what measure the outsourcing of the internal audit function could determine the increasing of the quality of the internal audit, underling the advantages and disadvantages which could be generated, trying to issue few relevant conclusions.

Key words: internal audit, outsourcing,, independence, internal auditors

In present, we are confronted with a very quickly evolution and spectacular of the internal audit function on the global plan and also in Romania, and this fact is due to the conscience more and more of the companies' management for the necessity and the importance of the internal audit in the company structure. In this way, even the managers of the small companies begin to be interested in advantages of the internal audit functions. In spite of the advantages of the internal audit, the managers ask themselves:

- *Which would be the effort (cost) supposed by the settling of this function of internal audit?*
- *Are justified these costs relative to the benefits obtained after the implementation of the internal audit function in the company?*

The settling of the internal audit function in the company supposes, from an administrative point of view, to hire a internal audit team coordinated by a responsible person for leading the team, assuring the necessary conditions for working (place, equipments, etc.) and of course the salary for the hired person. On the other side, we have to consider few essential aspects in implementation of the internal audit function in order that the results to be the best. So, the internal audit function must be characterized by independence and to be free of every pressure or influence which could stop the achieving the settled objectives. The professional internal audit standards underline the double importance of the internal audit independence:

- The independence of the department inside the company, which determines the situation of the internal audit at a higher level, simple said it is subordinated only to the top management
- The independence of the internal auditor will assure the objective character of the activities and the results of the internal audit.

The independence of the internal auditors is sustained for eliminating the practical very often founded, and that is the supraconcentrate activity of the internal auditor with different duties, which don't have to be in the area of activity of the internal auditor, like: defining of the procedures and methods of work, evaluating and supervising the employees of the company, administrative activities, effective financial control or different activities of inspecting. The result of the supraconcentrate activity for the internal auditor is the loosing the independence and the objectivity of the internal audit. It is obviously that the internal auditor can't evaluate objective a procedure defined by himself.

The efficiency and the rigorous work of the internal auditor are directly damaged if the independence and objectivity are affected, from this reasons are assessed few rules which must be respected:

- The internal auditor do not have any operational department subordinated;
- Possibility as internal auditor to have access at every moment to persons from every hierarchical level, at assets and information;
- The recommendations made by the internal auditor aren't compulsory for managers of the company.

Organizing the internal audit function and placing it in the direct subordination to the top management is not enough to assure the objectivity of this activity. For an objective activity, the internal auditor has to appreciate in a neutral mode, to be impartial and to be without preconceived ideas. Is obviously that the ideal in objectivity is very hart to achieved, existing all the time a marginal risk after the internal audit activity, named audit risk. The objectivity must be the scope what should be achieved and every internal auditor has to do all the efforts for touching this scope. The independence and the objectivity are some times contested by the internal auditors which are subordinated hierarchic. Trying to eliminate this kind of problems, there were developed new approaching for the internal audit function, on global plan and also for the national plan. This approaching was centered on the outsourcing totally or partially of the internal audit function.

So, was developed more ways of approaching[387]:

- Complete outsourcing of the internal audit function ,
- Partnerships with companies of audit with relevant experience in the internal audit *(co-sourcing)*,
- Assuring the support for setting of the internal audit function (setup), and after this will be realized by a team hired inside the company.

If we look on the global plan of the internal audit activity we can see that this solution of outsourcing of the internal audit services has already some history and it is getting more and more space.

An example in this way is a study from 1999, made by two British specialists[388], through this study they issued the assumption that the potential of outsourcing of the internal audit activity will growing in the next few years achieving 25% from the total of the internal audit services of the audit companies. Another study[389] recent made in 2006 with subjects 99 companies listed on the Australian Stock Exchange underline that at least 45.5% of the companies surveyed has outsourced totally or partially the internal audit function. These companies associate the outsourcing of the internal audit with a decreasing the costs, using a better consultant, with technical competence increased which characterize the external consultant.

Another study regarding the trends in the internal audit[390], realized by the one of the big audit company from Big Four group (Ernest&Young Romania), underlines few interesting conclusions.

So, they conclude that 62% from the companies use the outsourcing in different forms, appreciating that the outsourcing of the internal audit is not a universal solution, but because of the recent economical collapses, a higher and higher number of Audit Committees claim independent revisions of the internal audit function or they use co-sourcing (using specialized resources for covering key risks for the function). The trend is to use external consultants for assuring the support or for the adviser. Also, there are used advisors for punctual needs, where the experience of the internal employee is not enough (partnership and co-sourcing). Transfer of knowledge to the internal auditor's team of the company is one of the reasons of this approaching.

The same study analyzing the possible reasons which are the base for the outsourcing of the internal audit function, and the conclusion of the study is principal causes:

- It is assured the immediately access to the best practices;
- It is significant improved the cost efficiency;
- It is increased the assurance level of the risks with the same expenses or with less expenses;

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1 Deloitte&Touche, (2006), *The value of internal audit is undeniable*, July, available on-line at www.deloitte.com

[388] Rittenberg, L.E. & Covaleski M., (1999), *Outsourcing the Internal Audit Function: The British Government Experience with Market Testing,* International Journal of Auditing, Volume 3 Issue 3 Page 225-235, November

[389] Carey, P., Subramaniam, N., Ching, C.W., (2006), *Internal audit outsourcing in Australia*, Accounting & Finance Journal Volume 46 Issue 1 Page 11-30, March

[390] Horlaci C. (2003), *The outsourcing of internal audit function,* november, available on-line at www.ey.com

– It is assured the unlimited access to specialists in this domain;
– It is assured the access to the investment in the methodology, human resources and technology.

The expectations of the manager (which is client in this situation) regarding this outsourcing of the internal audit function is represented by:

– The growing of the internal audit contribution to touching the strategically objectives of the company;
– The external consultant has relevant experience in the internal audit activity;
– Specialized resources, adequate to the existent needs;
– Flexible approaching, client orientated;
– Instruments and techniques for performing work;
– The bigger benefits regarding fewer cots.

In the next lines, we will synthesize in a table the principals advantages and disadvantages which are implied by the outsourcing of the internal audit, because is absolutely necessary in taking the decision of the total or partial outsourcing of this function, to know the positive and negative aspects which appears when is adopted such a solution:

The outsourcing of the internal audit (outsourcing)	
The advantages of the outsourcing	**The disadvantages outsourcing**
• From the point of view of the specialization, using the outsourcing can facilitate creation of the team with very good skills in the audited domain, having in this way assured the access to the best practices in the domain at a high competence; • The level of the objectivity can be higher comparative with the objectivity of the internal auditors hired by the company, because they (external consultants) didn't interact on the long term with the employees of the company; • Depending by the notorieties and the specialty of the contracted audit team, the audit team could have a significant support from the management of the company; • Eliminating the costs generated by the recruiting the internal auditors and the training needed for the audit team; • Eliminating the costs supposed by the investment in the methodology and technology; • Concerning of the management for the base processes; • A higher flexibility in allocating resources.	• The external consultant didn't know as an internal auditor the environment and the culture of the company as well as an internal auditor hired knows, and this can make harder the access to a series of relevant information, because the internal audit hired know where and what to search; (in combating these disadvantages some specialists like Blackmore J.[391] appreciates that in spite of the large experience of the hired internal auditor regarding the specificity of the company's activity, the external auditors can compensate or even to exceed by the relevant experience of the internal auditors from the specialized audit companies). • The internal auditor hired by the audit company (external consultant), being out of the company, can be accepted with some reticence by the audited departments, being in this way harder to develop collaborating relations which could be helpful in the investigations, being generated sometime cultural or organizational conflicts; • The availability of the outsourced internal auditor is not all the time, and every moment.

Table no.1 „The advantages and the disadvantages of the outsourcing of the internal audit"

Analyzing the advantages and disadvantages that could be generated by the outsourcing of the internal audit function, we try to lay down few conclusions:

– The outsourcing of the internal audit is a solution which has no absolutely guarantee in every situation, for a higher efficiency than the internal auditor hired;

[391] Ernest&Young, (2005), *The merits of outsourcing your internal audit function,* December, available on-line at www.ey.com

- We consider that the advantages for this solution is bigger in the case of small and medium companies, rather than the bigger companies regarding the relation expenses (costs)-benefits;
- In the process of choosing this option we must consider few essential factors like: external and internal environment where the company activates, the dimension of the company, domain of activity, the management experience.

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TRANSFER PRICES: MECHANISMS, METHODS AND INTERNATIONAL APPROACHES

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Abstract: Transfer prices are considered the prices paid for the goods or services in a cross-border transaction between affiliates companies, often significant reduced or increased in order to avoid the higher imposing rates from one jurisdiction. Presently, over 60% of cross-border transfers are represented by intra-group transfers. The paper presents the variety of methods and mechanisms used by the companies to transfer the funds from one tax jurisdiction to another in order to avoid over taxation.

Key words: transfer pricing, intra-firm transaction, tax jurisdiction

Introduction

Globalisation of the economic activity and the rise of the multinational corporation has determined the necessity of management to adapt to the new conditions and to define new operational and financial strategies; these strategy should create an advantage to the multinationals as being an global player through the reductions of the costs, exposure or resources acquiring difficulties. Presently, when more than 60% of world trade takes place within multinational enterprises[392], the importance of transfer pricing becomes clear.

Multinational companies are acting in different countries and benefit from advantages as fiscal, foreign exchanges, capital repatriation or others offered by these countries. This way the chances to get a higher profit, on the whole increase, compared with the situation of developing operations within one country.

Multinational companies operate inter-corporate flows, through diverse mechanisms, taking advantages of the law's niches from different countries in order to benefit from the most favourable conditions. This came out under international financial markets' and shareholders' pressure for higher profitability rate, that can be obtain only by maximum exploiting of the corporations' synergies, transfer pricing or legislative niches specific to each country.

Transfer pricing refers to establish prices for goods, services, know-how and intellectual property transferred across borders within corporate networks and especially between foreign affiliates and parent corporations.

Transfer pricing mechanisms

In order to obtain higher profitability, a multinational company transfers its revenues and expanses, or parts of them, using a variety of methods from one tax jurisdiction to another, in order to reduce the tax liabilities. These methods suppose the maximum exploiting, and sometimes up to the limit, of the law's stipulations.

The most used transfer pricing methods are:

a. Intra-firm loans

[392] John Neighbour, Transfer pricing: Keeping it at arm's length,OECD Centre for Tax Policy and Administration, 2002;

Multinational companies often refer to intra-firm loans in order to finance their new established or liquidity difficulties affiliates from different countries, taking advantage of the quick financing from parent company, but also of the reduction of the taxes, due to the use of this mechanism.

a.1. The mechanism of conversion the liabilities/loans in shares is used when the interest rates in the market are high; these generate for affiliates prohibiting financing possibilities from financial institutions. So, the parent company will lend the affiliate at a very low interest rate comparing to market's rate. Generally, all over the world, the interest expenses up to a limit are deductible in calculation of the tax on profit. Such a transaction generates for the affiliate a competitive advantage, because it benefits from a capital infusion that afford the costs' reducing, the opportunity to invest in business developing and winning new market shares. The affiliate has many alternatives regarding the way and the moment of loan's reimbursement, including the debt - equity swap, that assure an almost cost free financing.

a.2. The interest rate mechanism suppose the significant funds transfer from tax jurisdiction where the tax level is high to affiliates in the countries where the tax level is low using by granting a very high rate loan. Generally the taxation method for the interest revenues is withholding tax in the country where are obtained. If there are conventions for avoiding double taxation, these prevail over national law system, and this way, important amounts can be transferred to jurisdictions with low level of taxation.

b. Royalties' mechanism is the mechanism used by the parent companies to sell the rights to use patents, licences, trademarks and similar rights to the affiliates of the group, the amounts paid being in accordance with tax level. Royalties represents payments made in order to have the right to use a patent, a trademark, licenses, know how, franchise activities, manufacturing procedures, software and any other cable, relay or satellite transmission, industrial, commercial or scientific equipment, including the right to use information and knowledge regarding to commercial or business activity.

b.1. High royalties are used by the parent company by lending or selling to the affiliates the right to use licences, patents, know how at important rates, significantly higher than the royalties applies in transactions with independent parties. The target of this mechanism is the funds transfer from the countries with high tax level to the company of the group where the tax level is low, saving important amounts.

b.2. Low royalties are used by parent companies to sell the right to use patents, trademarks, licences at lower rates comparing to the rates used in uncontrolled transactions. This way the affiliate that buy at such a low rate these right, realizes important benefits against the competitors, and transfer the resources almost free of charges, where the countries have a convention for avoiding the double taxation.

c. Commissions' mechanism **–** between the companies belonging to a multinational group may appear monetary flows as compensation for the brokerage service, financial intermediation or other services perform within the group. The volume of the paid amounts depends on the tax level in the country where the company develops its activity.

d. Performed services mechanism – represents one of the preferred methods for intra-group funds transfers towards more favourable tax jurisdiction. The reason for intensive use the easy way to proof the performance of the service, most of the time there is a simply contract between the parties implied in transfer, for the consultancy, technical assistance or other similar services. Most of the times, these services are invoiced with significant prices, due to the high rates of the experts implied, representing the pretext of important funds transfer toward favourable tax jurisdiction.

e. Preferential prices selling – suppose the use of preferential prices in the intra-group transaction, significantly different from market's prices or the prices used in relations with independent customers. Using the preferential prices for any type of intra-firm transactions (sell-buy, loans, assistance, advertising, etc.) targets two advantages:

e.1. Competition advantages

Within the multinational companies the management of individual plants and divisions is often carried out on a decentralized basis, and accounts are made out for each "profit centre", the group enterprise as a whole may require a centralized financial strategy, to ensure an efficient co-ordination of the group's multinational business operations. In this respect, a multinational company may set the transfer pricing of intra-firm flows of goods, services or other assets on a centralized basis, thereby taking control over pricing policy away from individual profit centers. This requires a mechanism for setting prices in a rational way that ensures the setting of optimal prices that create the opportunity to enter new markets, to exploit the demand's fluctuations or foreign exchange volatility.

e.2. Reduction of the fiscal debts represents the target, directly or indirectly aimed, for all the transfer pricing.

International approaches regarding transfer prices

During the last 30 years, as a consequence of economic activity globalisation, the number and the role of multinational companies have exponential increased. The increase of multinational companies leads to increase of taxation complexity issues for firms and governments, due to the fact that tax rules can not be isolated, but considered in a larger international circumvention.

The difficulty for multinational companies consists in the necessity to operate within the law that differ from country to country, but for the governments, to calculate the expenses and the revenues for a affiliate – part of a transnational group.

Most developed countries derive their transfer pricing regulations from the Organization for Economic Co-operation and Development (OECD) transfer pricing guidelines (OECD, 1995; 1996). According to them, transfer pricing methods which are currently acceptable to most tax authorities are based on the arm's-length principle.

Arm's Length Principle (ALP)[393]

According to OECD 9th article, 1997a, when conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

Methods used in transfer pricing

Cross-border transfers may be priced using any of several traditional transactional and transactional profit methods, all of which adhere to the arm's-length principle. The methods can apply to both "tangibles" and "intangible property". Tangibles include any goods, whether finished products or intermediate inputs, such as raw materials or components, that are transferred between affiliated enterprises. Intangible property includes such diverse categories as:

- Patents, inventions, formulas, processes, designs or patterns;
- Copyrights, literary musical or artistic compositions;
- Trademarks, trade names or brand names;
- Franchises, licenses or contracts;
- Methods, programmes, systems, procedures, campaigns, surveys, studies, forecasts, estimates, customer lists or technical data; and
- Other intellectual property not listed above.

*The **traditional transactional methods*** suppose the comparison of the prices used in controlled transactions between affiliated enterprises with prices used in transactions with independent companies. This is the most direct method and can be considered a benchmark, but in reality is very difficult to use, making necessary the use of less direct methods as gross margins reflected in traditional transactional methods.

A. The Comparable Uncontrolled Price (CUP) method seeks to determine the ALP by comparing the price at which a controlled transaction is conducted to the price at which a comparable uncontrolled transaction is conducted. This method is basically applied to concerns engaged in the manufacturing and selling of the product and hence to be applied to manufacturers. Typical transactions in respect to which this method may be adopted are: transfers of goods, provisions of services, intangibles, loans and provisions of finance. It seems very easy, but in reality, any minor change in the circumstances of trade, such as billing period, branding or amount of trade, may have a significant effect on the price and its makes extremely difficult to find a sufficiently comparable transaction.

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[393] OECD Committee on Fiscal Affaires, Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, 2002;

B. The Resale Price (RP) method compares the gross profit realized when an company re-sells goods to a affiliate enterprice to the gross profits realized by comparable entities in uncontrolled transactions.Comparable profitability is determined by calculating the ratio of the initial purchase price of comparable tangible goods to their resale price to an unrelated party. This ratio, expressed as a percentage, is then used to calculate the value of the goods in a related-party transaction. The resale price method evaluates whether the amount charged in a controlled transaction is arm's length by reference to the gross profit margin realized in comparable uncontrolled transactions. The resale price method measures the value of functions performed, and is ordinarily used in cases involving the purchase and resale of tangible property in which the reseller has not added substantial value to the tangible goods by physically altering the goods before resal; in their view, packaging, repackaging, labelling, or minor assembly do not ordinarily constitute physical alteration.

C. Cost Plus (CP) method evaluates whether the amount charged in a controlled transaction is arm's length by comparing the gross profit markup realized in comparable uncontrolled transactions. This method is generally used for the trade of finished or semi-finished goods, by adding an appropriate markup to the costs of materials, labour, manufacturing, and so on incurred by the selling party in manufacturing/purchasing the goods or services provided, with the appropriate markup being based on the profits of other companies comparable to the tested party. Cost based method calculates transfer price on the cost of the goods or services available as per the cost accounting records of the company. The method is generally accepted by the tax customs authorities, since it provides some indication that the transfer price approximates the real cost of item. Cost based approaches are how ever not as transparent as they appear. A company can easily manipulate its cost accounts to alter the magnitude of the transfer price. This method probably is most useful where finished goods are sold between affiliates and these have concluded joint facility agreements or long term buy/supply arrangements.

The most common used *non-traditional transactional profit methods* are the Profit Split method, the Transactional Net Margin method and the Comparable Profits method..

The *Profit Split (PS) method* is applied when the businesses involved in the controlled transactions are too integrated and cannot be evaluated separately for the purpose of determining the arms length of any one transaction, and so the ultimate profit derived from the endeavor is split based on the level of contribution of each of the participants in the project.

The *Transactional Net Margin Method (TNMM)* focuses on the arm's length operating profit earned by one of the entities/affiliates in the transaction. It stipulates that relative operating profit (relative to sales, costs, or assets to allow comparisons between different companies or transactions) may be a more robust measure of an arm's length result when close comparables, as required for the traditional methods, are not available. This may lead to very different gross margins (and hence the resale price method may not be easily applicable). However, the operating margins would not be expected to be materially different since the margins reflects a competitive return only.

The margin is measured pre-interest since the level of interest expense is a function of how a company decides to finance its operations and unrelated to the transfer pricing.

The *Comparable Profits Method (CPM)* determines an arm's length result using the amount of operating profit that the examined company, part of a multinational group would have earned on related party transactions with other affiliate entities if its profit level indicator were equal to that of an uncontrolled comparable transaction.

As it was shown, the transfer pricing method mostly depends on the allowance of the expenses' and revenues' treatment, but the mechanism depends on the business domain, the size of international network, the complexity of the transactions between companies of the group being able to counteract any change in a tax jurisdiction, that may dramatically affect the affiliate's or group's results. The pressure of realizing the assumed budget is quickly fined by the stock exchange investors and may have positive or negative training effects in transfer pricing policy.

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ASPECTS REGARDING CORPORATE MANDATORY AND VOLUNTARY DISCLOSURE

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The paper highlights theoretical aspects regarding corporate mandatory and voluntary disclosure. Since financial and business reporting are important information sources for different stakeholders, especially for publicly traded companies, the business reporting is increasingly oriented to the need of different users. In order to make rational investment decisions, users of corporate annual and interim reports require an extensive range of information. The increasing needs of the users persuade different international bodies and researchers to investigate the improvements that can be done in business reporting. The results of those studies usually were different reporting models. Because voluntary dimension of corporate disclosure involve the manifestation of free choice of the firm and its managers, we have considered as necessary to achieve a theoretical analysis of the main costs and profits of the voluntary disclosure policy.

Key Words: corporate disclosure, financial reporting, mandatory and voluntary disclosure

Introduction

Disclosure theory indicates that corporate disclosures are complex constructions capable of a variety of interpretations. As Gibbins, Richardson and Waterhouse (1992) have argued, organizations may disclose information to support the efficiency of exchange and production, but they also disclose information to establish their compliance with the social values reflected in regulations and informal norms.

The changes in the international business environment have imposed reviews in the nature and content of the corporate reporting. A lot of polemics have been generated between the users of business reports and different regulation organizations involved in accounting and reporting standards setting process. The breakpoint of these polemics is the users' needs regarding a better understanding and a better communication of the differences existing between the market and book value of an enterprise. Even though the traditional financial statements are based on practices and standards with a long history behind they became insufficient to solve the information needs of the actual users. Corporate disclosure is critical for the functioning of an efficient capital market. Firms provide disclosure through regulated financial reports, including the financial statements, footnotes, management discussion and analysis, and other regulatory filings (Healy and Palepu, 2001). In addition, some firms engage in voluntary communication, such as management forecasts, analysts' presentations and conference calls, press releases, internet sites, and other corporate reports. Finally, there are disclosures about firms by information intermediaries, such as financial analysts, industry experts, and the financial press. Traditionally, the corporate annual report has been seen as the primary source of corporate information disclosure. However, this is slowly changing and moving towards internet reporting.

The two dimensions of corporate disclosure. Definition, differences and similarities

Reporting and disclosure are the most important tools that companies use to communicate with their stakeholders. Disclosure is a crucial element in ensuring the effective allocation of resources in society and diminishing the information asymmetry between company and its stakeholders.

Companies have at their disposal two kinds of publishing variants through which they can diminish the informational asymmetry towards their stakeholders: compulsory and voluntary disclosure. The most important publishing variant is represented by the compulsory disclosure. The mandatory character of reporting is ruled at national or even regional level through professional organizations or government authorities, being practiced in most of the countries by all the firms regardless of their size, of their judicial, fiscal or national accounting system, the favorite finance sources and other factors with impact on disclosure policy. The second, voluntary disclosure comes to complete the mandatory reporting process that often seems to be inadequate for satisfying user's needs. Traditional financial reporting mostly provide historical information, moreover, in certain industries, conventional accounting and reporting strategies may not be sufficient to accurately represent the complexity of a firm's operations (Mohanram, 1998).

Mandatory disclosure refers to those aspects and information which must be published as a consequence of the existence of some legal or statutory stipulations, capital markets, stock-exchanges commissions or accounting authorities regulations. The aim of mandatory disclosure is to satisfy the users' informational needs, ensuring the production quality control through the laws and standards' observance.

In Romania, the compulsory character of the corporate disclosures is established in relation to the regulations of the Finance Ministry (for all enterprises) and the regulations and codes issued by National Commission of Movable Assets and Bucharest Stock Exchange (for the listed companies). The mandatory disclosure has both periodic and continuous character.

The compulsory periodic disclosure refers to the dissemination of annual and biannual financial statements, consolidated financial statements, administrator report, audit report, annual, biannual and quarterly reports and financial calendar. Terms for the publication of these reports are pre-established. As regards the deadline of reports transmission, the Romanian legislation is at the level of the developed capital markets' requests, but, unfortunately, these terms are frequently not respected by the companies listed on the stock-exchange market. Thus, the non-fulfilment of the requests regarding disclosure is the main cause of the transaction suspension of the BSE issuers.

Items, that define the mandatory character of disclosure are:

- issuer: company,
- receivers: shareholders, employees, creditors, customers and other stakeholders
- regulations: comercial law, accounting law, accounting standards: IFRS , US GAAP, European Accounting Directives, national accounting standards et al.;
- content: format and object of disclosed statements,
- periode of disclosure: annual, biannual, quarterly or ocasionaly,
- disemination means: printed or web site.

The voluntary disclosure has its sources in the past of the business development, when, as a result of the fact that owners have delegated to the managers the leading function of the enterprises, the need for voluntary disclosure appears as a consequence of the information asymmetry between the two parties: managers are better informed about the business than its owners. The development of the capital markets after the great crises in the USA in 1929 has led to a more and more emphasized manifestation of the voluntary disclosure. The voluntary disclosure regards information made public through the firm's free choice. It is influence by culture, social, economic and behavioural factors that are specific to each firm. There is no general accepted definition or theoretical background for voluntary disclosure.

Thus, we will explain the voluntary disclosure as being an additional offer of information in relation to different national regulations or international referential of business reporting, that is, something that is not compulsory by the law, but becomes voluntary through the behaviour regarding publication. In other words, the voluntary offer of information represents the excess of information, dependent both on the free choice of the enterprise leadership and on the regulations in force, the outside pressures of the capital markets, financial analysts, consulting firm's et al. and the cultural factors.

Although the voluntary disclosure represents the reporting outside the financial statements, which is not explicitly ruled through norms or laws, it is admitted that many of these "voluntary disclosures" are made in order to be in agreement with the requests of the stock-exchange commissions regarding: the companies presentation, analysis and management presentations regarding risk, opportunities and the results obtained or provisioned.

Therefore, in order to obtain capital and moreover to attract investors, companies often voluntarily disclose corporate information even in the absence of regulation. Agency theory highlights the reasons that cause managers to provide voluntary disclosures above and beyond required disclosures. Under agency theory, voluntary disclosures occur as a means for companies to minimize their agency costs, no whether its forms are: traditionally disclosure, internet or XBRL disclosure.

Voluntary disclosure: benefits and limits

Disclosure benefits. In order to orient the decision regarding the publishing policy we must balance the costs and the advantages afferent to the supply of additional information in order to answer to the request of different groups of users. We can observe two categories of users: sophisticated: brokers, financial analysts and the investment funds which need information in order to counsel the non- sophisticated users and clients: those who do not have specialized knowledge and they appeal to the first category. All these users wish to surpass the information limits offered by the compulsory information and they put pressure on firms in order to obtain useful complementary information. Under the pressure of these groups, the managers supply voluntarily the information they consider useful for stakeholders needs. But the vision on the *a priori* usefulness of the voluntary information remains a normative vision because it does not appreciate the managers' motivations regarding disclosure, they are aware of the effects of using voluntary information on their communication. It is presumed the cost of the information release being a sufficient condition in order to assure their credibility.

The benefits obtained as a result of corporate disclosure for the firms listed on the capital market can be measured through the consequences of the cash flow evolution and the transaction price increase. Eccles and Mavrinac (1995) have achieved a study through which they have investigated which the expectations of different users' categories as referring to the potential profits of the improvement of the firms' publishing system. All three investigated users categories: managers, financial analysts and investors, have considered that the greatest benefit is the increase of the firm's credibility and the next ones are in the order of the importance conferred to them by: the increase of the shares' value, the increase of the potential investors number, several suggestions from the analysts, the improvement of the access to the capital, the increase of the balance between the share's price and the share's profit, the diminution of the shares' volatility, the increase of the shares' liquidity, the improvement of the relations with the suppliers, the diminution of the political interventions to regulate the market.

Holland (1998) comparing the benefits to the costs of voluntary disclosure, states that "the management will publish until they will reach the point when they will observe that the capital agency costs reduction has equalled the increase of the information publication costs for the market and the other users."

Limits of voluntary disclosure. The competitive dynamics of the products and services markets play a restrictive role regarding the firms' voluntary disclosure policies. The managers are often forced to choose between maximizing the competitive advantage of the firm's market by not publishing information which would affect the competitive position or to publish that information in order to help the capital market to achieve an efficient evaluation of the company's shares.

Another limit would be that in the past the annual reports were involved in satisfying the shareholders' needs and not those of the employees and stakeholders. That is why, now the firms must re-examine the disclosure contracts with the employers' federations and the trade unions and to confer a greater attention to these groups' needs.

There are many factors and aspects which can influence the general policy of a firm's voluntary offer of information, as: the level, the frequency and the method of disclosure used; the objectives established by the firm regarding disclosure; the firm's size, the status regarding listing, the organisational culture and the business complexity; the number, type and culture of the firm's shareholders; the disclosure costs; the level of favourable news about the firm; the competition intensity, the market level and the profit rate obtained by enterprise. We consider that the most important of all these is the *disclosure cost*.

The first benefit of the publication of a great volume of information is represented by a better capital allocation at national and international level, which can be translated as a capital cost reduction. Through the increase of the publishing level, especially of the information provisioned, the firms can reduce the cost of the capital attainment (Healy şi Palepu, 1993). However, Thompson (1995), warns that an undisciplined expansion of the business reporting can lead to an un-necessary increase of the expenses.

The voluntary disclosure of information in the annual reports implies additional costs and the users' needs of information must be thought taking into account the costs efficiency of different reporting types. A cost-profit analysis must be done for each type of information supplied. Unfortunately, there is no general accepted technique of measuring these costs and profits that is why the process is complex, subjective and often inappropriate, sometimes inexact or even wrong. According to Malone et al. (1993) the firms which are economically stimulated to supply more information, will do it only if the marginal cost will surpass the marginal profit of the additional disclosure.

The examination of the financial managers perceptions of some multinational firms in the United Kingdom and USA on the report cost/profit achieved by Gray, Radebaugh and Roberts (1990) has led to the conclusion that the items published voluntarily which have led to significant increases of net costs are: the inflation adjusted profit, the measurement of the forecasts and the information regarding the segments reporting.

So, the voluntary disclosure is much constrained by the costs which are involved by collecting, processing, attainment and auditing of data, to which the indirect costs are added. The indirect costs have a special role regarding the danger to supply information which can be used by the actual or potential competitors.

The cost is a factor often used as a reason to limit the volume of the voluntarily disclosed information. Singhvi and Desai (1971) have shown: the cost of the accumulation of certain information is bigger for the smaller companies than for the larger ones, especially because the large companies dispose a more complex reporting system and a high level of earnings, the larger enterprises afford more easily high advertising costs which allows them to pick up the benefits of the easier shares' transaction and to obtain finance more easily. On the other hand, the small firms can put their competitive position in danger by an excessive information disclosure.

AICPA in Jenkins Report (1994) identified six constraints to reduce costs in areas where the costs of reporting under the model could be significant:

a) Business reporting should exclude information outside of management's expertise or for which management is not the best source. That is, business reporting should include only company-specific information that is within management's expertise to provide;
b) Management should not be required to report information that would harm a company's competitive position significantly;
c) Management should not be required to provide forecasted financial statements. Rather, management should provide information that helps users forecast for themselves a company's financial future, such as the information specified in the Committee's model;
d) Other than for financial statements, management need only report the information it knows. That is, management should be under no obligation to gather information it does not have, or need, to manage the business Certain elements of business reporting should be presented only if users and management agree they should be reported - a concept of flexible reporting;
e) Companies should not have to expand reporting of forward-looking information until there are more effective deterrents to unwarranted litigation that discourages companies from doing so.

Conclusions

As we can see in our days financial reporting is only a part of the business reporting. Companies are in the situation of voluntarily producing and disclosing complementary statements to cover some of the deficiencies in content of traditional financial reporting. Voluntary disclosure is an important part of the present corporate reporting practice and Internet disclosure is the future trend of current business reporting.

Information is the heart of the best functioning capital markets. A comprising, reliable, comparable, understandable and high quality corporate reporting increase the investors' confidence and the market efficiency. Despite the highly positive recognition that companies stakeholders have given to initiative of voluntary disclosure we have observed that they involve serious drawbacks that may affect the validity of this type of disclosure. As much information companies will disclose voluntary as less comparable and reliable will be their reports.

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THE ANALYSIS OF THE RESULT PER SHARE– MEASUREMENT INDICATOR FOR THE PERFORMANCES OF THE ENTERPRISE

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The result per share is one of the indicators most often used in the financial analyses drawn up for the financial record of the enterprises, mainly the Anglo-Saxon ones, which can operate as a basis for comparison of the financial performance for the enterprises listed, which run their activity within the same sector and it can be a useful complementary indicator in following the prospective profits in the field. This indicator does not provide though the possibility to compare all the enterprises which compute it due to the difficulties in interpreting the differences noticed from one enterprise to another, differences which can result from the different number of shares issued by each of them and from the different categories of shares issued. The paper has in view the description and exemplification of the computing model of the Result per share indicator.

Key words: indicators, result on action, performance.

The enterprises quoted on the Stock Exchange and due to be quoted, when presenting their financial activity, they use among the financial indicators the Result per share, too, an indicator providing the investors information regarding the profit obtained on the investment made and which is computed according to The International Accounting Standard IAS 33.

Result per share = Net profit of the financial year / Number of shares issued

An enterprise can issue two types of shares: ordinary shares and preferential shares, both being issued and sold in order to attract capital, yet those who invest in the preferential shares have institutional objectives different from those investing in ordinary shares.

- **Ordinary shares** are capital instruments which give the right to participate to the profit (dividends) only after the distribution of the net profit afferent to the other types of shares (preferential) Due to the fact that usually only the ordinary shares grant the right to vote, they represent a modality to control the enterprise.
- **Preferential shares** have priority before the ordinary shares in many regards: priority when dividends are paid, priority when the assets of the enterprise are distributed in case of winding up, convertibility and option of revocation (pay off). The priority of the preferential shares as compared to the ordinary shares regarding the dividends payment can be explained as it follows: the holders of the preferential shares must cash in a certain amount as dividends before allocating the dividends to the ordinary shareholders. This amount is set up in monetary units on share or as a percentage of the nominal value of the preferential shares.

According to IAS 33, the performance indicator “Result on action” is computed in two ways, that is: the result per basic share and the result per share– diluted.

The result per basic share (R/A-basis)

For the fundamental computation of the profit per share one usually starts from the net profit or loss of the period, computed according to Standard IAS 8 « The net profit or loss of the period », from which the preferential dividends are deducted. If the result of the period is a loss, the preferential dividends engaged are added to the loss before the computation of the profit per share.

The result per basic share (**R/A-basis)** is computed by reporting the net profit of the financial year, according to the ordinary shares (PnAC), to the weight average of the circulating ordinary shares in that particular financial year (MpACc) :

R/A-basis = PnAC / MpAC

The net profit of the financial year corresponding to the ordinary shares (PnAC) is determined by deducting from the net result of the financial year (RnEx) the value of the preferential dividends afferent to the financial year (Dpref):

$$PnAC = RnEx - Dpref$$

The value of the preferential dividends contains: the dividends afferent to the non-cumulative preferential shares declared in that particular financial year, the dividends owed in that financial year, afferent to the cumulative preferential shares, no matter if these dividends have been declared or not.

The value of the preferential dividends afferent to the financial year does not include the value of the dividends afferent to the cumulative preferential shares, paid or declared in the current financial year for the previous financial years.

The weight average of the circulating ordinary shares in that particular financial year (MpACc) is determined as follows:

$$MpACc = (Si + AE - AR) \times FP$$

Where:

- Si = number of circulating ordinary shares at the beginning of the financial year
- AE = number of shares issued
- AR = number of paid off shares
- FP = ponderation factor: FP = NZc / NZt
- NZc = number of days when the shares circulated
- NZt = total number of days of the period

The moment of the inclusion of the ordinary shares in the computation of the weight average is determined by the specific clauses and conditions, associated to their issue, this being usually the date of their issue. The ordinary shares which are issued only when complying to certain conditions, called contingent *shares*, are considered circulating and are included in the computation of the result per share – basis from the date all the necessary conditions are complied with.

The weight average of the circulating shares is adjusted in case of some events (others than the conversion of the potential ordinary shares) which have changed the number of the circulating ordinary shares, without determining an appropriate change in the size of resources. Such events are: a capitalization or an issue of free shares; a diminishing of the nominal value of the shares; an annulment of the diminishing of the nominal value of the shares; facilities in the case of the issue of subscription rights. The adjustment is made both for the weight average of the particular financial year as well as for the weight averages computed for all the periods presented in the financial statements.

Result per share – diluted (R/A-diluted)

When the enterprise has a complex structure of the capital, there occurs the necessity to reflect it in the financial statements, along the information regarding the result per share – basis and the information regarding the result per share – diluted.

The result per share diluted is computed to provide the users of the financial statements an indication regarding the way in which the profit per share would evolve if certain plans to attract the capital or to make the employees loyal based on the potential issue of the ordinary shares materialised in the reporting period.

In order to compute the result per share diluted, the net profit assigned to the ordinary shares (**PnAC)** and the weight average of the circulating shares in a certain period must be adjusted for the diluting effect of all the *potential ordinary shares: debentures and preferential shares convertible into ordinary shares, warranties and options, plans for the employees* which allow them to receive ordinary shares as part of their remuneration, shares which are issued only after the compliance with certain conditions resulting from the contracting clauses.

It is adjusted with the influences of all *the potential ordinary shares* considered *diluting*. The potential ordinary shares are considered *diluting* when their conversion into ordinary shares leads to the lowering of the value of the net result per share indicator. Otherwise, when the conversion of the potential ordinary shares ahs the effect the increasing of the value of the result per share indicator, these are considered *anti-diluting* shares and are not taken into consideration for adjustment. The value of the net profit or of the net loss afferent to the financial year, corresponding to the ordinary shares is adjusted by the influence of taxation, too determined by the conversion of the diluting potential ordinary shares.

Relation of calculus:

R/A-diluted = (PnAC+Dob+DivEn̩)± / (MpACc +MpACs)

To compute the result per share-diluted, the net profit corresponding to the ordinary shares will be majored with the net interests:

- **Dob - Interest** – the gross value corrected with the tax on profit afferent to the potential ordinary shares (such as, for example, the shares convertible into ordinary shares)
- **Div** – the dividends to be due on the preferential shares
- Adjusted with̩ ±:
- **En =** other net elements (revenues or expenditure consisting in fees, discounts, bonuses etc.) which would have not affected the result of the financial year afferent to the ordinary shares if potential ordinary shares had not been issued, thus establishing the *diluted result.*

The weight average of the circulating ordinary shares will be majored with the weight average of the supplementary ordinary shares which would result from the conversion of all the potential ordinary shares.

We state that the potential ordinary shares which have been transformed into ordinary shares during the financial year are taken into consideration for the result per share – diluted from the beginning of the financial year to the date of conversion. It is obvious that, from this date on to the end of the financial year, the shares obtained through conversion being ordinary shares are taken into consideration both for the result per share – basic indicator as well as for the result per share – diluted indicator.

Example of computation of the result per share – basic and of the result per share – diluted

To demonstrate the way to compute the two indicators the following example is provided:

In the financial year N-1 two issues of convertible debentures have been made, that is:

- 3,000 convertible debentures, nominal value 100 lei/title, interest rate, 2%, each debenture can be converted into an ordinary share (1/1);
- 2,000 convertible debentures, nominal value 150 lei/title, interest rate 1%, each debenture can be converted into to ordinary shares (2/1).

In the financial year N-1 there were in circulation: 50,000 convertible debentures issued in the *financial year N-2* in the following conditions: the nominal value 120 lei/title, interest rate 1%, 100 debentures can be converted into 120 ordinary shares. (120/100)

At the beginning of the financial year N the company "X" has:

- 350,000 circulating shares out of which: 10,000 preferential shares. The dividend on the referential share was set up at 2 lei/title.
- Each preferential share (10,000) is convertible into 1.5 ordinary shares (1.5/1).

During the financial year N the following operations take place:

- on 10 April the company issued: 100,000 new ordinary shares.
- on 20 June the conversion was made into ordinary shares of 40,000 convertible debentures which have been issued in the financial year N-2. As a result, the company issued 48,000 new ordinary shares (40,000 x 120/100).
- on 30 October the company paid off 88,000 circulating ordinary shares.

The net result of the financial year N is of 950,000 lei, the tax quota per profit 16%.

The company declared 150,000 lei the dividends for the financial year N, out of which 20,000 lei for the preferential shares.

a) Determining the result per share – basic:

Computation of the net profit afferent to the ordinary shares (PnAC):

Net profit of the financial year 950,000 lei

- Dividends afferent to preferential shares - 20,000 lei

Net profit afferent to ordinary shares (PnAC) = 930,000 lei

Computation of the weight average of circulating ordinary shares (MpACc):

Date	Circulating period	Explanations	Shares issued	Shares paid off	Circulating shares	Ponderation factor FP
01.01.N	01.01-10.04	Si (360.000 –10.000)	340,000		340,000	100/365
10.04.N	11.04-20.06	Share issue	100,000		440,000	71/365
20.06.N	21.06-30.10	Debenture conversion	48,000		488,000	132/365
30.10.N	31.10-31.12	Own share pay off		88,000	400,000	62/365
31.12.N		**Total / Final balance**	**488,000**	**88,000**	**400,000**	

MpACc = (340,000 x 100/365) + (440,000 x 71/365) + (488,000 x 132/365) + (400,000 x 62/365) = 93,151+ 85,589 + 176,482 + 67,945 = **423,167 shares**

Result per share basic:

R/A-basic = R/A-basic = PnAC / MpACc = 930,000 lei / 423,167 shares = 2.20 lei/share

b) Determining the result per share – diluted:

Computation of diluted result:

Net profit afferent to ordinary shares (PnAC) 930,000 lei

Dob Interest afferent to convertible debentures, total **+ 43,356 lei**

out of which: 3,000 titles x 100 lei / title x 2% 6,000 lei

2,000 titles x 150 lei / title x 1% 3,000 lei

40,000 titles x 120 lei / title x 1% x <u>170/365</u> 22,356 lei

10,000 titles x 120 lei / title x 1% 12,000 lei

En : Afferent tax on profit (43,356 x 16%) **- 6,937 lei**

Dividends afferent to preferential shares (10,000 x 2) **+ 20,000 lei**

Diluted result (PnAC+Dob+Div+En) 986,419 lei

Computation of weight average of circulating and supplementary ordinary shares:

Explanations	Number of ordinary shares
MpACc	**423,167**
Convertible debentures	3,000 x 1 / 1 = 3,000
Convertible debentures	2,000 x 2 / 1 = 4,000
Convertible debentures, up to 20,06.N	(40,000 x 120 / 100) x 170 / 365 =22,356
Convertible debentures	10,000 x 120 /100 = 12,000
Preferential shares	10,000 x 1.5 / 1 = 15,000
Total (MpACc + MpACs)	**479,523**

Result per share diluted:

R/A-diluted = (PnAC+Dob+Diy ±:En) / (MpACc +MpACs)
= 986,419 lei / 479,523 titles = 2.06 lei/title

Conclusions

The stock exchange rate of the share represents the barometer of the global performance of an enterprise, officially recognised by the public on the capita market. But the variation of the stock exchange price is determined not only by the evolution of the economic – financial results of the enterprise, but also by the investors' expectations referring to its development possibilities, the evolution and the perspectives of the sector where the firm runs its activity, as well as the national and international economic tendencies. The most important factor setting up the price of a share is the ratio between the supply and demand on the capital market.

It has been noted that some stock exchange indices, regarding the level of action, have strongly influenced the stock exchange rate. This fact demonstrates the reduced relevance of the traditional financial rates when adopting the decisions to invest-disinvest as a result of the low quality of the financial-accounting information, the issuers' lack of transparency, the delay in providing information to the investors or simply, the existence of other strong motivations to purchase some apparently unprofitable firms by important investors.

The stock exchange indices had in view, listed at the Bucharest Stock Exchange re the following:

- PER = rate stock exchange price / to profit per share (it would represent how many years you have to wait to cover the price paid for a share from the afferent profit)
- P / BV = rate stock exchange price / accounting value per share (it shows what price the investors set for the company's assets)
- DIV = (dividend / price)x100 - the output of dividends (it shows what percentage of the price of a share the dividend that it brings represents and it is always compared to the term interests)
- P/S = rate stock exchange price / sales per share
- Stock exchange capitalization (it is the market value of a quoted company and it is obtained by multiplying the total number of shares issued with the stock exchange price of a share)
- EPS = net profit per share

The result per share, computed in the financial statements, arranged or not, can influence the exchange rate of the shares quoted on the Stock Exchange, but many times either they are more important in the investors' choice for the company's policy, the quality of the management, the company's assets, the policy of debts, cash, commercial fund, dividend policy, the quality of the shareholders, the development policy etc.

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ACCOUNTING INFORMATION - POWER INSTRUMENT FOR ADVANCED MANAGEMENT IN KNOWLEDGE BASED ORGANIZATIONS

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ABSTRACT: In elaborating the paper, we started from the idea of the necessity of knowing the reasons that determined the reconsideration of the importance of accounting information, in order to ensure survival, performance and durability of businesses in the context of the new challenges launched by the world economy. Continuous adjustments that influence companies impose the necessity of reassessment of accounting information as a management instrument, to determine the situation, to notice the opportunities and risks derived from the company's overall policy, to observe strengths and weaknesses, to make adequate decisions in time and, more than that, to control the results obtained. Finally, we concluded that the difficulty of reflection of operations generated by the phenomenon of the sustained development of organizations determined reconsideration of financial-accounting information systems and generated new terms such as: knowledge management, knowledge transfer, knowledge sharing and knowledge organizations.

KEY WORDS: Knowledge based organization, Accounting information, Management Information System, Knowledge management

Introduction - Accounting Information in the Knowledge Based Economy

During the last centuries, we have witnessed a series of changes which characterize the evolution of human society, the transition to a new economy – the knowledge based economy. This transition materialized at international level in the following main phenomena and processes: the globalization of the material and immaterial exchange flows (financial and informational) doubled by the regional integration and at national level by reviving the interest of the states for the sustainable development, regarded under the three defining aspects (economic, ecological, social).

Richness and power will result mainly from the intangible sources, from information. The information becomes the main element for obtaining high productivity and for the competitiveness of the companies, economic branches, national economies and the world economy on the whole.

The present world has been for over a century in a period of increase of the information flow. Many successful business activities were based on acquiring knowledge, on informational capital, but only recently did the entire reconfiguration of the information itself change the economy on the whole. At enterprise level, there is a significant mutation as a result of increasing the importance of the intangible. The organization as a system has the handling of the resources as its objective and implicitly involves information. In order to ensure the handling of the resources, these have to be measured, evaluated, and the means at hand is the information. The information is indispensable to the functioning of any organization, as it allows the achievement of the aims in view.

1. Can Accounting Information Be Assessed and Recognized Through the Added Value It Creates, As an Intangible Asset in Knowledge Based Organizations?

In the context of passing to the knowledge-based economy, intangible goods acquire greater and greater importance, but the importance of accounting information for the knowledge-based organizations cannot be ignored. As long as this meets the quality characteristics it generates added value for the commercial partnership which uses it. Then can we integrate the accounting information into the intangible assets?

The international accounting standard IAS 38 – Intangible assets – identifies the intangible assets as being identifiable non-monetary assets, controlled by the enterprise as a result of some previous events ", the existence of the possibility that the partnership gets "future economic benefits which can be attributed to the respective assets", and the cost of the assets to be measured correctly". But these criteria are met by very few intangible elements which make up the intellectual capital. The result is that most of the intangibles acquired through transactions are registered as assets, while the similar elements produced internally are registered as expenses of the period. Even more, because the existence of the intangible resources is difficult to check, they could be used to operate or even to manipulate the result.

Even if many researches demonstrate the importance of accounting information for creating added value, there still remains the problem of its evaluation. Can there be developed an evaluation pattern which allows the comparability of the commercial partnerships?

In the present-day economy, the element which can be most easily evaluated is cash. However, cash cannot represent the measure for anything any longer. Consequently, the management of accounting information requires the development of new methods that allow the delimitation of this notion. Among the approaches used, there can be distinguished those which adopt a purely quantitative point of view and find the justification in a financial accounting prospect and those which adopt a qualitative point of view and aim to create some devices for the enterprise.

A solution to this problem would be the use of the method called "benchmarking", through which the activity in the current year is compared to that in the previous year and with the competitors', in this way the intangible assets become visible and can be measured. However, none of the existing methods can measure exactly the weight and the flow of accounting information necessary for a competitive management of the commercial partnerships.

In his paper, Methods for Measuring Intangible Assets (Sveiby K, 2001), Karl Sveiby suggests a grouping of the evaluation methods of the intangible assets met in practice in: direct methods of assessing the intellectual capital, assessment methods based on the market capitalization, assessment methods based on the rate of return of the assets and assessment methods based on the balance score card.

Quantifying the information remains a problem open to the analysis of the professional accountants because of lack of standardization of most of the indicators used in the patterns of evaluation. The non-standardization of the indicators appears because in most cases, the existing evaluation patterns are made for a certain commercial partnership and thus they are influenced by the specific conditions of the partnership analyzed, not being representative for the whole partnership.

The information does not carry value in itself; its value derives from the change value in the decision-making behaviour from which the costs of producing information are obviously deducted. The present tendency is to have at one's disposal more information at one's disposal, particularly more up-to-date, but an item of information can be better only if this implies positive results of the decision-making process, in other conditions the information does not have value. Only after the communication and the interpretation through understanding of the data by their receiver, together with their transformation in information can there appears value, by using the information for intensifying the decision-making process.

The organization and the management of accountability is an obligation of the legal person within the market economy and represent a device of economic-financial knowledge. In all the organizations, especially in the small and medium-sized organizations, the operations are very rarely directly observed. These wait for making decisions, the preparation of plans and activity control. By using the information that can be obtained from the formal sources – for example from the MIS of the enterprise – or from informal sources, like direct discussions, phone calls, social contacts etc.

2. AIS (Accounting Information System) - Power Instrument for Advanced Management in Knowledge Based Organizations

The new challenges set on company management have led to an awareness of the necessity and importance of information in insuring the survival, performance and endurance of knowledge organizations. The difficulty in reverberating operations generated by the companies' continuous development phenomenon have generated the rethinking of their financial information systems and generated new terms such as: knowledge management, knowledge transfer, knowledge sharing and knowledge organizations. The continuous developments of large companies and industrial groups have determined a rise in information complexity. All of these alterations in the world economy impose the need for **designing an accounting information system adapted to knowledge organizations**, to ascertain the knowledge's organizations true status, reveal the opportunities and risks relevant to the knowledge organizations policy, to indicate the strengths and weaknesses, so that adequate decisions can be made at the right time, and more so, that the effects obtained from all this may be controlled.

The system proposed answers concrete questions regarding the need for information manifesting itself within the knowledge organizations, primarily destined for the decision factors that can influence the knowledge's organizations policy. In elaborating the system, we started at the need for knowing the causes which have determined the apparition of knowledge organizations, defining the group types and the relationships which may appear within the knowledge organizations.

Following this step, we established requirements for efficient operations, signaling possible restrictions which may turn up in the accounting information system's operation, named the information flows, defined WHAT?, HOW?, WITH WHAT? or WITH WHOM?, WHAT ARE THE RESULTS? of each system and who the final users of the information furnished by the two subsystems developed are. Concerning system requirements, we considered that it must provide a true view of the patrimony of the entire knowledge organizations, provide information in expedient time – for efficient management, and to be in accordance with the requirements imposed by the IAS/ IFRS. Regarding the restrictions which may occur in system operation, we defined restrictions generated by the evolution of the operation perimeter in time, legislative restrictions, fiscal restrictions, and last but not least, accounting information internal administration restrictions.

The evaluation and the recognition of the accounting information (as demonstrated in the first chapter) in financial statements ask specific evaluation models adapted for knowledge based organizations and further these organizations appear as a succession of companies' consolidation, in most of the cases. So, we defined the accounting information subsystem used for obtaining financial statements in accordance with IAS/IFRS, named the entries, the processing/consolidation algorithm, as well as the system exits.

We defined the accounting information subsystem for obtaining supplementary statements – **complementary information tools for advanced management in knowledge based organizations**. To this end, we defined the subsystem's objectives, the entries in the subsystem, named the financial information's processing and consolidation algorithms, defined the resources (material, technical and human) used in the processing/consolidation process and inventoried the exits from the subsystem.

The designed accounting information system's objective is creating a direct and on time bi-directional link between the two systems: operational and decision:

- operational – The accounting information subsystem for obtaining annual financial statements in accordance with IAS/IFRS,

Figure no. 1. Information processing scheme within the accounting information subsystem for obtaining financial reports, in accordance with IAS - IFRS

ENTRIES IN THE SUBSYSTEM	The balance sheet of every entity within the group	1. Reconsidering and adjusting the individual financial statements of the consolidated companies; the assessing of the accounting information, the application of accounting information which must permit the comparability between, evaluation method which allows the comparability of the commercial partnerships.	Consolidated balance sheet	**SUBSYSTEM EXITS**
	Profit and loss account for every entity within the group	2. Taking over and cumulating the elements within the financial statements of the companies which define the group.	Consolidated profit and loss account	

Shareholders equity variations for each entity within the group	3. Eliminating the mutual accounts and operations, as well as the internal results. 4. Eliminating the mutual accounts and operations, as well as the internal results.	Consolidated shareholders' equity variations status
Treasury funds flow panel for each company within the group	5. Eliminating the participation titles and allotment of shareholders' equity	Consolidated treasury flows panel
Accounting policy and explanatory notes for each entity within the group	**6. The information processing and consolidation algorithm according to IAS - IFRS**	Accounting policy and explanatory notes

– decision – The accounting information subsystem for obtaining supplementary statements, as complementary information tools for advanced management in knowledge based organizations.

Figure no. 2. Information processing scheme within the accounting information subsystem for obtaining complementary information tools for advanced management in knowledge based organizations

ENTRIES IN THE SUBSYSTEM		**SUBSYSTEM EXITS**
Current information required	1. Determining the mother company and the subsidiaries, determining the information holders	Daily dashboards
	2. Defining the time, company and participation percentage indicators (ID)	
	3. Exporting the transaction files which will be put up for consolidation by the subsidiaries	Recurrent dashboards: monthly quarterly biannual annual
Recurrent information required	4. Converting the information supplied by the foreign companies	
	5. Testing the information (packs) supplied by subsidiaries, made from ID indicators, measures and transaction files	Special notices (according to the events with significant impact on the group)
	6. Importing information by the mother company with data storage programs "data mart" and "data warehouse"	
Special information required	7. Processing the information imported by the mother company on the data mining system	Other reports predefined by the system
	8. Generating the dashboards, reports and notifications	
	9. Processing algorithms for the financial information **for the knowledge's based organizations management**	

Conclusions

New challenges given to company management have lead to the realizing of the need for and importance of information with the purpose of ensuring survival, performance and durability of groups. The difficulty of reflecting operations generated by the continuous development phenomenon of societies, has determined the reconsideration of financial information systems and generated new terms, such as: knowledge management, knowledge transfer, knowledge sharing and knowledge organizations. The continuous development of large companies and industrial groups has determined the growth in the degree of complexity of the information.

All of these alterations in world economy have imposed the need to project **an accounting-information system adapted to knowledge organization,** which:

a) shows the actual situation,

b) notifies the opportunities and risks related to knowledge organizations policy,

c) shows the strengths and weaknesses,

d) makes adequate decisions in due time,

e) and even more so, controls the effects obtained.

Extremely important for the decision-making process is the understanding of the way in which the individuals evolve and process the information. The possibility of setting up decision-making patterns which take into account the changeable information and which process it, at lower cost and with a higher informational relevance for the users should also be taken into consideration.

Most managers agree that information is their most important value driver, the difficulty, however, is how to manage measure and report this important asset. Any organization has countless intangible and knowledge-based resources that can be combined in limitless ways to create value. The question is, which of these assets are most critical to achieving the strategic objectives and how can they be combined to produce the ever more important, sustainable, competitive advantage.

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VAT AFFERENT TO INTRA-COMMUNITARIAN ACQUISITION, A NEW COMPONENT OF VAT SYSTEM FROM ROMANIA

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Our country's adhesion to European Union brought numerous new specific elements to Romanian fiscality and accountancy. Among these, one extremely important is represented by the appearance of new operations in the value added tax sphere, respective of intra-communitarian deliveries and acquisitions operations.

The present study will try to emphasize the most important aspects concerning fiscal and accounting treatments afferent to value added tax for intra-communitarian acquisition operations.

Key words: intra-communitarian acquisition, registration with VAT purpose, intra-communitarian acquisition place, reversed taxing.

Concurrent to Romania's adhesion to European structures, certain legislative changes appeared in what the trade with EU member states is concerned. Thus, in what the imports from EU member states are concerned, these received a new name, the one of *intra-communitarian acquisition.* These operations refer both to goods with communitarian origin character (meaning those who were produced in an EU member state country) as well as those that were produced in a tertiary state (for instance USA, Japan), but to whom free circulation in EU was given, moment when the customs taxes were paid and it obtained communitarian character.

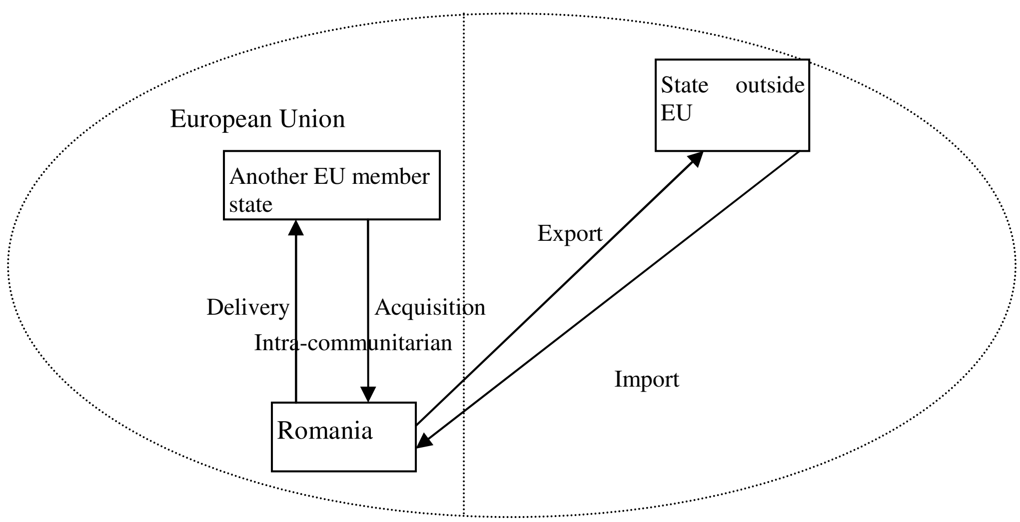

Fig.1. Romanian foreign trade's reorganization in the frame of adhesion to EU

Fiscal elements concerning the VAT afferent to intra-communitarian acquisitions

The most important consequences brought by our country's adhesion to EU, consequences with direct effect upon VAT regime applicable to Romania, are represented by:

- the relaxation of customs formalities afferent to economic relations among taxable entities that belong to different member states;

- operations generated by trade activity between EU member sates are split, in VAT purposes, in two operations:
- intra-communitarian deliveries;
- intra-communitarian acquisition;
- reversed tax principle appliance, that requires the tax effectuation in the destination member state.

It is considered intra-communitarian acquisition the obtaining of the right to dispose, as owner, of corporal mobile goods dispatched or transported to the destination indicated by the purchaser, by the supplier or by another person in the supplier's or purchaser's account, by a member state other than the departure of the goods' transport or dispatch place.

Registration in VAT purposes

The importance of correct and on time registration in VAT purposes and of exact identification of the persons obliged to register in VAT purposes is more evident in the frame of intra-communitarian transactions.

The code for registration in VAT purposes represents the code given by competent authorities from Romania to persons that have the obligation to register or to have a registration similar code given by competent authorities from another member state. The VAT code is a crucial instrument for intra-communitarian transactions' control by the quarterly "reviewing declaration", compulsory by VAT information exchange system, the VIES that allows a crossed checking for intra-communitarian acquisitions. Therefore, when an intra-communitarian delivery is reported in Romania, it will be possible to check the supplier that has reported the intra-communitarian delivery, respective whether it has a valid number given in VAT purposes in his own member state and whether the operation is declared in the respective state.

According to Fiscal Code, in Romania, the taxable entity that is not registered and does not have the obligation to register and the juridical non-taxable entity that intends to perform an intra-communitarian acquisition in Romania, has the obligation of asking for registering in VAT purposes, before the intra-communitarian acquisition's performance, if the value of that intra-communitarian acquisition surpasses the level for intra-communitarian acquisitions in the calendar year when the intra-communitarian acquisition takes place. The ceiling for intra-communitarian acquisitions is of 10.000 Euro. Also, the fiscal organ may register by fact an obliged person, if this person does not ask for benevolent registration; this registration may be cancelled afterwards if the intra-communitarian acquisition's value does not surpass the mentioned level.

For the intra-communitarian acquisitions of new means of transport effectuate by persons that are not registered in VAT purposes, the purchaser does not have to register according to 153^1 article for intra-communitarian acquisition, but it will deposit a special VAT declaration for tax payment. The same procedure is applied for intra-communitarian acquisition of excises products realized by taxable entities and non-taxable juridical persons, not registered in VAT purposes.

The intra-communitarian acquisition's place

In what the intra-communitarian acquisition's place is concerned, it can be represented by:

- the place where goods can be found in the moment when the expedition or transport of the goods takes place;
- the member state that issued the registration code if a registration code is transmitted in VAT purposes, issued by another state than the one where the acquisition takes place.

It is important to be mentioned that, if the intra-communitarian acquisition was submitted to VAT in the member state where the transport ends also, but not in the member state that communicated a VAT number too, the tax basis is reduced according to the member state that communicated a VAT number.

For a better understanding, there will be presented in what follows three examples where a series of possible situations generated by intra-communitarian acquisition territory is emphasized.

Case 1

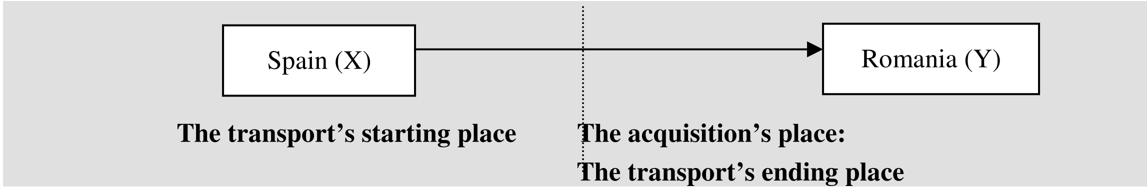

Fig.2. Intra-communitarian acquisition Romania-Spain

In the present example it is considered that the X firm is of Spanish origin, and the Y one Romanian. Romania realizes therefore an intra-communitarian goods acquisition, the starting and the delivery transport's place being Spain. The intra-communitarian goods acquisition's place is Romania, forasmuch, according to 132 article (1st) paragraph from the Fiscal Code, the intra-communitarian acquisition's place is the one where the goods are found in the moment when the transport ends.

Case 2

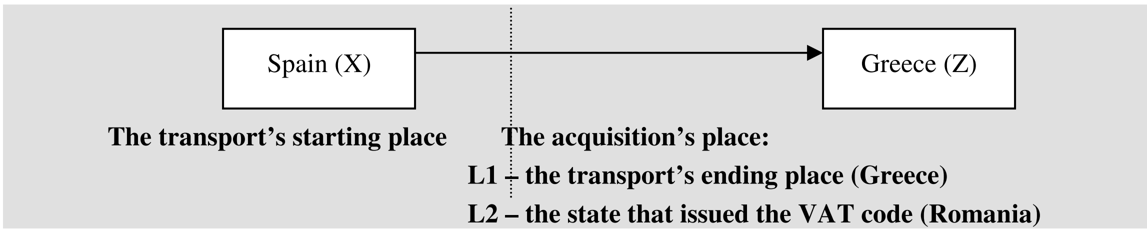

Fig.3. Intra-communitarian acquisition Greece-Spain

In the example presented above, Z, Romanian origin person, communicates to X its VAT code issued in Romania, not yet registered in Greece, intra-communitarian acquisition being therefore submitted to VAT both in Greece, as place where the transport concludes, and in Romania, as member state where the Vat code was communicated. But, according to Fiscal Code, it follows that the tax basis to be reduced as appropriate.

Case 3

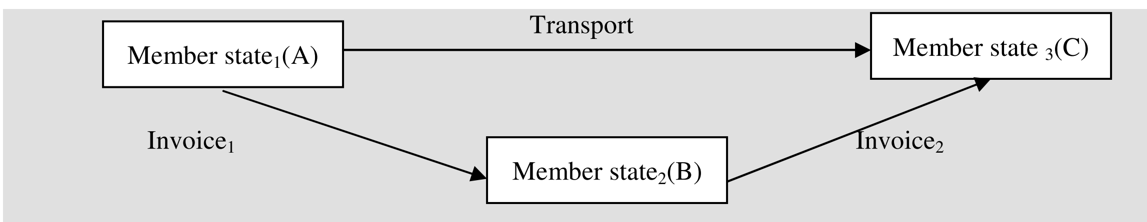

Fig.4.Triangle operation

It is noticed that it deals with the triangle operation where A is the supplier, B is the purchaser - re-seller and C is the delivery's final beneficiary.

In this above presented example three taxable entities are emphasized from three different member states, as follows: in the member state 1 (MS 1), A represents the supplier, in the member state 2 (MS 2), B represents the purchaser that re-sells and in the member state 3 (MS 3), meaning Romania, C represents the final beneficiary. As it can be noticed, two sales take place, the first sale is made by A in B's favor, and the second is made by B to C, in other words, the goods acquisition is realized by SM 2 for a subsequent delivery on Romania's territory. The transport takes place directly from the 1st member state in Romania. C will have to mention this acquisition in "intra-communitarian acquisition" from its VAT declaration and it has to apply the reversed taxing. Also, it has to rapport the local delivery in the reviewing declaration for intra-communitarian acquisitions in Romania.

Value added tax accountancy afferent to intra-communitarian acquisitions operations

The basic rule foresees that the VAT is paid in the destination state. The client, Romanian person registered in VAT purposes, will calculate and register the VAT by applying the reversed taxing mechanism. The registered person is obliged to communicate the supplier's the registration code and to deposit special VAT declaration (the form 301). Therefore, the Romanian person will register the VAT afferent to intra-communitarian acquisition, both as collective and deductive VAT in the same declaration. An effective VAT payment will not be realized towards fiscal organs.

In special cases, more exactly when the invoice was not issued by the supplier up to the 15th of the month following to tax generating fact a self-invoice is issued by purchaser.

In what the foreign currency exchange is concerned, we mention that for determining the lei value of VAT afferent to intra-communitarian acquisitions, the exchange rate communicated by National Bank of Romania will be used, by means of which the deductions from the dates will be realized:

a) extern invoice issuing, if the invoice was issued the latest on the 15th of the month following the producing of the generator fact (usually, delivery) or
b) self-invoice issuing, meaning the 15th of the month following the month when the generator aspect intervened, in the situation when the intra-communitarian partner has not issued the invoice up to that date.

In what follows, few examples accountancy operations of intra-communitarian acquisitions will be presented:

Case I

S.C. „Y” S.A., a VAT taxable society from Romania purchases from “X” society from Spain, a VAT taxable society, raw material in value of 8.000 Euro, at an exchange rate of 3,6 lei/Euro:

Raw materials	**=**	***Suppliers***	***28.800 lei***
Input VAT	**=**	***Output VAT***	***5.472 lei***

Case II

S.C. „V” S.A., a VAT non-taxable society from Romania purchases from “X” society from Spain, a VAT taxable society, raw material in value of 5.000 Euro, at an exchange rate of 3,6 lei/Euro. In this situation, the society from Spain will issue an invoice that includes also the VAT (16%):

Raw materials	**=**	***Suppliers***	***20.880 lei***

Case III

S.C. „P” S.A., a VAT non-taxable society from Romania purchases from “X” society from Spain, a VAT taxable society, raw material in value of 12.000 Euro, at an exchange rate of 3,6 lei/Euro. Because the acquisition surpasses the 10.000 Euro level, S.C. „P” S.A. has to register as VAT taxable for intra-communitarian acquisition and has to pay the VAT afferent to this transaction through special declaration:

Raw materials	**=**	***Suppliers***	***43.200 lei***
Raw materials	**=**	***VAT payable***	***8.208 lei***

Case IV

S.C. „Q” S.A., a VAT non-taxable society from Romania, but registered in VAT purposes for intra-communitarian acquisitions in Italy, purchases from “X” society from Spain, a VAT taxable society, raw material in value of 1.000 Euro, at an exchange rate of 3,6 lei/Euro. The customer is registered for intra-communitarian acquisitions and communicates this code to the supplier. SC “Q” S.A. makes an intra-communitarian acquisition taxable in Italy, for which he pays VAT based on special VAT declaration of the Italian state (VAT - 20%):

Raw materials	**=**	***Suppliers***	***3.600 lei***

Raw materials	**=**	***Other taxes and similar liabilities (VAT payable)***	***720 lei***

Other aspects concerning the intra-communitarian acquisitions

Intra-communitarian acquisitions will be enclosed in a reviewing declaration that will have to be handed in quarterly by firms registered with VAT purposes. The information from these reviewing declarations are transferred to VIES (VAT International Exchange System represents an electronic system that controls goods movement inside EU) and therefore the Member States may realize the checking of the realized operations. Fore instance, when an intra-communitarian acquisition in Romania is reported, the supplier that reported the intra-communitarian delivery is possible to be checked, respective whether it has a valuable number given in VAT purposes in its Member State and if the operation is declared in the respective state.

The elimination of customs formalities imposed the implementation of statistic system INTRASTAT, that supposes the filling in of Intrastat statistic declarations, a simplified variant of customs declarations filled in prior to Romania adhesion's to EU date. This statistic system was created and developed for collecting information directly from the firms that realizes trade activities with EU member states and it is functional from the 1st of January 1993 based on settlements that are applicable for all EU states.

The obligation for supplying statistic Intrastat data belongs to all economic operators that fulfill simultaneously the following conditions:

- are registered in VAT purposes, according to 153 article from Fiscal Code;
- realizes trade with goods from other EU member states;
- the turnover realized during the last 12 months, apart on the fluxes of introductions and dispatches surpasses a certain statistic threshold, that for introductions (intra-communitarian acquisitions) is of 300.000; (for intra-communitarian deliveries is 900.000).

The obligation of depositing Intrastat statistic declarations revives to economic operators that, even though have not reached the statistic threshold of excluding in anterior year (N-1), during the present year (N) they realize this thing. The economic operator will begin reporting statistic data starting with the month when it has reached/surpassed the exclusion threshold (for the previous months they do not report).

The economic agents that have the obligation of transmitting a "VAT Special Declaration" and that purchases goods from other EU member states, whose annual value is superior to statistic threshold, are, also, obliged to transmit the Intrastat declaration.

Intrastat Statistic Declaration (ISD) is monthly transmitted, in electronic form towards the NATIONAL INSTITUTE OF STATISTICS (NIS), until the 15th of every month (for instance: for the intra-communitarian acquisitions from January, ISD is transmitted until the 15th of February, the latest).

Under the conditions that for a certain period of time, an economic operator has not realized a transaction concerning goods movements for which is obliged to transmit ISD, then he should transmit to NIS a "NULL" declaration. This indicates the fact that the economic operator has not forgot to transmit the declaration and it will not be considered as non-respondent and the legal fines will not be applied.

The transactions that should be declared are the following:

- commercial transactions with goods that involve propriety transfer and are intended to utilization, consumption, investment or re-sale;
- movements of goods from one EU member state to another, without property transfer (for instance supply transfers, movements of goods before and after the processing, etc.);
- goods recasting;
- specific movements of goods.

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CONTINUING PROFESSIONAL DEVELOPMENT – A CONCEPT AND REQUIERMENT FOR PROFESSIONAL ACCOUNTANTS

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IES 7 IFAC Standard prescribes that member bodies implement a continuing professional development (CPD) requirement as an integral component of a professional accountant's continued membership. Such a requirement contributes to the profession's objective of providing high-quality services to meet the needs of the public (including clients and employers).

This Standard introduces the concepts of continuing professional development as relevant, verifiable and measurable learning activities and outcomes.

Key words: continuing professional development, International Education Standards, professional accountants

Financial scandals that culminated with ENRON and WORLDCOM firms' bankruptcy provoked in USA the providing of some measures concerning the accountancy and audit. Sarbanes-Oxley law, published in July 2002, introduced public surveillance mechanisms of accountancy and audit firms, together with other measures due to assure an increased protection of investors by improving the honesty and safety of information published by the quoted companies.

On this basis, the international organism of professional accountants initiated a series of measures that have as main purpose the regaining of public's trust in the quality of services provided by its members.

Among these measures those initiated by The Committee for Education and finalized by publishing of International Education Standards for Professional Accountants (IES) may be found.

In October 2003, IFAC published the first six education standards (IES 1-6), whose stipulation foreseen, in essence, the following: the establishing of a conceptual frame of international standards for education; access requires in a professional education program (IES 1); the content of professional accountancy education syllabus (IES 2); professional skills (IES 3); the values concerning the ethics and professional behavior (IES 4); practical experience requires (IES 5); the professional capacities and competences assessment (IES 6).

In May 2004 followed the publication of International Standard of Education 7 (IES 7) entitled Continuing professional development: a permanent education program and continuous development of professional competence. The purpose of this standard is to offer references to member organisms in order for these to adopt an engagement concerning the organization of permanent compulsory education for professional accountants, as well of the resources of these programs, to establish for its members the development and maintenance conditions for professional competence, necessary for public interest protection and to monitor and assure the continuous development and maintenance of professional competence of professional accountants members.

The stipulations of this standard are based on the principle of professional individual accountant's responsibility for maintaining and development of professional competences necessary for providing high quality professional services to its clients, employees or other interested persons.

The attendance of the programs implemented by professional organisms concerning the continuous professional development constitutes an integrated part of the requires necessary for maintaining the member quality of each professional accountant.

We have proposed to present and comment upon some of this standard's settlements.

The member organisms should promote the importance of continuous professional competence improvement and should assume the obligation of continuous preparation for all professional member accountants.

Also, all professional accountants have the obligation to maintain and to develop the professional competence according to the nature of their missions and to the professional responsibility that it is presumed. This obligation concerns altogether all professional accountants, no matter whether they are involved in traditional missions of accountancy nature or in other missions.

The permanent education process starts early, in the same time with the general education, it continues with the study program designated to obtaining of the professional qualification and afterwards it is a part from each individual's professional carrier. The continuous professional training program is an expansion of education process that leads to qualification as a professional accountant. The professional knowledge, the abilities, the professional values, ethics and behavior are obtained on the basis of continuous training and are improved according to professional activities and responsibilities of each professional.

The professional organisms should facilitate their members the access to opportunities and resources concerning the continuous professional training and to assist the professionals during these activities.

Also, the professional organisms should require all the professionals the maintenance and development of relevant professional competence for missions that are exerted and in according to professional responsibilities that are engaged.

The continuous professional training program is applied to all professionals, no matter the activity sector where they work and the size of the business, because all professionals have professional ethics obligations, both for clients and for partners of professional cabinets of other interested persons, and have to prove their capacities of engaging the responsibilities in a competent manner. Also it has to be taken into consideration the involvement of all professional accountants, from all activity sectors, in the process of financial reporting, their assuming of responsibility for public and the maintenance of public's trust in professional services. The public is relaying on the good reputation of professional accountants.

More than that, all professional accountants should be aware of the fact that any lacking in competence or digression from professional ethics supposes a consequence upon their reputation and profession's importance, no matter the activity sector or the position where it works.

It should be brought under discussion the fact that all economy sectors met quick environment changes and, in consequence, have to adapt strategic business plans appealing to specific competences of professional accountants.

Professional accountants should evaluate the professional training activities and its results according to continuous professional training program' requires of the organism from where is a part. The continuous training activity may be measured in terms of effort or time, or by other recognized methods that evaluates the competences acquired or developed.

This standard is also based on the principle that a certain part of the preparation activities may be checked. This supposes that the professional training may be checked in an objective manner by a competent source. The other activities of the professional may be evaluated but not necessary verified. For this, the professionals are obliged to keep all the files and documents concerning the continuous professional training, hereby, at professional organisms' request, to be able to provide sufficient elements in order to prove the conformity to the professional organism requires.

The aim of the continuing professional development is to assist the professional accountants in developing the professional competence with the purpose of providing high quality services with the purpose of satisfying the public interest. The achieving of this aim and the fulfillment of the continuous professional training's requires may be made by three different procedures:

- The intercession based on entries, by establishing a specific number of activities as being adequate with the maintenance and developing of professional competence.

This intercession supposes that the professional organisms to solicit to their members to respect the following preparation rigors:

- To attend at least 120 hours or its equivalent during the professional training activity for each three years period, from which 60 hours of its equivalent in preparation units, to be ascertainable;
- To attend at least 20 hours or its equivalent each year;
- The training activities' evaluation procedures and methods should satisfy the above mentioned requires.

The trials that the professionals may use for checking procedure are the following:

- Courses decks, technique materials;
- Attendance dossiers, enrollment papers or confirmation papers from the organizers of the continuous professional training activity;
- The independent evaluation of the attended training activity;
- The confirmation from a lecturer or program organizer;
- The confirmation for a partner of cabinet about the attendance to internal professional training program.

The intercession based on exits, with the require that the professional accountant to prove, by the procedures that he/she followed, that the professional competence was maintained and developed.

This supposes that the professional organisms would require from the professionals to prove the maintenance and development of the necessary competence by periodic presenting of proves, concerning:

- That have made the object of a checking form a competent source ;
- That a recognized evaluation method was used.

Concerning this intercession, the following may be considered as proves:

- Verification of the obtained training or of the resulted performance;
- Evaluation on the basis of papers or materials published or reviewed;
- Publishing of articles as result of research programs;
- Periodical reexamination;
- Obtained professional qualifications (specializations or other qualifications);
- Activity consigned by objective verification, with reference to external qualification route;
- Qualification routes applied by professional organisms, others than the self-assessment and evidence supply;
- Evaluation objectives that should certify the preparation procedures from the partners of professional cabinets or of the organizers of training programs.

The combined intercession, which is realized by the effective and efficient combination of the two above mentioned intercessions, establishing a number of compulsory activities and the evaluation method of the obtained competences by other procedures.

The professional organisms should establish systematic procedures to monitor the manner in which the professional accountants fulfill the professional continuous training requires and to establish corresponding sanctions for the digressions from these requires, including for reporting mistakes and for flows in maintaining and developing their competence.

In composition of monitor procedures, the professional organisms should take into consideration the members that have increased responsibilities against the public and to establish more rigorous procedures for them.

The monitor procedures may require that the professional accountant to satisfy periodically the following requires:

- To transmit a declaration concerning the manner in which they respected the ethical obligation concerning the maintenance of knowledge and abilities necessary to be competent;
- To hand in a declaration concerning the manner in which they respected the requires of continuous professional training; and/or
- To provide an evidence of professional training activities or of verification of competence maintenance and development.

Other monitor procedures may include:

- The audit of a sample among the professionals for verification of the conformity with the requires of continuous professional training;
- It may include the reviewing and evaluation of training plans or documents by means of practice inspection procedures; and/or

- To solicit to the partners of professional cabinets to include continuous professional training plans and systems to monitor it in their own programs of quality assurance.

In order to realize the maintenance and development requires of professional competence, the professionals may train themselves by different methods, such as:

- Courses, conferences, seminaries attendance;
- Self-training modules or training programs in the frame of the cabinet ;
- Publishing of papers in professional or university environment;
- The attendance at the technique committees;
- Teaching at courses or sessions of continuous professional training;
- The elaboration of official studies concerning the professional responsibilities;
- Active attendance to conferences, sessions, work groups;
- Writing articles, books on this field;
- Research activity, including the study of professional literature of specialty press, in order to put in practice the knowledge.

Concerning these activities it should be mentioned that a single repetitive activity cannot assure the requires of continuous professional training.

It also should be mentioned the aspect that the measure unit used in evaluation activity of performances is hour. As an alternative, the course hour may be used or its equivalent. In evaluation procedures, the time used for an activity, the units allocated to an activity by an organizer of continuous professional training or the units prescribed by a professional organism may also be taken under consideration.

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LES ASPECTS COMPTABLES DES OPERATIONS DE RESTRUCTURATION PAR ACQUISITIONS ET FUSIONS

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Résumé: Le processus de restructuration est devenu une composante majeure du processus de globalisation par suite de la dimension définitoire des restructurations corporatistes de pays développés, mais il a été et reste un phénomène d'intérêt majeur pour les sociétés en transition aussi. La création des marchés de capital, l'évolution des investissements étrangers, les processus de privatisation sont les composantes définitoires des typologies de restructuration. Dans ce contexte, les sociétés commerciales ont joué un rôle clé dans l'ouverture de nouveaux horizons, dans la capacité de s'adapter aux fortes transformations qui ont eu lieu dans une société dynamique, tout en contribuant au développement de l'économie nationale et de la société en général. Dans l'économie moderne, consolidée, les coordonnées majeures de la dynamique des entités sont instituées par des normes juridiques adéquates, qui prévoient que les entités peuvent concurrencer entre elles et entrer dans différents rapports de coopération et association.

Mots-clé: restructuration, entité économique, fusions, acquisition, analyse comptable

1. Introduction

Dépassant la sphère des stratégies et des typologies de restructuration, du point de vue des opérations concrètes de manifestation, les fusions et les acquisitions ont été les opérations leader du phénomène de restructuration. Vu l'évolution du marché mondiale, du marché européen des fusions et acquisitions basée sur une tendance croissante, le marché roumain a été lui aussi influencé, les **fusions et les acquisitions sont, en ce moment, des processus importants du développement, étant des opérations de restructuration dont le nombre et la dynamique est en évolution.** Le développement ou l'expansion d'une société peut se réaliser, par la croissance interne ou par la croissance externe, par des **fusions et acquisitions**. Ces modalités font partie de la stratégie générique choisie par le management dans la création de l'avantage compétitif nécessaire pour obtenir une rentabilité au moins au niveau de la moyenne de l'industrie dont la société fait partie.

Analysant le mécanisme de déroulement des opérations de restructuration et les arguments de leur réalisation, nous avons considéré que, à part les types et les formes et de fusion mentionnées dans le littérature de spécialité, nous pouvons réaliser une délimitation prenant en compte la structure de l'actionnariat avant la restructuration par la fusion. Nous trouvons donc deux catégories:

- les fusions dans lesquelles les sociétés participantes présentent des **liaisons financières antérieures à l'opération de fusion,** suite à des acquisitions par étapes, suivies par l'opération de fusion par absorption; cette opération est une **fusion simplifiée**;
- la fusion proprement dite a lieu, sans qu'il existe des opérations antérieures, préparatrices; **entre les sociétés participantes à la fusion n'existent pas de liaisons antérieures**, la **fusion étant dans ce cas pure**.

2. Restructuration par acquisitions

Partant des modalités juridiques de réalisation des opérations de restructuration -combinaison, restructuration - regroupement, nous avons essayé de surprendre les aspects comptables déterminés par le déroulement de ces opérations, concrétisées dans des fusions, dans des acquisitions et scissions.

Nous avons considéré important de délimiter les acquisitions de fusions à travers la notion de contrôle. Nous avons pris en discussion les situations suivantes: si l'opération de restructuration vise l'obtention d'un pourcentage de contrôle ou un partage du contrôle, soit un contrôle direct, soit un contrôle indirect, on est en présence d'une **restructuration financière** par une opération d'acquisition; si la restructuration implique une opération de fusion, on est en présence tant d'une **restructuration financière, que d'une restructuration opérationnelle**.

Tant dans le cas des acquisitions, que dans le cas des fusions, nous sommes en présence d'une **restructuration corporative**, du point de vue de l'entité résultant de la restructuration. Du point de vue de la structuration des transactions d'acquisitions et aussi du point de vue comptable, il est nécessaire de les traiter sur deux directions: acquisitions d'actifs et acquisitions d'actions et de les analyser et du point de vue de l'entité acheteuse, et du point de vue de l'entité vendeuse:

2.1. Acquisitions d'actifs et/ou passifs (dettes)

Du point de vue des opérations de restructuration, les acquisitions d'actifs (et passifs) entrent dans la sphère de la restructuration si l'acquisition ne suppose un transfert de liquidités par l'entité acquéreur en contrepartie des actifs (et passifs) reçus de l'entité cédante. Au cas où l'entité acquéreur les actifs (et les passifs) reçus fait un transfert de liquidités, sur le patrimoine de l'entité acquéreur interviennent les modifications suivantes: une augmentation de l'actif avec la prise des actifs transférés par l'entité cédante et aussi une diminution de l'actif avec les liquidités acquittées à l'entité cédante au cas où la valeur des actifs transférés serait supérieure à la valeur des passifs assumés, et dans la structure des passifs a lieu une augmentation des éléments de dettes. Chez l'entité cédante des actifs et/ou passifs sur les éléments d'actif intervient une diminution avec les actifs transférés et une entrée de liquidités et sur la partie de passif ont lieu une diminution des dettes. Dans notre opinion, de telles acquisitions ne représentent pas des opérations de restructuration, parce qu'aucune modification n'intervient dans le volume et/ou la structure du capital chez aucune des entités participantes à la transaction; nous considérons qu'il s'agit d'une transaction de vente-achat. Si l'entité A acquiert tous les actifs et/ou les dettes de l'entité B en contrepartie de quelques actions, ces opérations entrent, selon nous, dans la sphère de la restructuration, et les modifications qui interviennent dans la structure du patrimoine des deux entités sont:

a) chez l'entité acheteuse A

- prise des éléments d'actif de l'entité B qui fait l'apport des actifs:

Elém d'actif (2xx, 3xx, 4xx, 5xx)	=	456 *Décompte avec les actionnaires/associés visant le capital*	*Valeur des actifs transférés par B (**valeur comptable**, valeur de marché, valeur juste)*

- prise des éléments de passif de l'entité B qui fait l'apport des passifs:

456 *Décompte avec les actionnaires/associés visant le capital*	=	*Elém de passif* *(16x, 4xx, 5xx)*	*Valeur des passifs transférés par B (**valeur comptable**, valeur de marché, valeur juste)*

- si la valeur des actifs transférés > valeurs des passifs transférés, l'entité émet des actions pour rémunérer l'apport (l'apport net= total actif - total dettes):

456 *Décompte avec les actionnaires/associés visant le*	=	*1012* *Capital souscrit versé*	*Valeur des actifs transférés par B - valeur des passifs transférés par B*

capital			

De la sorte, chez l'entité acquéreur se produit une modification du volume et de la structure du capital social par l'acquisition des actifs et des passifs de l'entité cédante pour rémunérer les éléments transmis. L'entité acquéreur émet des actions vers l'entité cédante pour rémunérer l'apport. Si l'apport de l'entité cède est négatif, l'entité acquéreur n'émettra plus de nouvelles actions, donc des modifications n'interviennent pas, ni au niveau du volume, ni de la structure du capital. Le raisonnement de la prise d'un apport négatif est que les actifs reçus apporteront des importants bénéfices futurs et l'opération n'affecte le cash-flow- (les liquidités) de l'entité acquéreur.

Cette situation spéciale parait au cas où la **valeur des dettes assumées par** l'entité acheteuse (acquerrant) **serait supérieure à la valeur des actifs reçus.** Dans ces conditions, nous considérons que la différence (dettes > actifs) doit être traitée par l'entité acquéreur en tant que fond commercial ou comme une perte reportée; dans cette situation l'amission d'action n'a pas lieu.

2071 *Fond commercial positif*	=	456 *Décompte avec les actionnaires/associés visant le capital*	*Valeur des passifs transférés par B - valeur des actifs transférés par B*

ou

117 *Résultat reporté*	=	456 *Décompte avec les actionnaires/associés visant le capital*	*Valeur des passifs transférés par B - valeur des actifs transférés par B*

b) chez l'entité cédante B

- le transfert des éléments d'actif vers l'entité acquéreur A:

456 *Décompte avec les actionnaires/associés visant le capital*	=	*Elém d'actif* *(2xx, 3xx, 4xx, 5xx)*	*Valeur des actifs transférés (**valeur comptable**, valeur de marché, valeur juste)*

- transfert des éléments de passif (dettes) vers l'entité acquéreur A:

Elém de passif (16x, 4xx, 5xx)	=	456 *Décompte avec les actionnaires/associés visant le capital*	*Valeur des passifs transférés par B (**valeur comptable**, valeur de marché, valeur juste)*

- si la valeur des actifs transférés > la valeur des passifs transférés, l'entité recevait, pour l'apport transféré, des actions à l'entité acheteuse (acquérrant):

26x *Immobilisations financières*	=	456 *Décompte avec les actionnaires/associés visant le capital*	*Valeur des actifs transférés - valeur des passifs transférés*

Au cas où la valeur des dettes transférées vers l'entité acheteur serait supérieure à la valeur des actifs transférés, l'entité cédante enregistrera l'apport négatif transféré sur le compte du résultat reporté, sans recevoir quelque chose en échange de l'apport transféré. Dans ces conditions, nous considérons que la différence (dettes > actifs) enregistrée par l'entité acquéreur comme fond commercial, représente pour l'entité qui a apporté les éléments patrimoniaux, un profit reporté, qui, conformément aux dispositions du Code Fiscal, article 27, alinéas (3) lettre c), est considéré transfert imposable seulement si le transfert des actifs et des passifs suppose en contrepartie des titres de participation.

456 *Décompte avec les*	=	*117*	*Valeur des passifs transférés - valeur des actifs transférés*

actionnaires/associés visant le capital		*Résultat reporté*	

Chez l'entité cédante il n'y a pas de modification de volume et/ou structure du capital social par le transfert des actifs et des passifs, l'entité continue d'exister. Après l'apport d'actifs et de dettes peut avoir lieu une opération de dissolution de l'entité cédante et le partage du capital propre entre associés.

2.2. Acquisition d'une entité (acquisitions 100% des actions)

Du point de vue des opérations de restructuration, l'acquisition des entités entre dans la sphère de la restructuration, elle suppose une modification du volume et/ ou de la structure du capital de l'entité acquise. L'acquisition suppose un transfert de liquidités par l'entité acquéreur en contreparties des actions reçues de l'entité achetée (acquise). Les modifications qui interviennent dans le patrimoine de deux entités sont:

a) chez l'entité acquéreur A

- transfert de liquidités pour les actions acquises:

26x *Immobilisations financières*	=	*5121* *Comptes courants en banques en lei*	*Valeur d'acquisition des actions*

Chez l'entité acquéreur se produit une modification de la structure des éléments d'actif.

b) chez l'entité acquise B

Si l'acquisition de l'entité se fait après la création, du point de vue comptable il n'y a pas d'enregistrement, il se produit la modification de la structure analytique des actionnaires. Chez l'entité cédante il n'y a pas de modification du volume, mais de la structure du capital social par la cession d'actions/parts sociaux, l'entité continue à exister dans ses autres éléments patrimoniaux soient affectés. Apres cette cession d'actions/parts sociaux peut avoir lieu une opération de fusion absorption de l'entité cédant, celle-ci cessant son activité par dissolution sans liquidation; l'entité absorbante, initialement l'entité cessionnaire prend le patrimoine de l'entité déjà contrôlée. Du point de vue du contrôle exercée sur l'entité acquise cette opération de restructuration représente une **acquisition complète ou intégrale: contrôle de 100%, on parle de l'acquisition d'une affaire. Si le contrôle exclusif est exercé à partir du moment de la création d'une entité, les opérations suivantes ont lieu:**

- l'enregistrement de la participation de l'entité A dans le capital de l'entité B au moment de la création de l'entité B:

456 *Décompte avec les actionnaires/associés visant le capital* *(actionnaire - entité A)*	=	*1012* *Capital souscrit versé*	*Valeur nominale de l'action détenue par les actionnaires*

- enregistrements des opérations d'encaissement de la contra valeur des actions:

5121 *Comptes courants en banques en lei*	=	*Décompte avec les actionnaires/associés visant le capital* 456 *(nouvel actionnaire - entité A)*	*Valeurs des actions*

2.3. Acquisitions d'actions

L'acquisition d'action suppose une **opération de prise du contrôle.** En fonction du contrôle obtenu par l'acquisition, on peut identifier trois grandes catégories, dont l'une est celle ci-dessus, l'acquisition d'actions 100%. Les deux autres catégories sont:

a) **les acquisitions minoritaires**, où le contrôle de l'entité acquéreur vise entre 10 et 49% du nombre de votes de l'entité acquise;

b) **les acquisitions majoritaires**, le contrôle de l'entité acquéreur vise entre 50 et 99% du nombre de votes de l'entité acquise.

Du point de vue des opérations de restructuration, l'acquisition d'actions entre dans la sphère de la restructuration; elle suppose une modification du volume et/ou de la structure du capital de l'entité acquise. L'acquisition suppose un transfert de liquidités de l'entité acquerrant en contrepartie des actions reçues de l'entité acquise. Les modifications qui interviennent dans la structure du patrimoine des deux entités sont:

a) chez l'entité acquéreur A

- transfert de liquidités pour les actions acquises:

26x *Immobilisations financières*	=	*5121* *Comptes courants en banques en lei*	*Valeur d'acquisition des actions*

Chez l'entité acquéreur a lieu uniquement une modification de la structure des éléments d'actif.

b) chez l'entité cédant les actions B

Si une émission de nouvelles actions n'a pas lieu, et uniquement une modification dans la structure du capital, du point de vue comptable, l'opération d'acquisition n'engendre pas d'enregistrement comptable. Pour le cas de l'é1mission de nouvelles actions, il faut faire les enregistrements suivants:

- enregistrement de l'émission de nouvelles actions:

456 *Décompte avec les actionnaires/associés visant le capital* *(nouvel actionnaire - entité A)*	=	*%* *1012* *Capital souscrit versé* *1041* *Primes d'émission*	<u>*Valeur nominale des actions cédées*</u> *Valeur nominale des actions détenues par les anciens actionnaires* *Diff. entre le prix d'acquisition de nouvelles actions et la valeur nominale des anciennes actions*

- enregistrement de l'encaissement de la contre valeur des actions émises:

5121 *Comptes courants en banques en lei*	=	456 *Décompte avec les actionnaires/associés visant le capital* *(nouvel actionnaire - entité)*	Valeur des actions cédées

Chez l'entité cédante a lieu une modification de volume et/ou structure du capital social par l'émission d'action, tandis que chez l'entité acquéreur a lieu une modification de la structure des éléments d'actif. Des fois, l'acquisition ne vise pas un transfert de liquidités, mais d'actions, et on parle d'échange d'actions. Par conséquent, du point de vue comptable, les éléments patrimoniaux affectés aux deux entités sont les immobilisations financières et le capital.

2. Restructuration par fusions

Pour les fusions, nous avons considéré important, du point de vue comptable, d'identifier la relation financière entre les entités participantes. Nous avons donc analysé la fusion entre entités sous **contrôle distinct qui suppose que les entités sont** indépendantes, et l'opération supposerait une **fusion pure, réelle.** Nous avons inclus dans cette typologie seulement les transactions qui comprennent l'opération proprement dite, sans autres opérations antérieures, de préparation, telle l'acquisition d'actions/parts sociaux, pour obtenir un niveau du contrôle.

Si la fusion a lieu entre entités liées entre elles par des participations et se trouvant sous et un contrôle commun, nous avons analysé la fusion comme une fusion restreinte, une acquisition finale. Dans cette typologie des restructurations par fusion, nous avons inclus les fusions qui ont été préparées par des acquisitions d'actions/parts sociaux, de l'entité cible. Ces acquisitions peuvent varier de la position d'investisseur minoritaire ou significatif jusqu'à la position d'investisseur qui possède le contrôle. Dans le cas des acquisitions 100% des actions de l'entité cible, suivi de l'opération de fusion, nous avons considéré la fusion comme étant une fusion simplifiée. Nous avons inclus toujours dans cette typologie le cas des fusions réalisées pour des raisons administratives.

Les réglementations nationales sur la comptabilisation des opérations de fusion sont comprises dans l'**Ordre du Ministre des Finances Publiques** no. 1.376 du 17 septembre 2004; ces normes sont moins restrictives, laissant à la latitude des participants la manière de traiter du point de vue comptable l'opération déroulée, en recommandant plusieurs méthodes d'évaluation des entités participantes à la fusion (la méthode patrimoniale/ la méthode de l'actif net, la méthode boursière, méthodes basées sur le rendement, méthodes mixte, méthodes basées sur le flux financier) et recommandant également le traitement comptable de l'opération de fusion par l'utilisation de deux méthodes. De cette manière, l'entité qui prend l'affaire de l'entité cédante des biens ou qui continue l'activité commerciale initiale ou celle qui développe une nouvelle affaire, indifféremment de la stratégie adoptée, comptabilisera l'opération de fusion utilisant une des méthodes suivantes :

a) la méthode du résultat, respectivement l'évaluation globale des entités, qui suppose:

- ***dans la comptabilité de l'entité absorbée***, pour mettre en évidence la valeur de l'actif transféré et la croissance de valeur résultée de l'évaluation globale l'utilisation des comptes 461 „Débiteurs divers" et 7583 „Revenus de la vente des actifs et autres opérations de capital". La sortie de l'évidence des éléments d'actif transférés se fait par l'intermédiaire du compte 6583 „Dépenses visant les actifs cédés et autres opérations de capital". La transmission des éléments de passif est reflétée par créditer le compte 461 „Débiteurs divers", et celle des éléments de capitaux propres à l'aide du compte 456 „Décomptes avec les actionnaires/associés visant le capital". De même, dans la comptabilité de l'entité absorbée a lieu la clôture des comptes de revenus et de dépenses et la régularisation des comptes 456 „Décomptes avec les actionnaires/ associés visant le capital" et 461 „Débiteurs divers".
- ***dans la comptabilité de la société absorbante sont faits les enregistrements suivants***: l'enregistrement de l'augmentation du capital social et de la prime de fusion, la prise des éléments d'actif et de passif à l'aide du 456 „Décomptes avec les actionnaires/associés visant le capital". Pour les réserves qui ont été déduites fiscalement et qu'on veut maintenir dans la comptabilité de la société absorbante on procède à leur transfert du compte 1042 „Prime de fusion/scission" dans des analytiques distinctes, après la fusion. Au cas où la prime de fusion ne couvre pas la réserve légale et la resserve représentant des facilites, le transfère se réalisera dans la limite de la prime de fusion, et la différence sera soumise à imposition.

Nous considérons qu'il y a plusieurs aspects discutables dans cette méthode. Conformément à cette méthode, le plus résultés de l'évaluation des éléments patrimoniaux de l'entité absorbée sont reflétés dans les revenus au moment du transfert des éléments et la croissance de valeur n'est pas enregistrée sur chaque élément patrimonial individuel. Les réglementations comptables imposent que „au cas où, après la reconnaissance initiale comme actif, la valeur d'un actif immobilisée est déterminée sur la base de la réévaluation de l'actif respectif, la **valeur résultée de la réévaluation sera attribuée à l'actif**, pour le coût d'acquisition/ du coût de production ou de toute autre valeur attribuée avant à l'actif" (Ordre du Ministre des finances publiques no. 1.752/2005 pour approuver les réglementations comptables conformes aux directives européennes, Monitorul Oficial al României no. 1.080 bis/30.11.2005, article 110, alin. 1).

Faut-il aussi tenir compte des dispositions du Code Fiscal qui à l'article 27 alinéas (4), lettre d) précise que „la valeur fiscale d'un actif ou d'un passif... est égale, pour la personne qui reçoit un tel actif, à la valeur fiscale que l'actif a eu chez la personne qui l'a transféré." De même, l'OMFP no. 1.752/2005 pour approuver les réglementations comptables conformes aux directives européennes précise à l'article 205 alinéas (1) que „le plus ou la différence résultés de la réévaluation des immobilisations corporelles,.., doit être reflété dans le débit ou crédit du compte Réserves de réévaluation, selon le cas, tout en respectant les dispositions visant la réévaluation des immobilisations corporelles." Les résultats de l'évaluation des éléments patrimoniaux devraient être comptabilisés avant l'opération de fusion, et dans le protocole de transmission des éléments d'actif et passif, on préciserait la valeur fiscale de chaque élément.

Conformément à cette méthode proposée, chez l'entité absorbante, le plus de la réévaluation des éléments patrimoniaux de l'entité absorbée est pris comme fond commercial. Nous trouvons que, de ce point de vue, il existe une contradiction avec la définition du fond commercial qui „...représente la différence entre le coût d'acquisition et la valeur à la date de la transaction, de la partie d'actifs nets acquis par une entité"(Ordre du Ministre des finances publiques no. 1.752/2005 pour approuver les réglementations comptables conformes aux directives européennes), Monitorul Oficial al României no. 1.080 bis/30.11.2005, article 77). Ce fond commercial, qui apparaît au moment de la restructuration des entités par groupement, représente un paiement fait par l'entité acquéreur suite à l'anticipation de quelques avantages économiques futures engendrés par les actifs pris et ces avantages ne peuvent pas être identifiés individuellement et reconnus séparément au moment où l'on prend le passif. Dans ce cas, nous parlons d'un fond commercial positif. Il peut exister la situation dans laquelle l'on anticipe des pertes, et cette fois-ci la rémunération de l'apport est inférieure à l'apport fait et il résulte un fond commercial négatif.

Pour ce qui est le traitement comptable de l'opération de fusion chez l'entité absorbée, nous propons l'élimination de l'utilisation des comptes de revenus et de dépenses pour transférer les éléments d'actif et éliminer de la sorte l'opération comptable de régularisation des comptes 456 „Décomptes avec les actionnaires/associés visant le capital" et 461 „Débiteurs divers". Nous considérons que le transfert des éléments d'actif et dettes pourrait s'exprimer uniquement seulement par l'utilisation du compte 456 „Décomptes avec les actionnaires/associés visant le capital", qui se solderait au moment de la transmission des éléments de capitaux propres, étant une opération de transmission d'un apport de nouveaux actionnaires, dans ce sens étant pleinement justifiée l'utilisation du compte 456 „Décomptes avec les actionnaires /associés visant le capital". L'argument consiste dans le fait que le transfert de l'apport net de l'absorbée vers l'absorbante ne représente un transfert imposable selon les dispositions du Code Fiscal, qui précise à l'article 27 alinéas (4), lettre a) que dans de telles situations „le transfert des actifs et des passifs ne se reflète pas comme un transfert imposable" et de la sorte la détermination d'un résultat de l'opération de fusion n'a plus de sens.

b) la méthode de la valeur nette comptable des entités

- ***dans la comptabilité de l'entité absorbée*** a lieu la transmission des éléments de capital par créditer le compte 456 „Décomptes avec les actionnaires/associés visant le capital", la sortie de l'évidence des éléments d'actif transférés et des éléments de passif, et de la régularisation du transfert de capitaux propres se réalise à l'aide du compte en dehors du bilan 892 „Bilan de clôture".
- ***dans la comptabilité de l'entité absorbante on fait les enregistrements suivantes***: enregistrement du capital social et de la prime de fusion, la prise des éléments d'actif et de passif à l'aide du compte 456 „Décomptes avec les actionnaires/associés visant le capital". Pour les réserves qui ont été déduites fiscalement et qu'on veut maintenir dans la comptabilité de la société absorbante, soit on procède à leur transfert du compte dans la comptabilité de 1042 „Prime de fusion/scission", soit on les met en évidence dans la catégorie de laquelle on les a transférés. La prise des éléments d'actif et passif de la société absorbée se réalise à l'aide du compte en dehors du bilan 891 „Bilan d'ouverture ".

Pour simplifier le traitement comptable dans le cas de cette méthode, nous proposons l'utilisation de la formule comptable composée pour éliminer les comptes en dehors du bilan.

En conclusion, analysant ces deux méthodes proposées pour le traitement comptable d'une opération de fusion, notre proposition est d'enregistrer les différences résultées de l'évaluation des éléments patrimoniaux dans chacune des entités participantes avant l'opération de fusion, et la transmission des éléments d'actif et passif, ainsi que leur prise se réalise à l'aide du compte 456 „Décomptes avec les actionnaires/associés visant le capital" parce que l'opération impose une modification dans la structure du capital, et cette modification du volume et de la structure du capital est influencée par l'apport fait.

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POSITIVE THEORY OF ACCOUNTING CHOICE – USING ACCOUNTING CHOICE AS SIGNALING VARIABLE

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Besides the conflicts of interests, a new tendency of theoretical writings has recently emerged in the economic literature and then in the financial and accounting ones, regrouped under the English term "signaling". The underlying hypotheses re-tackle the idea of information asymmetry which stipulates that the directors of enterprises hold more accurate information than that available to the market.

The "signaling" theory states that the market mechanisms are enticing enough to urge even the directors to publish the available information in order for the situation not to end in a non-optimal equilibrium. That is, if the investors do not have the capacity to distinguish between the competitive enterprises and the others, the former ones will be tempted to differentiate themselves by means of a "signaling" mechanism in order to obtain advantages.

Key words: signal, performance, information, accounting policy

L'efficacité du signal dépend de son coût

Les travaux d'Akerlof illustrent bien cette nécessité.

Akerlof (1970) a été l'un des pionniers à s'intéresser à la théorie des signaux. Sa réflexion, bien qu'elle s'applique au marché des voitures d'occasion, a le mérite d'être suffisamment simple pour comprendre rapidement le phénomène de signalisation. Akerlof montre que, sans un mécanisme permettant de signaler la qualité réelle des voitures d'occasion, ce marché s'effondrerait. En effet, le vendeur dispose d'une meilleure information que l'acheteur de la voiture. A priori, l'acheteur n'est prêt à payer le produit qu'à son prix moyen pondéré dans la mesure où l'information qu'il détient se limite à la probabilité d'acquérir une bonne ou une mauvaise voiture.

Pour éviter que le marché ne s'effondre, vendeurs et acheteurs ont intérêt à éliminer le différentiel d'information par le biais d'un mécanisme de signalisation (garanties, marque de commerce, etc.). Le coût de cette opération doit être suffisamment élevé pour éliminer tout risque de duperie dont les vendeurs de voitures de qualité inférieure pourraient être à l'origine. Le coût du *signaling* doit être inversement proportionnel à la qualité de la voiture.

La théorie des signaux appliquée aux choix des méthodes comptables

Les entreprises peuvent se signaler soit par leur politique financière (politique d'endettement, de distribution de dividendes), soit par leur politique comptable. Celle-ci peut porter sur deux types d'éléments : le contenu de l'information et le calendrier de publication. La signalisation par le contenu comptable peut se faire par le choix de méthodes comptables, la gestion des informations sectorielles ou la publication volontaire d'informations prévisionnelles (Saada 1993). Seuls les choix des méthodes comptables nous intéressent dans le cadre de cette étude.

Le choix d'une méthode comptable est un moyen de résoudre l'asymétrie de l'information. Si les dirigeants possèdent une information inconnue du marché et susceptible d'avoir un effet positif sur le cours de l'action, il est dans leur intérêt de l'indiquer au marché. Il permet à l'entreprise de se différencier sur le marché financier, dont les prévisions peuvent être fonction de ces indicateurs. La gestion de l'information comptable permet donc aux dirigeants d'influencer, à leur avantage, les perceptions des investisseurs quant aux perspectives de rentabilité de l'entreprise.

Une simple annonce est insuffisante, puisque les dirigeants des mauvaises firmes peuvent mentir sur la qualité réelle de leur entreprise. Comme nous l'ont montré Akerlof et Spence, le signal doit être coûteux. Ce coût doit être supérieur à l'avantage espéré par une entreprise qui émet un message trompeur. Ainsi, l'utilisation d'une méthode ayant une incidence fiscale (l'augmentation recherchée du résultat est en partie neutralisée par celle de l'impôt) peut être interprétée par le marché comme une entreprise ayant des anticipations favorables quant à l'avenir. De même, le fait qu'une entreprise choisisse une méthode sans incidence fiscale qui diminue le résultat, serait le signe qu'elle anticipe un bon niveau de cash-flows ultérieurement. On peut par conséquent aboutir à l'hypothèse suivante (Raffournier, 1990) : "les meilleures firmes devraient choisir les méthodes qui diminuent le résultat, alors qu'en cas d'incidence fiscale, c'est le contraire".

Une illustration du modèle présenté par Damotte

Damotte (1990) montre qu'il est nécessaire que les conditions suivantes soient réunies pour que les méthodes comptables puissent constituer un signal efficace, permettant aux entreprises performantes de se différencier de celles qui le sont moins :

- seules les entreprises performantes doivent pouvoir bénéficier des conséquences favorables du choix dans l'avenir (une meilleure valorisation du stock ou boursière par exemple) ;
- les dirigeants doivent être personnellement intéressés par les conséquences économiques de leurs choix comptables ;

En effet, les dirigeants seraient incités à communiquer l'information comptable en totalité ou en partie, parce qu'ils sont soit actionnaires, soit managers intéressés à travers un système plus ou moins incitatif: primes, *stock-options*, corrélation positive avec les performances financières de l'entreprise et leur propre salaire.... Ils n'agissent que pour maximiser leur utilité.

- l'avantage immédiat que les dirigeants pourraient trouver à se signaler faussement devrait être plus que compensé par la pénalité qu'ils auraient à supporter.

Damotte applique le choix du la méthode de valorisation du stock au modèle qu'il a développé:

En supposant que les dirigeants soient rémunérés en fonction du niveau de résultat et que le principe de permanence des méthodes doit être respecté, les dirigeants d'une entreprise en bonne santé peuvent se distinguer de ceux d'une entreprise en mauvaise santé en choisissant la méthode CMP ou LIFO. En effet, ce choix est le signe que les dirigeants anticipent des futurs résultats performants dans la mesure où ils sont certains de ne pas être amenés à utiliser la méthode du FIFO pour améliorer le résultat. A l'inverse, la direction d'une entreprise qui reste très incertaine quant à ses flux futurs, aura tout intérêt à retenir la méthode FIFO craignant de ne pas respecter le principe de permanence de méthode en opérant un changement de méthode ; un tel comportement attirerait immédiatement l'attention du public qui le traduirait comme des difficultés.

L'interprétation de Saada

Suite à son étude empirique sur les choix comptables analysés par rapport à certaines caractéristiques de l'entreprise (échantillon d'entreprises cotées), Saada montre que les choix de politiques comptables peuvent constituer une variable de signalisation permettant de révéler au marché financier les caractéristiques économiques et financières de l'entreprise à partir de ces constatations :

- "les petites entreprises faiblement endettées et ayant une politique de dividendes élevés, ont une politique de diminution du résultat qu'elles exercent à travers la méthode de valorisation des stocks;
- les entreprises fermées qui sont fortement endettées ont une politique d'augmentation du résultat ;
- les grandes entreprises qui versent des dividendes élevés ont une politique de résultat élevé ;
- les petites entreprises fermées ont tendance à diminuer leur résultat en jouant sur les méthodes de valorisations du stock, la durée d'amortissement du goodwill et en retenant l'amortissement dégressif."

Cette conclusion peut sembler rapide. L'étude valide davantage les hypothèses de la théorie positive des choix comptables, selon laquelle les entreprises, en fonction de leurs caractéristiques ont tout intérêt à augmenter ou diminuer leurs résultats. Cependant, elle ne montre pas si les entreprises souhaitent réellement se signaler au marché, de leur plein gré, à travers leur politique comptable. De plus, on ne voit pas l'intérêt qu'elles ont à signaler leurs caractéristiques puisqu'elles peuvent être connues du marché à l'aide de données publiques (Saada, lui-même, les a déterminées à partir de ratios). Enfin, les entreprises saines et en mauvaise santé peuvent présenter les mêmes caractéristiques concernant leur taille, niveau d'endettement, politique de dividendes et structure de capital social.

Conclusion

La possibilité qu'ont les dirigeants de choisir ou de changer de méthodes comptables pour se servir de l'information financière comme signal, a été moins évidente à démontrer pour les théoriciens que les modèles relatifs aux politiques financières.

Ces équilibres de *signaling* sont complexes et les modèles jusqu'à présent développés sont encore relativement simples (ils comprennent beaucoup de limites) au regard de la difficulté du problème à résoudre. De plus, ils sont peu nombreux et font rarement l'objet de tests empiriques visant à vérifier la corrélation entre la survenance d'un événement concernant la firme et une décision comptable exercée antérieurement. Par exemple, Damotte n'a pas vérifié empiriquement que les firmes qui choisissent la méthode LIFO ou CMP ont des performances ultérieures supérieures. Une certaine prudence s'impose donc quant à leur interprétation, car le contenu informatif des informations comptables reste une hypothèse.

La détermination des coûts générés par la signalisation est loin d'être évidente à identifier pour certains choix comptables. Bien qu'ils soient réels, les coûts directement liés aux modifications comptables (comptabilisation, impôt, perte de comparabilité, divulgation) ne sont probablement pas suffisants pour décourager les dirigeants des firmes en mauvaise santé, d'imiter les dirigeants des firmes prospères en procédant à des changements de méthodes. Cependant, les coûts indirects ultérieurs semblent plus dissuasifs. A plus long terme, la manipulation des résultats pourrait avoir des répercussions importantes sur la réputation des vérificateurs et des managers qui émettent sciemment un faux signal.

Le problème de l'interférence entre signaux se pose également lorsque l'on considère la multiplicité des choix comptables.

De plus, il semble nécessaire d'intégrer le fait que la stratégie de signalisation est multidimensionnelle. Si un signal est trop onéreux ou non crédible, l'entreprise peut utiliser les signaux financiers (actionnariat du dirigeant, endettement, politique de dividendes...). Ces deux types de signaux peuvent être complémentaires ou substituables.

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A COMPARTIVE STUDY ON ACCOUNTING HEREDITY: THE CASE OF EX SOVIET COUNTRIES VERSUS OTHER EASTERN EUROPEAN COUNTRIES[394]

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Abstract: This paper aims at investigating the existence of accounting heredity in some of Eastern European countries. Accounting heredity assumes that at the time the economic paradigm changes, a new accounting system emerges, enclosing both genes from the existing accounting system, as well as genes from a new accounting system used as an inspiration.

Data was gathered by sending questionnaires to academics in the respective countries. S-au primit răspunsuri din 5 țări. Studied countries fell into two categories: Ex Soviet countries (Republic of Moldova & Ukrane), and other Est European countries (Romania, Republic of Macedonia and the Czech Republic). It analyses the survival of communist accounting practices in the post-1990 accounting systems and identifies other eternal influences that shaped these accounting systems.

Keywords : Accounting Heredity, Accounting Change, Accounting Genes, Eastern European Countries, Accounting History

The research Conceptual Framework

Calu (2005) proposed a *genetics approach* to changes occurred when a new accounting systems is adopted due to changes in the economic and political environment, emphasizing the notion of *heredity*[395]. The premise is: the emergence of a new accounting system (in splitting points) requires the existence of two "parents": present international accounting reality, and the previous status, meaning the national accounting history. The main mechanism consists of the transmitting of concepts (genes) from one accounting systems generation to another involves the existence of *dominant* genes (that are manifest from the start, in the case of a new accounting system) and *recessive*[396] genes (that become manifest after a certain amount of time). Therefore, when a new accounting system emerges, accounting concepts and practices not found at any of the parents could have operated previously. Also, former accounting concepts and practices can be reactivated during the accounting system's existence. Although we borrow concepts

[394] Research financed by CNCSIS, grant IDEI 797/2007 "Development of Romanian Accounting Regulation Between Heredity and Tanatogenesis ».

[395] In a strict biological sense, heredity is the characteristic feature of animate beings to pass down genetic characteristics to their offspring. In a general sense, the notion can be defined as the propriety of a thing or phenomenon to depend on momentary actions and prior successive conditions.

[396] According to Calu (2005), the meaning of this term differs form its original meaning. In biology, a recessive gene becomes manifest after one or more generations, as « the segregation law » states.

and the general mechanism from genetics, this approach to accounting history does not entirely superpose to the heredity mechanisms in biology.

When a new accounting system is conceived, the fertilization takes place “in vitro”. Multiple embryonic variants are abandoned at different development stages up to the time when a certain viable embryo is selected to be implanted in the economic environment. Subsequently, given no splitting points in the economic environment, the interventions upon the accounting system are similar to genetic changes made in order to acquire a transgenic[397] organism.

Research hypotheses and data analysis

Our research framework hypotheses are the following:

H1: *The assimilation of one of the new embryos in the new economic environment generates the emergence of a new child – accounting – system which takes over genes from existing parents;*

H2: *At economic continuity moments, there are two types of changes that can be brought upon an accounting system:*

- *certain recessive genes become manifest;*
- *genetic alterations are made in order to improve future generations.*

This paper aims at demonstrating the above hypotheses during the period that followed the collapse of the socialist economy, that is, the years 1989-1990 in several Eastern European countries (Romania, Republic of Moldova, Republic of Macedonia, the Czech Republic and Ukrane). Data was gathered by sending questionnaires to academics in the respective countries. The questionnaire was emailed to accounting academics in Eastern European countries during the month of March 2008. We have received replies from academics in the following countries: Moldova, Republic of Macedonia, the Czech Republic and Ukrane. For the study of the Romanian case, we used as research method the oral history and historiography.

H1: *The assimilation of one of the new embryos in the new economic environment generates the emergence of a new child – accounting – system which takes over genes from existing parents*

To demonstrate this research hypothesis, we analysed genes transmitted from the previously existing accounting systems in the four countries as to financial statements and accounting practices.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukrane
1.	Balance Sheet	Yes	Yes	Yes	Yes	Yes
2.	Profit & Loss Account	Yes	Yes	Yes	Yes	Yes
3.	Accounting Policies (Descriptive information)	No	No	Yes	No	No
4.	Notes	Yes	Yes	Yes	No	No
5.	Statement of most important economic indicators	No	No	No	No	No
6.	Directors Report	Yes	No	No	No	No
7.	Cash Flows Statement	No	No	No	No	No
8.	Statement of Changes in Equity	No	No	No	No	No
9.	Other…………………	No	No	No	No	Yes[398]

The content of financial statements after the collapse of the socialist economy

We note that all countries display the same numerical emphasis of the financial statements (balance sheet, profit and loss account and in certain cases notes), a gene characteristic to previously existing accounting

[397] A transgenetic organism contains one or more artificially induced genes.
[398] Statement of Financial Position (some note for Balance Sheet).

systems. The lack of descriptive information, such as accounting policies and the absence of cash flow statement and the statement of changes in capital, confirm the existence of hereditary traits from the previously existing accounting system.

We also note that in former countries from the Ex Soviet area of influence, immediately after the collapse of the communist regime, disclosure of financial and accounting information was weak due to the limited requirements for presentation: The Balance Sheet and The Profit and Loss Account. In Ukrain, there was only an emerging form of additional disclosure, unlike the former Socialist countries that were not a part of the USSR area of influence, where Notes to Financial Statements existed form the beginning, which indicates a higher degree of transparency.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukrane
1.	The existence of a “chart of accounts”	Yes	Yes	Yes	Yes	Yes
2.	Valuation of Goods for Resale at retail price	Yes	Yes	No	Yes	Yes
3.	Mandatory set up of a fund of same amount as depreciation in order to maintain the production capacity	Yes	No	No	No	Yes
4.	Use of a specific account for transportation costs on the purchase of an asset	No	No	No	Yes	Yes
5.	Use of a specific account (for example «small tools») for assets with a lifespan longer than 1 year, but with a value less than the legal limit for fixed assets (or viceversa).	Yes	No	Yes	Yes	Yes
6.	Distinct recognition of small tools depreciation on their lifespan	Yes	Yes	Partial existence	Yes	Yes
7.	Valuation of the stocks of finished goods at full cost (including administrative and distribution expenses)	Yes	Yes	Yes	No	Yes
8.	Only legal reevaluation of fixed assets	Yes	Yes	Yes	Yes	Yes
9.	Recognition of the revenues at the time of cash collection	No	Partial existence	No	Yes	Yes
10.	The existence of alternative inventories’ valuation methods (First In First Out Method - FIFO, Last In First Out Method – LIFO)	Yes	Yes	Yes	No	No
11.	The existence of alternative depreciation methods (straight	Yes	Yes	Yes	No	No

	line method, declining method or other)					
12.	The existence of specific accounts to recognize impairments of assets (fair value lower than the book value)	Yes	No	Yes	No	No
13.	The existence of specific accounts to recognize the provisions (probable liabilities)	Yes	No	Yes	No	No

The features exist in accounting system in the first years after the socialist economy

The first nine characteristics in table 5, genes specific to the socialist accounting system, were mostly transmitted in at least two of the four countries concerned. The exception is the use of a specific account for transportation costs on the purchase of an asset.

The characteristics 10 to 13 in table 5, genes nonexistent in the socialist accounting system manifested themselves in the three countries where a process of creating a new accounting system: Romania, Republic of Macedonia and the Czech Republic. Due to the delayed reform (1998) in the Republic of Moldova and 1999 in Ukrane, the international genes (positions 10-13) are not characteristic to the accounting system from Ex Soviet countries at the beginning of the 1990s.

H2: *At economic continuity moments, there are two types of changes that can be brought upon an accounting system:*

- *certain recessive genes become manifest;*
- *genetic alterations are made in order to improve future generations.*

To investigate this hypothesis, we analysed the genetic changes that occurred from the collapse of the socialist economy to date.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukrane
1.	Balance Sheet	Yes	Yes	Yes	Yes	Yes
2.	Profit & Loss Account	Yes	Yes	Yes	Yes	Yes
3.	Accounting Policies (Descriptive information)	Yes	Yes	Yes	Yes	Yes
4.	Notes	Yes	Yes	Yes	Yes	Yes
5.	Statement of most important economic indicators	Included in the notes	Yes	No	No	No
6.	Directors Report	No	No	No	No	No
7.	Cash Flows Statement	Yes	Yes	No	Yes	Yes
8.	Statement of Changes in Equity	Yes	Yes	No	Yes	Yes
9.	Other…………………	No	No	No	No	No

The content of the financial statements in our days

Accounting systems in all countries demonstrate the manifestation of a new gene specific to the international financial reporting model, that is mandatory descriptive information in Romania, the Republic of Macedonia, the Republic of Moldova & Ukrane, two new financial statements appeared: Cash Flow Statement and Statement of Changes in Equity, representing genetic changes that occurred in time.

No	Elements	Other Eastern European Countries			Ex Soviet Countries	
		Romania	Republic of Macedonia	Czech Republic	Republic of Moldova	Ukrane
1.	The existence of a “chart of accounts”	Yes	Yes	Yes	Yes	Yes
2.	Valuation of Goods for Resale at retail price	Yes	No	No	Yes	No
3.	Mandatory set up of a fund of same amount as depreciation in order to maintain the production capacity	No	No	No	No	No
4.	Use of a specific account for transportation costs on the purchase of an asset	No	No	No	Yes	No
5.	Use of a specific account (for example « small tools») for assets with a lifespan longer than 1 year, but with a value less than the legal limit for fixed assets (or viceversa).	No	No	Yes	Yes	No
6.	Distinct recognition of small tools depreciation on their lifespan	No	No	No	Partial existence	Yes
7.	Valuation of the stocks of finished goods at full cost (including administrative and distribution expenses)	No	No	Yes	No	No
8.	Recognition of the revenues at the time of cash collection	No	No	No	No	
9.	Only legal reevaluation of fixed assets	Yes	No	Yes	No	No
10.	The existence of alternative inventories’ valuation methods (First In First Out Method - FIFO, Last In First Out Method – LIFO.)	Yes	Yes	Yes	Yes	Yes
11.	The existence of alternative depreciation methods (straight line method, declining method or other)	Yes	Yes	Yes	Yes	Yes
12.	The existence of specific accounts to recognize impairments of assets (fair value lower than the book value)	Yes	Yes	Yes	No	Yes
13.	The existence of specific accounts to recognize the	Yes	Yes	Yes	No	Yes

	provisions (probable liabilities)					

The features exist in contemporary accounting systems

The analysis of the evolution of accounting practices from the beginning of the 1990s to date demonstrates the disappearance of the genes specific to the socialist accounting system with certain exceptions (e.g. valuation of Goods for Resale at retail price in Romania and the legal revaluation of fixed assets in Romania and the Czech Republic).

3. Conclusions

Following the collapse of the socialist economy, we note a process of creation of a new accounting system in three of the countries analysed. The parents of this new accounting system are the accounting past and the international accounting present. On the other hand in the Republic of Moldova and Ukrane as a former USSR republic, environmental (cultures) factors delayed this process and during that time an accounting system similar to the previous one was used.

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THE ANALYSIS OF THE DEFICIENCIES IN THE WARES FINANCIAL MANAGEMENT DISCHARGE

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Abstract: This analysis intends to draw the attention upon the accounting issues concerning the wares financial management discharge which, due to the easiness in treating it caused troubles in appropriately presenting the turnover in the profit and loss account, in the situation in which commercial reductions are treated as financial reductions or caused issues in the inventory accounting in case the accounting judgement is not finalized.

Key words: commercial reduction, financial management discharge method, wares

Discounts represent price reductions granted to the clients either to stimulate them to buy more products or to stimulate them to pay more rapidly, or to create for them the possibility to obtain a profit from the distribution of a ware having a set price.

Commercial-type price reductions are recorded when they are granted, based on the supporting documents: invoice and based on the management decision which must be made public and must be communicated to all the buyers.

If in the initial invoice the price reductions are distinctly mentioned, the seller records in the accountancy books the invoice at the commercial net value, this representing the initial value except for the granted reductions;

Price reductions are divided into the following categories:

- Commercial-type reduction that directly influence the net size of an invoice (abatements, rebates, discounts)
- Financial-type reduction (discount)

Abatements are percentage price reductions granted by suppliers, in the sales invoices, for certain categories of material current assets (for ex. fabrics) in case there are small, but unavoidable quality-related flaws or imperfections.

Rebates are percentage price reductions granted by suppliers in the sales invoices either for a significant negotiated quantity, over a certain limit –rebate for quantity-, or for the preferential position of the beneficiary in the total number of the unit clients- reselling rebate.

Discounts refer to percentage price reductions, granted after a certain period. They are fixed and are returned to the clients for repeated shopping that exceed a certain value in a certain period, normally one year. This category of price reductions is recorded in distinct invoices issued for this purpose .

Deduction discounts are percentage price reductions that the suppliers grant and distinctly write on the invoices in case the clients pay their debts before the due date.

Following the observations made during 2 years in 40 companies we noticed that 35 of them recognize commercial reductions as if they were financial reductions. The major deficiency in recognizing commercial reductions is the fact that that economic reductions are recognized in accountancy as financial reductions influencing thus the financial year result and not the turnover as stipulated by the Ordinance of the Ministry of Public Finance 1752/2005. Recognizing the the commercial reductions granted as financial reductions is due to the loss of control over the inventory and to the deficiencies encountered in the wares financial management discharge due to the fact that the accounting judgement is not completed, especially in the entities that organize globally value management and presents their inventory at a retail sale price.

In order to demonstrate this, we shall give an example:

In the case of the wares presentation at a retail sale price the wares recording value involves: the wares purchase price, the expenses met when bringing the inventory to the necessary state for valorising it, the undue VAT and margin related to their selling price.

A company that carries out retail trading has, at the end of the month, an inventory of 20 items of the A product whose purchase price was of 500lei/item, and the applied margin is of 20%.

The company that purchase 100 items of A product at the purchase price of 500 lei/item, VAT 19%. The margin applied to wares is of 20%.

The company sells 150 items of the A product to a single client and according to the company policy grants a discount of 10% of the selling price according to a schedule approved by the management:

We register the wares supply:

371	=	%		71.400 lei
		401		50.000 lei
		378		10.000 lei
		4428		11.400 lei
4426	=	401		9.500 lei

The state of account after the supply is the following:

debit Account 371 „wares” credit

Opening balance 14.280	
Accounts payable rollover 71.400	

debit Account 378 „price differences for wares” credit

Opening balance	2.000
Rollover	10.000

debit Account 4428 „undue VAT” credit

Opening balance	2.280
Rollover	11.400

We calculate the distribution coefficient for the wares financial management discharge

$$K = \frac{Sold.Initial.378 + Rulaj.Creditor.378}{Sold.Initial.371 + Rulaj.Debitor371} = \frac{2000 + 10000}{14280 + 71400} = 0{,}140056$$

We record the selling of the wares:

5311	=	%	77.112
		707	64.800
		4427	12.312

We record the wares financial management:

%	=	371	77.112
607			54.000
378			10.800
4428			12.312

Margin discharge = K x accounts payable rollover 5311 0,140056 x 77.112 = 10800

After performing the transaction, the state of account is the following:

debit Account 371 „wares” credit

Opening balance	14.280	
Rollover	71.400	
		77.112
Total amounts	85.680	77.112

Final balance	8.568	

debit Account 378 „price differences for wares” credit

Opening balance		2.000
Rollover		10.000
	10.800	
Total amounts	10.800	12.000
Final balance		1.200

debit Account 4428 „undue VAT” credit

Opening balance		2.280
Rollover		11.400
	12.312	
Total amounts	12.312	13.480
Final balance		1368

As you can notice above this accounting representation is not faithful, since although physically all the wares are sold, in the financial accounting books there are still wares recorded in amount of 8.568 lei.

The accounting profit presented in the financial statements, which is the difference between income and expenses is, in our situation, of 64.800 -54.000 which equals 10800, does not coincide with the accomplished profit, which would have to be the difference between the wares selling price out of which we deduct the VAT and the wares purchase price out of which we deduct the VAT which is 64.800 – 60.000, which equals 4.800, so the profit is overestimated with 6.000.

As a consequence by removing this inconvenience we have to perform the following steps:

- We carry out the wares financial management discharge at the difference between the value of the wares, reduction excluded and the value at which we perform the endorsement which is 85.680- 77.112 = 8.568 lei;
- We also discharge the margin by multiplying the price differences distribution coefficient by the reduction value. 0,140056 x 8568 = 1200 lei;
- We also discharge the undue VAT TVA by applying the simplified quota to the reduction value 0,15966 x 8.568 = 1.368

We carry out the financial management discharge of the commercial reduction:

%	=	371	8.568	
607				6.000
378				1.200
		4428		1.368

debit Account 371 „wares” credit

Opening balance	14.280	
Rollover	71.400	
		77.112
		8.568
Total amounts	85.680	85.680
Final balance	0	

debit Account 378 „price differences for wares” credit

Opening balance		2.000
Rollover		10.000
	10.800	
	1.200	
Total amounts	12.000	12.000
Final balance		0

debit	Account 4428 „undue VAT”	credit
Opening balance		2.280
Rollover		11.400
	12.312	
	1.368	
Total amounts	12.312	13.480
Final balance		0

We notice that the financial management discharge is made at the wares entry value, as a consequence in accountancy the wares value is 0 and the profit is dimished with 6.000, which is the value of the profit overestimation before the financial management discharge of the commercial reduction.

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STANDARDISATION AND PROFESSIONAL JUDGMENT IN THE ACCOUNTING PRACTICE

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Abstract*: The paper approaches the socially regulated character of accounting practice through norms (standards) and judicial regulations, and the role of professional judgment within this context.*

Key words*: accounting, standards, normalisation, convergence, accounting policies, judgment, practice.*

The accounting practice, which was, at its beginning, seen as a skill based on the empirical knowledge of those who practiced it, became, at a certain moment during its evolution, a profession which is socially regulated by means of norms and standards.

As a social practice, accounting is, nowadays, regulated by means of norms (*standards)* and judicial statutes, being a 'normalised representation' of an entity on the grounds of more or less regulated conventions.

The concept of '***normalising accounting'*** contains, besides the process of elaborating norms, defined by the concept of 'accounting regulation', which represents the 'nucleus of normalisation', and the conceptual aspects of accounting[399], respectively the elaboration of a suitable framework for the proper application of these rules, with the aim of ensuring the comparability, in time and space, of the relevance and reliability of the accounting information.

The norms represent precise rules of evaluation, registering, classification or presentation of the accounting information. The French PCG defines the norm as 'reference data which results from a reasonable collective choice with the aim of solving repetitive problems.'

Accounting normalisation became, in the latter half of the 20st century, a reality and a direction in the development process of accounting and, after World War 2, national and international institutions were created with this purpose.

Accounting normalisation was firstly determined by pragmatic necessities, having as objectives[400]: *the regulation of accounting practices*, thus determining an amelioration in accounting; the increase of the efficacy of accounting information in decision-taking; the creation of an environment of mutual trust between the capital owners and the business managers; the granting of a certain extent of protection for the financial auditor by limiting his responsibilities (the auditor limits his responsibilities to a representation of reality in compliance with the acknowledged accounting norms and not to an faithful representation of the economic reality); it also functions as a referee among the different parts taking part in the economic life and particularly as a referee between the producers of the accounting information and the financial auditors who certify the quality of the information, therefore ensuring the social validation of the accounting information; it allows for the consolidation of the accounting information at the level of society-groups; it permits the elaboration of statistics.

Additionally to these pragmatic objectives we must also add the fact that accounting normalisation contributes to the development of the 'accounting theory', because the products of normalisation constitute themselves in real theoretical assemblies, like the 'generally accepted accounting principles', 'the national accounting plan', or the 'conceptual frame of accounting', which form the normative theory of accounting.

We can thus consider that the normalisation process stimulates and improves both the accounting practice and thinking, contributing to the perfecting of accounting, to the appearance and checking up of accounting

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[399] Pop Atanasiu, *Contabilitate comparată şi aprofundată*, Editura Intelcredo, 1996, pp. 22-23.

[400] Ion Ionaşcu, *Epistemologia contabilității*, Editura Economică, Bucureşti, 1997, p. 71, and Feleagă Nicolae, *Îmblânzirea junglei contabilității*, Editura Economică, Bucureşti, 1997, p. 179.

theories and hypotheses, representing the premise of the accounting research of a normative type/ normative accounting research.

The first operational variant of the normative theory took the shape of *accounting principles* which were outlined in the former part of the 20th century, in the United States of America. The formulation of accounting principles by the American normative agent was initially elaborated starting from the observation of accounting practices or from their application, and, because of that, they reflected, as Colasse considers, a 'theorised practice'[401], a normative-inductive accounting theory. As these principles had a descriptive character, they represented theoretical directions related to the manner in which the accounting information should be elaborated and presented by various companies. Due to the fact that accounting principles could not ensure a theoretical basis for the elaboration of coherent accounting norms, subsequently, after 1970, the American accounting profession drew up a normative-deductive accounting theory, under the form of the '*conceptual accounting framework*', destined to serve as a conceptual basis for the formulation of accounting norms, or, in other words, to ensure 'the theoretical foundation of firm accounting'.

The American accounting conceptual framework contains: the objectives of financial statements, the qualitative characteristics of the financial and accounting information, or the accounting principles and concepts employed for the preparation of financial statements.

As it is known, the American accounting conceptual framework has had an important influence on the national or even international accounting doctrines. It has also represented a source of inspiration for the conceptual frameworks drawn up by many countries, and even for the *Framework for the Preparation and Presentation of Financial Statements* drafted by the international accounting standard-setter namely IASC (International Accounting Standards Committee), renamed as IASB (International Accounting Standards Board) after its reformation in 2001.

In the majority of continental European countries (France, Germany, the Soviet Union, Spain, Italy, including Romania), the normative accounting theory manifested under the form of the '***national accounting plan***' consisting of: the accounts system (the designation, classification, codification and the functioning rules of accounts); the organisation of accounting documents and registration, validation, and operation-control procedures. Such a type of normalisation does not define the objectives of financial statements and the qualitative characteristics of the accounting information.

The problem of accounting normalisation, after the 60s, went beyond the national borders. The International Accounting Congress which took place in New York, in 1962, developed as a major study theme *the professional accounting principles and practices* which could be taken into consideration for the prospect of an international normalisation[402].

International normalisation involves the elaboration of norms and rules which could be applicable – entirely or partially – in some states or at the level of similar enterprises from different states. As an effect of this phenomenon, the financial statements of the enterprises will contain financial information which is more reliable, more transparent and comparable, and this is necessary for the efficient running of stock exchanges, banks and foreign investors.

Accounting normalisation, which takes place on the grounds of a necessity for universality in accounting, also enforces its complement, namely *international harmonisation* (the harmonisation between national, regional and international). This does not imply that there is a unification of accounting at an international level, but it entails universality in the accounting doctrine, not in the accounting procedure as a system of correlating signs, which is exercised within a previously codified conventional framework that cannot be available everywhere, and at the same time.

By means of the harmonisation process, which is a flexible and an open process, the national accounting norms and practices, often differing or even contradictory from a country to another, undergo certain improvements so as to reduce the major differences, aiming at facilitating the comparability of the financial statements which are elaborated and published by companies from different countries.

Pursuing the elaboration of an *international accounting doctrine,* respectively the formulation of some fundamental conventions to which any drafting, interpretation or application of the accounting and financial reporting norms would make reference, in 1989, IASC approved and published the *'Framework*

[401] Ion Ionaşcu, *Dinamica doctrinelor contabilităţii contemporane*, Editura Economică, Bucureşti, 2003, p. 22.
[402] André Cibert, *Comptabilité générale*, septième edition, Paris, 1986, p. 84.

for the preparation *and presentation of financial statements'* – a specific case of normative accounting theory.

This Framework assists the IASC/ IASB team in the elaboration of future standards and in revising the existing ones, as well as in the promotion of harmonising accounting regulations, standards and procedures related to the presentation of financial statements by advancing a basis to reduce the number of alternative accounting treatments allowed by IAS/IFRS. Additionally, the Framework helps the national authorities in the development process of national standards, it also enables the assisting preparers of financial reports to interpret the standards and to tackle the aspects constituting the subject of IAS/ IFRS, it assists the auditors to express opinions regarding the conformity of the financial statements to IAS/ IFRS, and it helps the users of financial statements to interpret the information in the financial statements elaborated in compliance with IAS/ IFRS.

The international organisation IASC/ IASB cooperates closely with national accounting standard-setters, among which a privileged position is held by the American body for accounting normalisation, namely the Financial Accounting Standards Board – FASB. In fact, it is considered that[403] the international accounting environment draws on two recognized international referential boards: IASB and FASB.

A common process is the convergence between the international referential accounting system and the American one. Besides the Norwalk agreement in September 2002, in which the two organisations concurred on a calendar and on a method regarding the convergence process, IASB and FASB also signed an agreement to establish ***a new conceptual accounting framework***.

We must also specify the fact that the representative normalising agents in the entire world work on this new image of the 'accounting constitution', specifically a ***single conceptual framework*** (a common conceptual framework) a reference document for the elaboration of international standards of financial reporting ***based on principles***.

Numerous voices demanding the elaboration of principle-based standards instead of those grounded on rules are becoming more and more visible. In addition, such an alteration in the logic of normalisation is pushed forward by the new American regulation represented by the Sarbanes-Oxley law from 2002, a law enforced after the bankruptcy of Enron and WorldCom. Thus, in July 2003, SEC published a report in which it recommends that the 'normalising agents should be heading more systematically towards the elaboration of principle-based standards'.

It is known that the two important accounting systems internationally recognized comprise distinct normalising reasoning[404]:

- in the case of Europe (and implicitly in the case of IFRS, adopted by the majority of countries, including Great Britain) there is a certain number of **principles** to be complied with; in accordance to these, auditors can invite an enterprise to correct the accounting evaluation;
- in the case of the USA, there is a comprehensive list of **rules**; the 'generally accepted accounting principles', the US GAAP, form a volume of approximately 140,000 pages which answers the majority of interpretation problems, but an imaginative accountant will still find the possibility to invent 'stylisations'.

In order to achieve the convergence, IASB struggled for the implementation of the best accounting practices at the international level.

The shift towards the application of the International Financial Reporting Standards (IFRS) which allow for the existence of numerous options to accounting treatment for a certain element or event, is a challenge for the professional reasoning, the accounting policies and the 'methods becoming increasingly proficient and difficult'[405].

The implementation of International Financial Reporting Standards by means of resorting to professional judgment, offers the accounting professional increased abilities and powers, being, at the same time, an additional element of responsibility.

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[403] Niculae Feleagă, Liliana Malciu, Ştefan Bunea, *Bazele contabilităţii - o abordare europeană şi internaţională*, Editura Economică, Bucureşti, 2002, p. 31.

[404] Feleagă (Malciu) Liliana, Feleagă Niculae, *Contabilitate financiară – o abordare europeană şi internaţională,* vol. I , Editura Infomega, Bucureşti, 2005, p. 256.

[405] Ristea Mihai, *Opţiuni şi metode contabile de întreprindere*, Editor Tribuna Economică, Bucureşti, 2001, p. 9.

Experts maintain that a national deregulated normalisation of accounting should be imposed, in which 'professional reasoning and its complement, *materiality,* enforce the rule in the selection of accounting policies and treatments'[406].

Professional reasoning is carried out when we formulate the *accounting policies*. From among the spheres in which the estimates and the judgment of managers, or of accounting professionals play a significant role we mention the following[407]:

- the recognition of certain elements in the balance sheet (assets or liabilities) or in the revenue and expense accounts (income or expenses);
- the determination and taking into consideration of the signification point in order to establish the presentation manner in the financial statements of certain elements (assets or debts) in distinct classes if they are significant, or globally, in a general (common) category, if they are insignificant;
- the choice of the methods for assessing in the balance sheet for the various reported elements, respectively:
    - the option for: basic treatment or accepted alternative treatment and, in the latter case, the option for fair value or present value;
    - the option for stock assessment methods: CMP, FIFO, etc..
- in the case of tangible and intangible assets which can be amortised:
    - the determination (estimation) of the useful life of an asset to be depreciated;
    - the determination (estimation) of residual value;
    - the determination of the depreciation method;
    - the periodical revision of the useful life, of the residual value and of the depreciation method.
- in the case of financial investments: classifying financial investments in 'current' or 'non-current' ones, depending on the estimates referring to the time span in which these investments are kept;
- making adjustments for assets;
- the determination of provisions and contingent liabilities;
- etc..

Synthesizing, professional reasoning is exercised either on the occasion of current assessment, initial recognition of the elements in financial statements or their derecognition, or on the occasion of assessment for the presentation of information in financial statements, when:

- we opt for one of the allowed treatments (the capitalization of expenses or the recognition in the revenue and expense account);
- we opt for one of the permitted evaluation methods for assets;
- we opt for a particular depreciation method;
- we perform accounting estimates.

The Romanian national regulations concerning accounting also assume the concept of accounting policies stated in IFRS. These are defined as representing the specific 'principles, foundations, conventions, rules and practices adopted by an entity in developing and presenting financial statements'.

Accounting policies related to the drawing up and presentation of financial statements are based on the requirements in the IFRS standards and the IFRIC interpretations. When there are no specific requirements (in other words, when there is no standard or interpretation which applies particularly to an event or to a transaction), the enterprise management, by means of the experts in the field, will make use of **its**

[406] Ristea, Mihai, *Normalizarea contabilității – bază şi alternativ,* Editura Tribuna Economică, Bucureşti, 2002, p. 9.
[407] See Ministerul Finanțelor Publice – *Ghid practic de aplicare a Standardelor Internaționale de Contabilitate* – Partea a I-a, Ed. Economică, 2001.

professional judgment [408] so as to draw up and apply an accounting policy which leads to information that is relevant to the users' necessities in taking economical and credible decisions.

Therefore, each company must establish accounting policies for the activities performed. The accounting polices must be prepared, taking into account the particular nature of the activity, by the experts working in the economic and technical domain, who are ***specialists in the performed activity and in the company's strategy, respecting the general accounting principles stated in the regulations.***

Along the ages, the idea that 'a good manager is the one who has a good accountant' has been widely spread. We consider that the syntagm is even more valid under the conditions of applying the IFRS, but not understood as appreciating the accountant's skill due to his efforts to minimize the 'fiscal basis (the fiscality) of the business', but owing to the accountant's ability to understand the real situation of the firm, and to obtain, by professional reasoning, financial statements with relevant, plausible and useful information for the wide range of users.

For the information presented in the financial statements to be reliable, it must answer, among others, the condition of completeness. But, for its accomplishment, the applied accounting treatment must be presented in the notes to the financial statements in their entirety.

Accounting normalisation is able, by issuing norms (standards), to restrict the accounting options for the same category, or to limit the role of professional judgment.

Despite all the normalisation efforts, there will always be a certain advance of accounting practices over accounting norms. Reality is much more complex than the provisions of a regulation, and when there is some insufficiency or even a deficiency in norms, the conveyance of an accounting solution would be possible only on the basis of professional judgment. Such a solution would be controversial, involving a high degree of subjectivity considering the experience of that professional. This is why an enhancement of ***accounting conceptualisation*** is necessary, the starting point being represented by the concept or, more generally, by the ***accounting theory*** and not by the norm, an accounting theory which comprises sufficient hypotheses that correspond to the reality. A proficient accounting theory would enable the reflection of reality with a 'reasonable amount' of subjectivity[409] if there is no norm or if it is insufficient.

Starting from the limits of accounting principles/conventions, the producers of accounting information resort to different methods so as to 'mould' – even up to 'deformation' – the financial position and the performance, the practices employed being formalized, in an elegant manner, under the designation of 'accounting policies', or 'result-adjustment policies'.[410]

The application of professional judgment, which takes advantage of the existing gaps in the norms and of their flexibility, allows for the manipulation of accounting figures and for the transformation of financial statements from what they should be into what their makers want them to be.

Such a method of exercising professional judgment could lead to the example of 'creative accounting' techniques. Due to them, accounting experts use their knowledge with the aim of manipulating the values of the information reported in the financial statements. These techniques could be directed in the following ways:

- increasing or diminishing the value of income;
- decreasing or increasing the value of expenses;
- increasing or decreasing the value of assets;
- decreasing or increasing the value of liabilities;
- inaccurately classifying the assets or the liabilities;
- avoiding the presentation of significant information in the explanatory notes;

These have as final effects the variation of the income and the variation of the equity and, consequently, the alteration of the indicators' dimensions of profitableness, liquidity, financial independence and indebtedness, or, in other words, they 'beautify' the financial position and the performance of the enterprise.

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[408] IAS 8 „Accounting policies, changes in accounting estimates and errors”, paragraphs 7-12.
[409] Ionaşcu Ion, *Dinamica doctrinelor contabilităţii contemporane*, Editura Economică, Bucureşti, 2003, p.170.
[410] Ristea Mihai, *Opţiuni şi metode contabile de întreprindere*, Editor Tribuna Economică, Bucureşti, 2001, p. 226.

Even though accounting is a universal necessity, it still remains a local practice. According to some authors[411], the internationalisation of financial flows will not lead to the 'transformation of accounting in a uniform worldwide practice, under all its aspects', but it will only lead to the harmonisation of financial reporting, because the local context will retain its specificity, namely: the existence of more business cultures, different levels of economic development, diverse tax systems, or the dissimilar relation of accounting to the legal system and to fiscality etc.

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[411] Ionaşcu Ion, *Dinamica doctrinelor contabilităţii contemporane*, Editura Economică, Bucureşti, 2003, p.59.

PERFORMANCE ASSESSMENT OF RESPONSABILITY CENTERS BASED ON INTERNAL TRANSFER COSTS

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Internal transfer costs (ITC) are the costs, which assess the internal performance available between the "seller" responsibility centres and the "buyer" responsibility centres of a company. A profit centre can receive some deliveries from the centres of the same company. Furthermore, it can sell (transfer) part of its production to other centres of the company. At centres level profit (or cost) shall be determined following the assessment of the internal performances based on the internal transfer costs.Internal transfer costs do not change the overall result of the company. The term of transfer costs is used when internal transfers occur between two different juridical entities, and assessment of goods and service transfer results in fiscal effects (e.g. transfer of secret benefits from a country to another or results distribution per branches). This paper will not approach the fiscal issues of transfer costs. Upon choosing of internal transfer costs, a wide range of factors should be considered, as follows: nature of responsibility centres, supply sources, company's strategy.

Key words: internal transfer costs, John Dearden pattern, Robert Eccles pattern ,optimum program

Roles of internal transfer costs in performance of management control

Internal transfer costs shall follow three main objectives, such as: optimization of the economical decision, motivation of personnel and control of responsibility centres.Transfers costs are basic tools while making decisions in order to provide optimum resources and maximize the company's profit. They should encourage the responsible of profit centres to have productivity profit, which will result in growth of the company's competitiveness.

Transfer costs encourage the convergence of the company's objectives and members. They should not direct the responsible of the profit centres to improve their own results in the disadvantage of the company's overall earning profit.

Transfer costs shall allow to evaluate fairly and realistically the long-term activity of the responsible of the profit centres. Centres activities (client or supplier) should not impact other centre's results. A 90s study undertaken in the French companies shows the transfer costs are widely used in making decisions in order to: maximize the profit; obtain a higher market share; maintain a supply source; control the services; evaluate the responsible performances; improve the productivity; co-interest the centres in their own results; place the margins on reasonable criteria. The study's results indicate the optimization of the economic decisions to the detriment of the evaluation of the centre performances.

However, internal transfer costs cannot solve all management issues of a complex company and its scopes can often be contradictory. Performance evaluation and responsible motivation can seldom be incompatible. The scopes opposition is not particular only to the internal transfer costs, but to the general management control. ***How could we evaluate the actors not to determine them to develop deviated behaviour?*** Transfer costs system may become a dynamic and motivating factor to the personnel and may turn into an excellent management tool, as well. Responsible of a profit centre, in charge to increase the centre margin, might be still needed to make decisions which would impact the neighbouring centres.

Factors affecting the selection and determination of internal transfer costs (ITC)

Upon selection of internal transfer costs, various factors should be considered such as: nature of responsibility centres; supply sources; company's strategy.

The first factor, *nature of responsibility centres,* supposes selection of ITC based on each centre scopes. Actual cost or recalculated (reconsidered) market cost can be applied to deduct the services provided between profit centres. Internal transfer costs based on costs are preferred for the services provided between the cost centres or between the cost centres and profit centres. The table below highlights the relation between the nature of responsibility centres and parameters of applied internal transfer costs.

Table 1: Selection of transfer costs based on the centres nature

Nature of responsibility centres	**Characteristics**	**Transfer cost ITP**
Pure profit centre	Scopes: in profit terms Request: internal and external	Real market cost Reconsidered market cost
Impure profit centre	Scopes: in profit terms Request: internal	- complete cost + margin (real or standard) - marginal cost + margin
Cost centre	Scopes: in cost, quality, and deadline terms. Offer: internal and/ or external	- complete cost (real or standard) - marginal cost

The second influence factor is the supply sources or John Dearden pattern. In an *Harvard Business Review* article published in 1960, John Dearden determined a relation between the type of manufactured product and selection of supply sources.

Table 2: John Dearden pattern

Products type	***Characteristics of supply sources***	***Applied ITC***
Class A	***Solely internal supply***	***- complete cost + margin***
Class B	***Mix supply***	***- complete cost + margin*** ***- market cost***
Class C	***External supply***	***- market cost***

Therefore, in respect to the A class products (products, which can never be produced by an external supplier), the author proposes a transfer cost established based on the cost plus a margin. Why external suppliers cannot produce A class products? Because: either the company does not wish to due to manufacturing secrete reasons (this secrete is the key success factor), or the company does not find a supply source able to comply with its supply restrictions (deadlines, quality, quantity, etc).

B class products are the products for which the decision on change of supply source could be implemented only at a subsequent stage, on long-term. Such decision is grounded on the investments, which the company would like to make profitable. In this case, more solutions shall be taken into account to determine the internal transfer costs. We will use either the market cost on long term (calculated based in the current costs practice outside the company or costs paid to the external suppliers), or the cost increased by the benefit margin.

C class products are the products for which the supply sources can be expeditiously changed. They do not need specialized equipment and there is almost a pure and perfect market for such kind of products. The recommended transfer cost is the current market cost. *Supply* intern centre *is being present on the external market and is running large and significant contracts and orders.*

The last evaluated factor is the company's strategy, founded on Modelul Robert Eccle pattern. In his paper, *Internal transfer costs, published in 1985,* Robert Eccles establishes a connection between two strategic sides: vertical diversification and integration and organisation parameters of the company represented by: strategy nature and planning process; main control means of the general direction; performance assessment criteria and their effect on reward-sanction. These criteria haven used to devise the following pattern regarding determination of the internal transfer costs. We have identified four types of organisations to which we could have assigned a pattern for determination of internal transfer cost:

1. Collective type is not fitted to internal transfer if:

- Vertical integration is poor (technical or commercial interdependence between responsibility centres is at a very law level)
- Diversification level is poor (e.g mono-product companies).

2. Competition type is proper to the much diversified, but poorly vertical integrated companies, (e.g conglomerate or holdings). Their strategy is defined by each responsibility centre. The group is based on a financial logic, where the general direction control depends on the scope results control. Decisions are made in a decentralized manner and supply is free. The adopted transfer cost is defined by reference to the market cost.

3. Cooperation type is proper to the strongly integrated but poorly diversified companies (e.g ferrous metallurgy or agro-alimentary companies). Their strategy is conceived for a group as a whole. The group is based on an industrial logic type where internal supplies prevail in order to make a profit of large investment. General direction control is much organised as a hierarchy and defines the actions of the company or of responsibility centres. The performance will be measured by comparison of the results or budgets. The decisions that might affect the group results will be centralized. Transfer cost determination will depend on the costs (preferably on the standard complete cost increased by a ratio calculated based on the investments profitability rate). Actually, the transfer cost strengthens the cooperation between the client centres and supplier centres. Client centres will jointly agree the investment decisions made by the supplier centres.

4. Participative type is proper to the much vertical integrated and diversified companies. They combine the features of the competition type organisation and the features of the cooperative companies. Inasmuch the transfer, priority lays on the internal supply (characteristic to integration) but the transfer cost is based on the market cost.

Optimization of overall performances by predicted transfer costs

General Direction could require an internal transfer cost able to optimize the company's results, taking into account the production constrains predictable at each responsibility centre level. On the other hand this optimal transfer cost should negotiate (conciliate) the profit scopes of the seller centre and buyer centre. Internal transfer cost will be defined according to the following relation: Internal transfer cost = margin cost of seller centre + margin result. Linear planning will provide assistance to determine the optimal quantities and the marginal result appropriate to a unit variation per manufactured product.

Example:

A profit centre called "A" manufactures two intermediate products: Pi1 and Pi2. They are yielded (transferred) to B profit centre that uses them to produce finite products X1 and X2. Part of P2 production can be sold to the third parties, outside the company. The scope of the General Direction is to maximize the margin of the variable costs. Considering the production constrains, General Direction should determine the quantities to be produced, the appropriate transfer costs which allow compliance with the respective scope.

Data:

Centre A	**Product Pi 1**	**Product Pi 2**
Variable unit cost	***€ 30***	€ 40
Unit market cost	Not applicable	€ 60
Production output (maximum)	9.000 pcs	10.000 pcs

Centre B	Product X1	Product X2
Market cost	€ 400	€ 380
Technical standards per product piece	1 product P1 4 products P2	3 products P1 2 products P2
Other variable unit costs	60 €	10 €

Looking for company's overall optimum rate

Calculation of unit margin per variable costs related to the products sold outside.

Explanations	P2	X1	X2
Selling cost (€/pcs.)	60	400	380
Variable cost P1		-30	-90
Variable cost P2	-40	-160	-80
Other variable costs		-60	-10
Margin per variable costs	**20**	**150**	**200**

We will mark by p_2, x_1, x_2 the quantities of P2, X1 and X2 products sold outside. Variables e_1 and e_2 are the quantities of intermediate products P1 and P2 which production would be given up if the production output could not meet the needs. Linear planning will be used to solve out this issue. The program which maximizes the margin per variable costs reads the formula below:

$$p_2, x_1, x_2 \geq 0$$
$$x1 + 3x2 \leq 9.000$$
$$p2 + 4x1 + 2x2 \leq 10.000$$
$$\max Z = 20\,p2 + 150\,x1 + 200\,x2$$

Standard type supposes to enter the variable e_1 and e_2 into the pattern:

$$p_2, x_1, x_2, e_1, e_2 \geq 0$$
$$x1 + 3x2 + e1 = 9.000$$
$$p2 + 4x1 + 2x2 + e2 = 10.000$$
$$\text{Max } Z = 20p2 + 150x1 + 200x2 + 0e_1 + 0e_2$$

- *Simplex patter* will be sued to solve out the issue*:*

Optimal program requires to produce 1.200 pieces X1 and 2.600 pcs X2 and P2 should not be sold outside the company. Transfer of A centre to B centre to allow production of x1 and x2 will raise to:

- Products P1 (1.200 + 3x2600) ………………..9.000 pcs.
- Products P2 (4x1.200 + 2x2.600)……………10.000 pcs.

ΔZ coefficients indicate the unit margins which could be reached should another solution be chosen:

-outside sold of one P2 would mean to lose € 5.

-giving up of one P1 or P2 production would mean to lose € 50 or € 25. The last amounts are the margin results per one P1 and P2 which should be added to the variable costs to obtain the internal transfer costs for the two products. Determination of internal transfer costs is revealed in the table below.

Explanations	**P1**	**P2**
Variable costs (Euro/pcs.)	30	40
Marginal resul per company (Euro/pcs.)	50	25
Internal transfer cost (Euro/pcs.)	***80***	***65***

Looking for local optimum rate

We will check whether based on this transfer costs, the production program is also optimum for A seller centre. Calculation of a unit margin per variable costs of products yielded by A centre

Explanations	**P1**	**P2 yielded to B centre**	**P2 sold**
Transfer cost (Euro/pcs)	80	65	60
Variable cost (Euro/pcs.)	-30	-40	-40
Margin per variable costs at A centre (Euro/pcs.)	50	25	20

Linear planning. We will mark by p1 – the quantity in P1 yielded to B, by p2 – the quantity P2 yielded to B, by p3 – quantity in P2 yielded outside the company. Ecart variables e1 and e2 are the quantities of intermediate products P1 and P2 which production would be given up.

Program regarding maximization of margin per variable costs at A centre is:

- Canonic type

$p1, p2, p3 \geq 0$
$p1 \leq 9000$
$p2 + p3 \leq 10.000$
$\text{Max } Z = 50p1 + 25p2 + 20p3$

- Standard type

$p1, p2, p3, e1, e2 \geq 0$
$p1 + e1 = 9.000$
$p2 + p3 + e2 = 10.000$
$\text{Max } Z = 50p1 + 25p2 + 20p3 + 0e1 + 0e2$

Optimum program for "A" centre requires production of 9.000 pcs P1 and 10.000 pcs P2 (which will be yielded in full to B centre). This is the same with the optimal program determined before. ΔZ coefficients show the unit margins which would be lost should another solution be selected: selling of one p2 outside the company would mean to lose € 5; giving up to yield one unit of the semi-fabrication units made by A centre would mean to lose € 50 for P1 or € 25 for P2 .

Disadvantages of planned transfer costs lay on their determination manner, which is the linear planning method is not agreed by the public. If the market restrains (e.g the amount of products sale to the clients, supply deadlines) are not met, then the seller centre could not cover their fix expenses, which would entail significant variations of results. Although by applying Solver function in Tool menu, Excell, appropriate results could be obtained in a satisfactory time period.

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LE TRAITEMENT COMPTABLE DES ELEMENTS INCORPORELS

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Cette étude se propose de synthétiser les éléments spécifiques des immobilisations incorporelles. A l'heure où l'IASC travaille sur un projet de norme sur les immobilisations incorporelles, un aperçu de la pratique dans divers pays d'Europe peut être intéressant à plusieurs titres. Il permet d'abord d'apprécier la diversité des approches, et leur liens éventuels avec les cultures nationales. Il pose bien évidemment le problème de l'harmonisation internationale des pratiques en matière d'incorporel. Enfin, cette comparaison permet d'illustrer la diversité des interprétations du terme "incorporel", et la richesse des spécificités nationales. Dans cette optique, après un rappel des normes comptables des pays européens les plus caractéristiques (Allemagne, France, Italie, Pays-Bas, Royaume-Uni), nous verrons où en est l'état de la pratique en ce qui concerne la comptabilisation et la reconnaissance des éléments incorporels.

Mots Clés : actifs incorporels, Goodwill, frais d'établissement, frais de R&D

Différentes classifications des pratiques comptables internationales

En matière de comptabilisation des incorporels, on peut essayer de regrouper les pays européens en groupes homogènes, pour distinguer les différentes approches de la notion d'incorporel. Toutefois, il est nécessaire d'établir de multiples critères (impact du droit, de la fiscalité, caractère de précision - et donc liberté d'interprétation - des textes, traitements comptables alternatifs, etc.). Comme le souligne C. Nobes, on aboutit vite à autant de rubriques que de pays, et le seul avantage de ce type de classement est qu'il montre que chaque pays possède une spécificité qui mérite d'être signalée.

Distinction entre charges et investissements

Le problème conceptuel qui se pose en matière d'éléments incorporels est : à partir de quel moment la dépense engagée sur un exercice a-t-elle un impact sur la rentabilité future de l'entreprise ? A partir de quel moment une dépense cesse-t-elle d'être une charge pour devenir un investissement ou un actif ?

Un premier critère de comparaison entre pays consiste à étudier si cette distinction charges / investissements est clairement faite pour les éléments incorporels. Etant donné que la règle générale veut que les dépenses incorporelles soient passées en *charges* de l'exercice, ceci revient à étudier les conditions d'activation des dépenses incorporelles suivant les normes adaptées par chaque pays.

L'activation des dépenses incorporelles n'est autorisée que si ces dépenses répondent à un certain nombre de critères. Le critère commun à tous les pays et tous les actifs est que *l'engagement de la dépense doit induire une génération des ressources futures*. Pour certains pays (par exemple l'Italie), c'est la seule contrainte réglementant l'activation d'une dépense incorporelle. Toutefois, la plupart des pays européens fixent plusieurs critères nécessaires pour qu'une dépense puisse être considérée comme un investissement, et puisse donc être activée au bilan.

Bien que chaque pays aie sa terminologie, on peut regrouper ces critères en fonction du but recherché :

a. *le projet sur lequel porte la dépense incorporelle est identifié de manière précise*

Ce critère permet de ne retenir pour l'élément à activer que les coûts qui lui sont spécifiques : ceci sous entend que l'entreprise doit procéder à une comptabilisation *analytique* de ses dépenses.

b. *il y a une grande probabilité de succès technique / de commercialisation du projet*

Ici, les textes entendent en général *possibilité technique démontrée* ou *possibilité de commercialisation*. Dans la pratique, la notion de *rentabilité* du projet est rarement abordée.

c. *l'entreprise a marqué sa volonté de mener à bien le projet*

Ceci implique autant une volonté clairement affirmée par la direction de l'entreprise, que l'existence de ressources suffisantes pour mener le projet jusqu'à son terme.

Le rôle de la fiscalité dans la reconnaissance des actifs incorporels

Comme le proposent notamment G. G. Mueller ou C. Nobes, on peut distinguer deux modèles de pays, qui induisent deux types de pratiques :

- - le modèle continental (Allemagne, Belgique, France, Espagne)
- - le modèle anglo-américain (Royaume-Uni, Pays Bas)

Dans le premier cas, les pays assoient l'imposition des sociétés sur leurs documents financiers. Cela implique les documents financiers présentés correspondent à une vision juridique, fiscale, et codifiée de l'entreprise : les actifs incorporels ne sont reconnus que s'ils ont été *acquis* (puisque la transaction dégage un montant taxable), s'ils bénéficient d'une *protection juridique* (cette protection matérialise l'existence d'un droit, et permet donc de lui assigner une valeur) ou si l'on peut prouver qu'ils contribuent à l'augmentation de la valeur du patrimoine de l'entreprise. Par exemple, dans des pays dont les documents financiers répondent strictement à des critères fiscaux (l'Allemagne, la Suisse), les éléments incorporels développés en interne (i.e. non acquis) ne peuvent être inscrits à l'actif du bilan.

Dans le second cas, les documents financiers sont dans une large mesure indépendants du calcul de l'assiette fiscale : la comptabilité doit servir à la représentation économique et à la prise de décision. La reconnaissance des actifs incorporels ne se limite pas à des aspects fiscaux, et les textes sont très libres. Nous verrons que le Royaume-Uni en est un exemple.

La valorisation et l'évolution de la valeur des éléments incorporels

Tous les pays européens valorisent leurs éléments incorporels à leur prix d'acquisition (cas d'un élément acquis) ou à leur coût de production (cas d'un élément développé en interne), c'est-à-dire en coût historique. Mais cette homogénéité de traitement disparaît en ce qui concerne l'évolution de la valeur des éléments incorporels.

Cas d'une diminution de valeur

- - si cette diminution de valeur est considérée comme une perte *irréversible*, elle doit être constatée sous forme d'amortissements ;
- - si elle est considérée comme une perte de valeur *réversible*, elle doit être constatée sous forme d'une provision.

L'apparente simplicité de cette règle, qui s'applique relativement facilement aux actifs *corporels* des sociétés, soulève des questions complexes dans le domaine des incorporels. Une telle règle pose des problèmes de *classification* des actifs incorporels, entre ceux dont la valeur se déprécie régulièrement au fil du temps (et sur quelle durée ?) et ceux qui sont censés ne perdre de la valeur que de façon accidentelle et irrégulière.

En ce qui concerne les éléments incorporels, on peut citer trois types de pratiques comptables :

a) *amortissement de l'actif incorporel sur une durée fixée légalement.*

Cette durée est souvent fixée à cinq ans pour les éléments incorporels considéré comme étant à forte dépréciation (ex : les frais de R&D, les logiciels utilisés par l'entreprise ; en ce qui concerne l'amortissement du Goodwill, l'Espagne et l'Italie fixent une durée d'amortissement maximum de 10 ans).

b) *amortissement de l'actif incorporel sur sa durée de vie économique.*

Dans ce cas particulier, il n'y a pas de limite fixée légalement à la durée d'amortissement. On voit ainsi dans la pratique des éléments incorporels être amortis sur des durées pouvant aller jusqu'à 40 ans.

La seule contrainte porte ici sur la légitimité du choix d'une durée, cette légitimité conditionnant la *déductibilité* fiscale des charges d'amortissement.

c) *maintien de l'actif incorporel pour sa valeur d'origine, et dépréciation éventuelle par provisions.*

Cette pratique est souvent utilisée pour les actifs incorporels qui ont un fort caractère de permanence : c'est le cas des marques inscrites au bilan.

Cas d'une augmentation de valeur

En règle générale, il n'est pas possible de réévaluer les éléments incorporels inscrits au bilan. Seul le Royaume-Uni autorise cette pratique en Europe, tandis que tous les autres pays pratiquent le principe de prudence et n'autorisent pas de réévaluation. Il existe toutefois un cas particulier aux comptes consolidés : certains éléments incorporels peuvent être réévalués dans le cadre de l'affectation de l'écart de première consolidation suite à une acquisition.

Le goodwill (comptes consolidés) ou fonds commercial (compte sociaux)

Pour tous les pays, le Fonds commercial regroupe des éléments incorporels *acquis par l'entreprise*, éléments qui confèrent à cette entreprise un droit ou un avantage en terme d'activité. Les modalités du traitement comptable du Fonds commercial sont les mêmes que pour les comptes consolidés, à l'exception de deux cas :

- - tous les pays, sauf la France, amortissent globalement le Fonds commercial : la France n'amortit pas les éléments du Fonds commercial qui bénéficient d'une protection juridique, par exemple le droit au bail ;
- - la CEE n'autorise pas la déduction du Fonds commercial en réserves dans les comptes individuels.

Les frais de R&D

Certains pays établissent une distinction que l'on peut reprendre ici :

- la *recherche fondamentale* regroupe les travaux réalisés soit par pure curiosité, soit pour apporter une contribution théorique à la résolution de problèmes techniques ;
- la *recherche appliquée* permet soit de discerner des applications possibles d'une recherche fondamentale, soit de trouver des solutions nouvelles permettant d'atteindre un objectif déterminé choisi à l'avance ;
- le *développement expérimental* représente des travaux fondés sur des connaissances obtenues par la recherche ou l'expérience pratique, effectués en vue de la production de matériaux, dispositifs, produits, procédés, systèmes ou services nouveaux, ou leur amélioration substantielle.

La distinction entre recherche fondamentale et développement n'est pas établie dans ces pays. Aussi, toute dépense de R&D, quelle que soit sa nature, est potentiellement activable pour peu qu'elle réponde à certains critères. Néanmoins, en pratique, on voit que la recherche fondamentale ne peut que rarement répondre à ces critères : en Belgique, les textes demandent une contribution aux profits futurs de l'entreprise, ce qui tendrait à exclure la recherche fondamentale ; en Espagne, les critères sont les mêmes qu'en France, et demandent une réussite technique et/ou un succès commercial ; au Pays-Bas, les critères d'activation (existence d'un marché ou d'un besoin interne à l'entreprise) semblent exclure aussi la recherche fondamentale ; enfin, la Quatrième Directive européenne s'en remet aux législations nationales pour les critères d'activation. Dans ces quatre cas, la recherche fondamentale semble être implicitement *non activable*.

Les frais d'établissement

Les *dépenses de constitution* regroupent les frais administratifs de création de l'entreprise ainsi que les coûts d'augmentation du capital.

Les *dépenses de premier établissement* regroupent les frais engagés lors de la création d'une société, d'une filiale, d'une nouvelle activité, ou du développement de la capacité de production. Ces dépenses, quoique n'étant pas rattachées à un actif spécifique, sont censées générer des produits dans le futur.

En Belgique, les dépenses de premier établissement ne sont en général pas activables. Toutefois, les frais de restructuration peuvent être activés si l'opération de restructuration est clairement définie et est censée générer des produits futurs. Aux Pays-Bas, la loi comptable n'inclut pas les frais d'établissement dans les postes potentiellement activables, néanmoins le Conseil de la Comptabilité est favorable à leur inscription à l'actif. La rubrique Frais d'établissement n'existe pas dans le bilan britannique. La plupart des dépenses de constitution et de premier établissement peut être passée en charges ou imputée sur les réserves au passif. Les frais concernant le lancement d'une nouvelle production sont passés en charges constatées d'avance.

Les autres éléments incorporels

Selon IAS 38 sont reconnus comme *éléments incorporels* au bilan les éléments qui sont détenus par l'entreprise, et sont susceptibles de procurer des avantages économiques futurs, et qui ont un coût ou une valeur nettement identifiables. Les méthodes d'évaluation des actifs corporels peuvent être appliquées aussi pour les *éléments incorporels* (ex : coût de production historique, coût de remplacement, valeur vénale, etc.).

En règle générale, les actifs incorporels ne seront pas amortis, sauf s'il y a amoindrissement de leur valeur au fil du temps. Bien évidemment, les méthodes d'évaluation, choix de politique d'amortissement et tout changement de méthode doivent être clairement spécifiés dans les rapports annuels.

Selon la Communauté Européenne la quatrième Directive européenne identifie les éléments incorporels suivants : concessions, brevets, licences, marques déposées ... et tout autre droit ou actif assimilable et autorise leur inscription au bilan s'ils ont été acquis en tant qu'actifs et qu'ils sont distincts du Goodwill, ou s'ils ont été créés par la société en interne. Leur évaluation doit être faite en coût historique (d'acquisition ou de création) et ils doivent être amortis s'ils ont une durée de vie limitée. Leur valeur d'origine est leur coût de production, ou leur valeur économique si elle est inférieure. Ces actifs doivent être amortis sur leur durée de vie économique. Contrairement aux cas déjà cités (Goodwill, dépenses de R&D, dépenses de formation), il n'y a pas de limitation à la durée de vie économique retenue pour ces autres éléments incorporels, et donc pas de limitation à la durée d'amortissement retenue.

En Allemagne les concessions, brevets, licences et autres droits similaires sont considérés comme des actifs incorporels pouvant être inscrits au bilan *uniquement dans le cas où ils ont été acquis par l'entreprise*. Les éléments incorporels développés en interne ne peuvent être activés au bilan.

En Belgique on peut considérer comme des actifs incorporels devant être inscrits au bilan : les concessions, brevets, licences, marques, savoir-faire et autres droits similaires ; les acomptes versés sur immobilisations incorporelles .

Leur valeur d'origine est leur coût de production / d'achat, ou leur valeur économique si elle est inférieure. Les actifs qui ont une durée de vie limitée doivent être amortis sur leur durée de vie économique. Contrairement aux cas déjà cités (Goodwill, dépenses de R&D, frais d'établissement), il n'y a pas de limitation à la durée de vie économique retenue pour ces autres éléments incorporels, et donc pas de limitation à la durée d'amortissement retenue. Pour les actifs qui ont une durée de vie non limitée, il n'y a pas de dépréciation régulière : en cas de réduction de valeur de l'actif, une provision vient réduire la valeur inscrite au bilan.

En Espagne sont considérés comme des actifs incorporels pouvant être inscrits au bilan : les brevets, marques déposées, et tous droits de propriété industrielle. Leur traitement comptable (i.e. valorisation et amortissement) n'est pas précisé, mais, dans la pratique, il correspond au traitement des frais de R&D ; les logiciels utilisés par l'entreprise. Si ceux-ci ont été développés de manière interne (et non achetés à des tiers), l'entreprise ne peut activer les coûts de production que si ces logiciels sont utilisés sur plusieurs années. Ces logiciels sont amortis sur 5 ans maximum ; le droit au bail, amorti sur sa durée de vie économique ; les biens acquis en crédit-bail, si leur caractère d'*investissement* est montré (en pratique, cela équivaut à montrer que la valeur du bien, sa valeur de rachat, et les montants payés en loyers, sont comparables à un investissement par endettement) ;

En France sont considérés comme des actifs incorporels pouvant être inscrits au bilan: les concessions, brevets, licences, procédés, marques et autres droits similaires, i.e. *tous les droits qui assurent à l'entreprise une protection juridique pour un élément lui procurant des avantages économiques*. Cet élément peut avoir été acquis ou développé en interne. Dans ce dernier cas, les modalités d'inscription à l'actif dépendent de plusieurs critères (protection juridique ou non, intégration ou exclusion des dépenses dans le coût de production en fonction de leur nature, usage exclusivement interne ou non, etc.) ; les logiciels achetés ou développés par l'entreprise, dans un but d'utilisation interne ; le droit au bail ; le fonds commercial. Celui-ci intègre les éléments *acquis* par l'entreprise et qui constituent des avantages économiques.

Le Plan Comptable Général Français indique que la dépréciation d'un élément d'actif doit être appréciée en fonction de son caractère : si elle est considérée comme une perte de valeur *irréversible*, elle doit être constatée sous forme d'amortissements (s'il existe une protection juridique, la durée maximale retenue pour l'amortissement correspondra à la durée de la protection, mais le Plan Comptable Général autorise le choix d'une durée plus courte) ou- si elle est considérée comme une perte de valeur *réversible*, elle doit être constatée sous forme d'une provision pour dépréciation.

Certains éléments incorporels peuvent être réévalués, dans le cadre de l'affectation de l'écart de première consolidation. Il s'agit des éléments qui n'obéissent pas à la règle de l'amortissement i.e. dont la valeur n'est pas censée se déprécier avec l'usage au cours d'une durée de vie fixée. D'autre part, les éléments bénéficiant d'une protection juridique ne peuvent être réévalués, puisque cette protection juridique leur donne une valeur certaine. Les éléments incorporels susceptibles d'être réévalués sont donc les marques, enseignes et noms commerciaux, les réseaux commerciaux, parts de marché et fichiers. *Cette réévaluation peut porter sur des éléments qui n'étaient pas présents auparavant à l'actif du bilan.* Ainsi, l'affectation de l'écart de première consolidation permet d'inscrire au bilan des éléments qui ne sont normalement pas reconnus en comptabilité.

En Italie sont considérés comme *actifs incorporels* toutes les dépenses qui sont censées générer des bénéfices futurs. La règle permet donc - en théorie - d'activer tout type de charge pour peu qu'elle soit susceptible de générer des bénéfices futurs (ex : des dépenses de publicité). Les éléments incorporels cités sont classés en : brevets, droits de propriété intellectuelle, logiciels ; concessions, licences, marques et droits assimilés ; immobilisations en cours et autres immobilisations incorporelles. L'amortissement se fait en fonction du type d'actif incorporel, sur une durée fixée par l'administration fiscale - en règle générale, la durée de vie économique.

Aux Pays-Bas on peut identifier les éléments incorporels suivants : dépenses liées aux concessions, licences et autres droits de propriété intellectuelle ; avances et acomptes sur des actifs incorporels ; autres éléments incorporels (ex: logiciels, frais de lancement, marques).

Ces éléments, qu'ils aient été acquis ou développés en interne, peuvent être inscrits à l'actif et doivent être amortis sur leur durée de vie économique. La durée de vie restante est examinée chaque année : le cas échéant, un amortissement exceptionnel est passé pour justifier d'une dépréciation plus rapide de l'actif incorporel.

Au Royaume-Uni :

Les textes anglais n'identifient les éléments incorporels que de façon assez floue, en les définissant *a contrario* : sont considérées comme immobilisations immatérielles toutes les immobilisation ni monétaires, ni matérielles. Les éléments créés par l'entreprise ne peuvent être activés. Leur traitement comptable est peu précisé : leur valorisation est faite au coût d'achat. Ces éléments peuvent faire l'objet d'une *réévaluation* et dans la contrepartie est passée en réserve de réévaluation au passif ; pour l'amortissement, les règles portant sur les actifs *corporels* sont applicables i.e. amortissement sur la durée de vie économique.

En Roumanie on peut identifier selon le Plan Comptable les éléments incorporels suivants : frais de constitution, frais de developpement, concessions, brevets, licenses, marques commerciales et autre droit et valeurs similaires, fonds comercial et autres immobilisations incorporelles.

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ACCOUNTANCY VIEWPOINTS REFERRING TO COMPANIES' PERFORMANCE

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Abstract The company's performance reflects its capacity of generating future cash-flows, as well as the efficiency of its resources. The information on the performance and profitability is essential for estimating the potential variations of companies' resources that are to be controlled in the future. The information on performance variation is also useful for anticipating the entity's capacity to generate cash-flows using its existent resources, and for analyzing the efficiency of using new resources.

Keywords: the company's performance, profit and loss account, financial statements, income, *expenses*

Methodology

This paper sets out to analyze the accountancy viewpoints referring to revenues and expenses of the current period, by applying the principle of revenue-expenses-connection and also showing in which manner the performance of the company may be affected. This principle is actually the result of the commitment accountancy according to which the revenues are present in the profit and loss account by associating directly the costs with certain revenue elements**.**

The profit and loss account – faithful image of the financial performance of the enterprise

The profit and loss account has been regarded for a long period of time as a completion of the information present in the balance sheet, reflecting elements and costs, expenses, losses, income, earnings and result. The increase of the information needs of the users for the financial statements concerning the performance of the company has determines an increase of the role that it has begun to play the account of profits and loss in the structure of the financial statements, the enterprise offering in this manner information presented and recognized in an unitary way regarding the performance.

The concept of result has a very subjective character and this due to the existence of some very different user's category, each one having its own center of interests, and sometimes finding themselves in a conflict of interest's relationship. As well, the existence of some accounting principles accepted shunt in a certain accounting system, as well as in the accounting policies regarding the evaluation determines a relative character of the result.

If we have in view the increase of the importance given to the professional reasoning in the interpretation of an event or of an economic transaction, then the result is characterized more by subjectivism. At this, we add the fact that a series of events and transactions suppose the use of the estimations and of the professional judgments, such as: the estimation of the useful life duration, of the residuary value, different methods of evaluation of the stocks.

- from the point of view of the owners, the result represents the difference between the income and the expenses, including the financial and personnel expenses;
- from the investor's perpesctive, respectively of those that bring the capital, independent of the fact that they are owners or creditors; the result is the difference between the income and the expenses, with the exclusion of the expenses with the interests that become affections of benefits in favor of the creditors. This is the economic result;

- from the point of view of the whole categories of factors that take part in the life of the enterprise, such as owners, creditors, employees, state, the result is the added value, situation in which the tax and the personnel expenses become affections of the benefit.
- in case of the company held integrally by its personnel, the global result of the company is the added value, calculated between income and intermediary results.

Finding some solutions for insurance of the presentation of the information regarding the result, with relevance as big as possible for the financial statements users has been and is one of the interest centers for the specialists in the specialty literature. Thus, a very interesting proposition is that states that for the insurance of a maximum utility of the information regarding the result, it is necessary to find a method that would insure the premises for a correct interpretation.

This implies not only a correct dimensioning but also a relevant classification modality. Comes with the proposition to classify the information presented, at present, in the profit and loss account from the perspective of the management, in two categories: variable and fixed elements, starting from the premises that the investors will be interested that those enterprise for which the management insures a maximization of the profit.

The main advantage of the presentation of the elements by classification in fixed and variable elements is determined by the possibility of determination and analysis of the concept of earning power that can be assimilated to the concept of financial performance, the model allowing also the presentation of a marginal indicator regarding the performance of the management of the enterprise. But, an advantage of this method of classification is that it would be difficult enough to separate correctly the expenses in fixed and variables, so that the information presented should be more relevant and credible.

The profit and loss account in the vision of the European directives

As in the case of the balance sheet, the IV the Directive stipulates schemes mandatory for the presentation of the profit and loss account, existing the possibility of option between these schemes, with the condition of maintaining the chosen scheme. Due to the fact that the space of the European Union has represented and represents the confluence space of two different accounting cultures, such as the French- German, based on the preference of presentation of the revenue and expenses after their economic nature, and the Anglo-Saxon , that classifies the expenses and the revenues on functions of the enterprise, the IV the Directive has left at the latitude of the member states the choice between the two classification of the expenses and the revenue in the profit and loss account.

So, the IV the Directive recommends four models of presentation of the profit and loss account differentiated on one hand after the classification of the elements and on the other hand after the form of presentation .

The major difference between the four formats appears, actually at the classification within the exploitation expenses. Thus, in the format after the nature, the expenses are divided in expenses with the raw materials and the consumable, other external expenses, expenses with the personnel, adjustments of value of the assets fixed and current and other exploitation expenses.

The classification after the destination delimits three categories of expenses: production expenses; Distribution expenses; administration expenses.

Also, as in the case of the balance sheet, there is the request of the presentation of a minimal content, leaving the freedom to present cumulatively certain elements.

The IV the Directive stipulates in the fourth section certain special dispositions concerning the profit and loss account:

- Defining the net turnover, as value resulted from the sales products and the typical services of the normal activity, after the deduction of the commercial reduction, of the added value tax and other taxes connected to the turnover;
- Defining the elements of revenue and extraordinary expenses, like those elements resulted from other activities than the normal activities of the company. If there are significative in the appreciation of the company performances, such elements must be explained, after their type, in the explication notes;

- Accumulation of the values of the revenue tax from the ordinary activities and extraordinary activities in the Profit and loss account, with the condition of explanation in the explanation notes;

The Conceptual frame IASB by IAS 1 Presentations of the financial statements stipulates that as a component of the financial statements, a statement named. The statement of the modifications of the equity ownership, and which must reflect the following elements: period of the profit and loss's ach element of revenue and expense from the period that is directly recognized in the equity ownership and the total of these elements; total of the income and expenses during that period (as a sum of the elements mentioned above) detailing separately the total sums attributed to the shareholders of the society- mother and the minoritary interests; the effect of the changes of the accounting policies and the correction of the errors, according to the IAS 8 Accounting policies, modifications of the accounting estimations and errors, for each component of the capital.

According to the IAS 1 Presentation of the financial statements, the profit and loss account must contain at least the following elements: revenue, finance costs, part of the profit or the afferent loss for the associated entities and the associations in participation, tax expenses, a unique amount containing the total of the profits and losses after taxing from the interrupted activities and of the profits and losses recognized at the just evaluation minus the cost of sale or at the cession of the assets or of the groups that constitute interrupted activities, and the profit or the loss. Also, the profits must be registered separately, respectively the losses that must be associated to the minoritary parties, as well as the earnings, respectively the losses that are attributed to the owners of the capitals of the enterprise- mother. The succession of the posts indicated does not have to be mandatory respected, but the according posts must be registered relevantly for the users of the financial statements.

The profit and loss account in the vision of the Romanian standardizes

This component of the financial statements, the profit and loss account is in the present regalement by the OMFP 1752/2005, modified and completed by the OMEF 2374/2007. This normative document chooses the scheme list, where the elements are classified after the nature, asking for the taking and dividing the elements of exploitation from the content of the explanation notes. The efficiency of one of the other of these presentations has been analyzed in the specialty literature by, who has started from the indicators that can be calculated on the basis of the two schemes: for the classification after nature, the indicator turnover and for the classification after destination, the turnover and the cost of the goods sold.

The conclusions that the author has drawn up were that:

- The presentation after the nature offers information useful for the factors that take part at the creation and distribution of the added value (investors, employees, creditors, etc.) as well as the financial analysts (the financial side of the performance)
- The presentation after destination is destined more to the needs of the management because the costs are reported on functions of the company and associated to the sold production (economic side of the performance)

Another novelty is that they renounce at the notions provisions afferent to the assets and they introduce the notions of value adjustments for assets. An advantage of the presentation of the profit and loss account under the form of a list is that from the informational point of view it facilitates the knowledge of the result after each level of activity. On the other hand, maintaining only one format of presentation of the profit and loss account it reflects a rather fiscal character of the supplied information but also for statistic needs of the state.

The actual order maintains the variations of the stocks in the exploitation revenues, as well as in the IV the Directive. A controversial element as far as the format of the profit and loss account is concerned is that connected to the presentation of the element Variation of the stocks of finished products and production in course of execution as an element component of the revenues. Thus, the Romanian regulations maintain the variant stipulated according to the IV the Directive by placing this element into the category of the exploitation revenue.

The issue is if it is correct to integrate this element in the category of the revenue, taking into account the fact that the cost of production, that is translated by economic benefits consumed and not obtained. In the specialty literature the opinions regarding this aspect are divided.

Our option, for a better quality of the image released by the financial statements, for the integration of this element within the structure of the production costs.

Conclusions

According to IFRS, the profit and loss account is the main financial sheet that reflects the performance of an entity, and detailed information on revenues is essential for the performance analysis. The profit and loss account is actually the main financial sheet that reflects the company's performance, by highlighting how the results were formed, and is the main information source used by those who will predict the future results of the company's activity.

Therefore, we can conclude that the moment when revenues are identified influences significantly the performance of the company; that is why it's very important to choose the right moment when revenues are identified and registered.

The profit and loss account is also very important for those who use the financial-economical information, each of them trying to satisfy own informational needs; the investors and credit institutes can analyze precisely the value of the entity where they are shareholders, and the credit institutes can easily determine how the company refunds its obligations. Therefore, the performance is actually a result and a permanent target for any company, which stimulates the development of excellence strategies and success.

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EXIGENCIES AND RISKS CONCERNING THE MISSION OF FINANCIAL AUDIT

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Abstract: The realization of a mission of financial audit in our country is realized with the respect of the International Standards of Audit, which confers the general frame adequate to such a step. The practical activity proved however that the actual realization of the mission involves detail elements which, at the extent at which they are considered, can contribute to the increase of the quality of the audit in its entirety. Having as premise the ones exposed, within the present work we debate aspects like the assumption of some increased responsibilities and exigencies in exerting the mission, the reduction of the risk regarding the incorrect information as well as the influence exerted by the particularities of the sector of activity of the entity audited that in our opinion have to be considered by the auditors during the entire duration of the mission assumed.

Key words: accounting information, financial audit, exigencies, risks

Introduction

The financial audit represents a relatively new profession in our country that defined itself and developed significantly with the creation and consolidation of the market economy. Most of the specialists from the field admit and we agree to such opinion that the foundation of this profession has been laid as far as the actual regulations are concerned as well as regarding the insurance of an adequate frame for the exertion of this one through the Chamber of Financial Auditors of Romania. This way the professionals in the field have professional standards, an ethical code and regulations that allow them to exert the missions responsibly, objectively, professionally and independently, thing denoting that the premises necessary for ensuring the performance of the financial audit services under conditions of exigency and high quality have been created.

Despite all these, the exertion of each mission of financial audit represents a true challenge, because diversity and complexity characterize the practical reality by and the auditor has to prove his competence and experience so that the general objective of the mission is reached successfully. This assumes preoccupations regarding the improvement of the professional, theoretical and methodological knowledge adequate for the audit of the financial situation afferent to an economical entity with a certain specificity of activity, the use of the professional reason, the adequate adaptation of the procedures and instruments of work used for the accomplishment of the engagement assumed.

Increased responsibilities and exigencies within the context of the corporate governance

It is well known and accepted that the audit of the financial statements represent a service of certification by which a written report is issued and within this one it is expressed the opinion of the auditor regarding the conformity of the financial statements of an entity with certain pre-established criteria that are normally the standards generally accepted in the field. This report becomes more and more an essential instrument used in the substantiation of the economical decisions or of the ones concerning the public interest.

Although this report is useful and interesting for a large category of beneficiaries (partners, financers, banks etc), the main users of this one are the shareholders of the entity. This ones cherish the insurance given by the auditor due to the independence from the management of the entity as well as to his knowledge in the field of the financial reports.

We think that this aspects also has to be considered from the point of view of the corporate governance and we are going to briefly present a few reasons that sustain this approach below.

As we know the shareholders of an entity are divided from the point of view of the structure in two significant categories: dispersed, encountered especially in the United States of America and in Great Britain and concentrated, specific for the European space and especially for Germany and France. When talking about the realities specific for Romania, the structure of the shareholders registers in the second category mentioned characterized by the existence of a dominating group of shareholders that have the control over the company and pay the main part in the appointment of the executive management of this one. Under such circumstances, we consider possible the existence of a relatively high level of risk as far as the managerial assertions from the financial situations are concerned meaning that there can be misrepresentations that favor the shareholders that own the majority of the shares and whose interests are most of the times different from the ones of the other shareholders or of other parties that have interests within the entity. Also, the specialty literature underlines the fact that the main problem of the corporate governance in this type of property structure is the relations between the group of shareholders that have the control and the others shareholders of the company. Within this context, we consider that for the expression of his opinion of fidelity the auditor has to obtain audit evidence that are enough and adequate as length, this way acting for the reduction of the risk mentioned by the creation and execution of some adequate work procedures that are according to the International Standards of Audit, to the legislative and regulation referential also relaying on his professional judgement, on his aptitudes and practical experience, especially as far as the nature and length of the procedures of audit is concerned. Such a demarche is even more necessary because in our country the principles of the corporate governance weren’t a major preoccupation of the companies, aspect favored among others by the legislative insufficiencies like the concept of independent management that isn’t found not even in the listing conditions at the stock exchange. Moreover, we can remember that the implementing of the principles mentioned within the companies among which the transparency occupies a main place, has been made very slowly in order to protect the interests of the shareholders that own the majority of the shares and who in many situations represent a single shareholder. The relevant aspects give us the right to assert that it is imposed an increases responsibility of the auditor in such situations who by his position of independence can participate at insuring the exigencies regarding the transparency and implicitly at the diminution of some undesired effects of the corporate governance. We also mention the fact that the transparency, as principle of the corporate governance, has a relatively large scope, including the operations of the entity, the process of audit on the whole and the communication regarding the financial results obtained (Morariu and Stoian, 2006).

The risk regarding the offer of incorrect information

Another important aspect for the accomplishment of a mission of financial audit is the preoccupation for the increase of the level of credibility of the information contained in the financial statements and implicitly, the significant diminution of the risk regarding the communication of distorted information. The auditor can’t neglect the fact that by the opinion expressed within the audit report can influence favorably or unfavorably the decisions that can be adopted by the beneficiaries of this one, aspect due precisely to the increase of credibility given to the financial-accounting information. The risks reminded could be considerable decreased by the rigorous use of all the work procedures and techniques that are imposed, without reductions as far as the volume of work is concerned. In our opinion, this problem has to be considered in a larger context that regards one the one side the management vision over the process of audit and on the other side elements that belong to the strategy of the auditor regarding the development of his business.

The managers act within the entity as employees of the shareholders and bear the exclusive responsibility for the elaboration of the synthesis financial statements. Simultaneously they want the maximization of the incomes of the company because the personal remunerations are in close connection to these ones. Therefore they are interested in presenting annual financial statements that advantage them and they also want to have the confirmation of an independent professional that these situations don’t have significant deviations from the pre-established criteria. Within this context, the managerial demarche is oriented towards the contracting of some audit services that ensure the credibility in front of the shareholders, inclusively by the independent opinion of the auditors that might not be as documented as necessary this not being able to formulate assertions that disadvantage them. We sustain that this assertion by the fact that there are situation in the practical activity when the conclusion of the contract of audit is made with delay for each financial exercise and the conclusion of this type of continuity contract is avoided almost systematically, for more than one consecutive exercise so that the auditor can't make detailed investigations.

There also are auditors who, from the wish of developing the business easily accept such a engagement, thing leading to the increase of the risks of detecting the significant aspects that can influence the fidelity of the statements presented. In such situations there are reduced possibilities of knowing the client, of planning and adequately exerting the mission, with negative influences over the sufficiency and adequacy of the evidence obtained and implicitly over the conclusions that are reached (Staicu and Mihai, 2006). Moreover, such engagements are also characterized by relatively reduced or even insignificant honorariums that don't stimulate the making of good quality works.

Such situations that clearly don't characterize the audit services from our country are possible in the practical activity because of the fact that as it has been mentioned before, the principles of corporate governance do not represent a feature belonging to the Romanian business environment and the market of this kind of services can't be considered as active, there being some cases of obviously disloyal competition.

In such situations it is necessary that the auditor, for the fulfillment of the wish regarding the diminution of the risk concerning the communication of distorted information and for increase the credibility of the annual financial statements perform a laborious activity permanently reported to the general principles of audit and to the demands of the Code of ethics of the accounting professional issued by the International Federation of the Accountants governing his professional responsibilities. Only this way it is possible that the professional can resist any exterior pressures (Dobroteanu and Dobroteanu, 2002) and to be able to adopt decisions according to the reality investigated.

Another aspect regarding the communication of distorted information that in our opinion can be encountered frequently in the missions of financial audit regards the managerial assertions concerning the application of IFRS 1 and for this we mainly consider the application of the rules of acknowledgement of the assts, liabilities, provisions etc based on the exigencies imposed by the IFRS standards. This way the auditors have to give increased attention to the ways in which the management formulates assertions regarding the compatibility of the information, this supposing work procedures adequate for the verification of the correctness of the elaboration of the opening balance from the date of moving to the use of the IFRS referential.

Within the same general context, referring to the specific environment of the organizations from the economy of our country we remark a series of factors that can significantly influence the annual financial statements, among which we remind: the insufficiency of the personnel from the financial-accounting compartments that have to deal with the major modifications intervened within the applicable accounting referential as well as with the accounting and fiscal current operations; the insufficient involvement of the administrators in the organization of the accounting of the company; the inadequate collaboration between the financial-accounting compartment and the others compartments of the unit, with negative influence over the fulfillment of some fundamental demands regarding the registration of the operations and the balance assessment; the frequent involvement of the auditors in the drawing up of the annual financial situations with negative consequences over the independence of these ones etc.

As far as the reduction of the informational risk is concerned we also remember the fact that once created the premises of keeping this one under control through the audit done by an independent professional increases the possibility of the entity of obtaining the capital at a reasonable cost. This aspect is in our opinion very important for the business environment from our country in the near future; on this line we consider the integration within the European structures and implicitly the increase of the opportunities concerning capital obtaining. We equally consider that the increase of the exigencies of the auditors in this regard can lead to the recovery and development of the business environment therefore to the increase of the market for the audit services and to the decrease of the negative aspects presented before.

The particularities of the sector of activity

In close connection to the ones exposed before we also mention the need of giving the adequate attention to the particularities of the activity of the entity subject to the audit because it is unanimously admitted that there isn't a universally valid way that once applied ensures a complete audit and a guaranteed result. It is very important to know those elements that individualize the entity audited as far as the nature of its activity, the organization and the operational methods used are concerned. Most opinions expressed in the specialty literature disclose that one of the best ways of satisfying those exigencies is obtaining information from the headquarters of the client, variant called "from top to bottom" (Arens and Loebbecke, 2003), meaning a close analysis of the economical strategy of this one, of the risks threatening this strategy and in the end of the mechanisms conceived by the management to answer the risks. On this line, besides the information obtained through direct observation at the headquarters of the company, it is imposed the use of the analytical procedures based on data that reflect the company on the whole and simultaneously, the performance of comparisons with the situations existing in the respective branch in the previous years and also with the prior data of the entity audited.

The utility of a good knowledge of the specificity of the activity and branch of the entity subject to the audit can be motivated with at least three elements that are presented here (Dragan, 2004).

- The detail knowledge of the particularities regarding the organization and management of the accounting, being a known fact that within many branches of activity like constructions, railway transports, chemical industry and others there are specific operations and events that need adequate accounting solutions, this way influencing the presentations within the financial situations elaborated by the respective entities.
- The identification of the risks specific for very branch that influence the way of appraisal of the risk of audit at an acceptable level as well as the making the decision concerning the acceptation of the mission. Within this context we mention that many specialists consider the branch risk as one of the most important risks. Analyzing the specificity of the Romanian economy we can consider that this factor acquires a special signification because of the deep reorganizations that take place in present, as well as because of the potential ones, seen through the near integration in the European Union.
- The identification and assessment of the inherent risks, because we can make a grouping of these ones according to the specificity of the branch of activity.
- The knowledge of the market conditions namely the follow of the demand of products, the positions of the competition, the short and middle term perspectives of these ones, of the influences exerted by the technological development etc

As far as the aspects presented are concerned, we think that the auditors from our country could adopt the solution of specialization on economical branches so that they can have the information necessary for the higher degree knowledge of the activity of the clients and this way to offer them services with higher added value, aspect that can be found within the companies with tradition in the field. This way the incomes of the auditors can be increased because of the possibility of also offering some non-audit services, at high standards.

Under such circumstances, having an adequate volume of information that allows his the understanding of the economical, social and institutional environment where they perform their mission and also applying with professionalism the general audit methods and techniques, the auditor has the possibility of expressing a correct opinion and saying on much more solid grounds if the financial statements audited offer or not a true and fair view of the financial position of the company on the date of the report, of the results of its activity and of the cash flows for the period audited, within the context of the regulations in force.

Conclusions

Although there is an adequate theoretical frame for the exertion of the mission of financial audit, the auditor has to also have in mind other elements like the ones exposed in the present work. Such a demarche is even more necessary when we can easily notice on the one side that in the field of audit there isn't yet an adequate culture and a correct understanding of its role for all the beneficiaries of information offered through the annual financial statements and on the other side that the principles of the corporate governance aren't yet a major preoccupation of the Romanian economical entities.

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WESENTLICHE AUSWIRKUNGEN AUF DAS DEUTSCHE HANDELSRECHT DURCH DAS GEPLANTE BILANZRECHTSMODERNISIERUNGSGESETZ(BILMOG)- ANLEHGUNG AN INTERNATIONALE RECHNUNGSLEGUNGSSTANDARDS?

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Durch die geplante Umsetzung des sogenannten Bilanzrechtsmodernisierungsgesetzes (kurz: BilMoG) kommt die größte Reform auf die deutsche handelsrechtliche Rechnungslegung seit dem Bilanzrichtliniengesetz von 1985 zu. Der deutsche Gesetzgeber will das bewährte Handelsgesetzbuch (HGB) im Vergleich zu den internationalen IFRS noch attraktiver machen. Es soll die Aussagekraft des HGB-Abschlusses erhöht und die Aktualisierung des HGB für nicht kapitalmarktorientierte Unternehmen als Antwort auf die IFRS erfolgen.

Schlusselwörter:BilMoG(Bilanzrechtsmodernisierungsgesetzes),Handelsgesetzbuch(HGB),

Einzelabschluss,Regelungsberieche

Einführung in die Problematik

Um dieses Ziel zu erreichen, muss das HGB modernisiert werden, möglichst ohne jedoch die Komplexität der IFRS zu übernehmen. Dabei wird aber verkannt, dass die IFRS - bis auf wenige Ausnahmen - nicht die Ursache der Komplexität sind, sondern die abzubildende wirtschaftliche Realität mit immer neuen Vertragsmustern, die eine Einordnung in klassische Rechnungslegungsgrößen stark erschweren, dafür ursächlich ist. Als Beispiel sei hier auf die Diskussion zur Behandlung von Leasing, Mezzanine Kapital oder Derivaten verwiesen. Es ist daher nicht überraschend, dass letztlich über das BilMoG an einigen Stellen eine Übernahme der IFRS-Regelungen in das HGB erfolgt, um die Modernisierung zu erreichen.

Das HGB wird letztlich durch die Abschaffung von vielen Wahlrechten, der Abschaffung der umgekehrten Maßgeblichkeit sowie durch die Anpassung einiger Ansatz- und Bewertungsvorschriften deutlich in Richtung der IFRS verschoben. Da zusätzlich zu erwarten ist, dass die an die neuen Normen anzupassenden bzw. neu zu entwickelnden Grundsätze ordnungsmäßiger Bilanzierung eine noch stärkere Anlehnung an die IFRS bewirken werden, wird zukünftig auch der (freiwillige) Übergang zu den IFRS vielfach nur einen kleinen Schritt darstellen. Somit bleibt abzuwarten, ob das vom Gesetzgeber angestrebte Ziel tatsächlich erreicht werden kann, das HGB auch in Zukunft als eigenständiges, verbindliches Regelwerk zu verankern, oder ob das BilMoG nur einen Zwischenschritt auf dem Weg hin zur allgemein verbindlichen Anwendung einer IFRS-gemäßen Rechnungslegung auch in Deutschland darstellt.

Unabhängig davon bedeutet die angestrebte Verbesserung der Aussagekraft des HGB durch das BilMoG aus der Sicht der Interessenten des Jahresabschlusses unzweifelhaft bessere Einblicksmöglichkeiten. Allerdings stellt insbesondere die Umstellungsphase hohe Anforderungen sowohl an die Erstellung und Prüfung des Abschlusses als auch an dessen Interpretation. Zudem wird es zukünftig schwieriger, die

Bilanzpolitik des Managements einzuschätzen, da es durch die fehlenden Wahlrechte und deren Beschreibung an klaren Signalen bezüglich der Richtung der geplanten Bilanz- und Ergebnissteuerung mangelt.

Nachdem über dieses Gesetzesvorhaben bereits seit einigen Jahren diskutiert wird, hat das deutsche Bundesjustizministerium den 234-Seiten starken Referentenentwurf des BilMoG am 8.11.2007 veröffentlicht. Da Teile der Änderungen, wie insbesondere die Erhöhung der Schwellenwerte, bereits rückwirkend ab Anfang 2008 Gültigkeit erlangen sollen, ist auf eine schnellere Abwicklung des weiteren Gesetzgebungsverfahrens, in das neben dem deutschen Bundestag (Parlament) auch der Bundesrat (Vertretung der 16 Bundesländer) involviert ist, zu hoffen.

Der größte Teil der neuen Vorschriften soll erstmals auf Geschäftsjahre Anwendung finden, die im Kalenderjahr 2009 beginnen. Im Januar fanden bereits Anhörungen diverser Verbände und Interessensgruppen statt. Ursprünglich sollte daher schon bis März 2008 – nach erfolgter Auswertung der Ergebnisse aus dem Anhörungsverfahren - ein sogenannter Regierungsentwurf des Gesetzes, als zweiter Stufe der verfahrensrechtlichen Gesetzgebung, erfolgen. Bis zum jetzigen Zeitpunkt liegt jedoch noch kein Regierungsentwurf zum BilMoG vor. Es ist nicht wahrscheinlich, dass das Gesetzgebungsverfahren vor Ende 2008 abgeschlossen sein wird.

Wesentliche Auswirkungen durch das Bilanzrechtsmodernisierungsgesetz auf den handelsrechtlichen Einzelabschluss als Kompromiss zu den IFRS

Wichtiger Eckpunkt der Reform ist die Aufhebung der bestehenden handelsrechtlichen Rechnungslegungspflicht für Einzelkaufleute und Personenhandelsgesellschaften (z.B. Offene Handelsgesellschaft, Kommanditgesellschaft), soweit diese die Schwellenwerte 500.000 EUR Umsatz und 50.000 EUR Gewinn pro Geschäftsjahr in zwei aufeinander folgenden Geschäftsjahren nicht überschreiten (§ 241a Entwurf-HGB). Somit werden bestimmte Kleinunternehmen ganz von der Rechnungslegungspflicht befreit. Da jedoch auch diese Unternehmen steuerpflichtig bleiben oder Fremdkapital bei Kreditinstituten benötigen, wird es in der Praxis bei einer Art der Buchhaltung bleiben müssen. Der Gesetzgeber geht in seiner Begründung zum Referentenentwurf des BilMoG davon aus, dass durch die Senkung der Schwellenwerte für kleinere Unternehmen eine Entlastung dieser Unternehmen von bis zu insgesamt einer Milliarde Euro pro Jahr realistisch sein kann.

Allerdings wird auch weiterhin eine nach HGB erstellte Bilanz sowie Gewinn-und Verlustrechnung die Grundlage für die Bemessung der Ausschüttung an die Gesellschafter sein. Viele kleinere Unternehmen stellen daher erst seit kurzer Zeit handelsrechtliche Bilanzen auf, um bessere Chancen für die eigene Kreditgewährung zu erhalten. Es ist daher davon auszugehen, dass kleinere, mittelständische Unternehmen auch weiterhin freiwillig bilanzieren, selbst wenn sie zukünftig nach dem BilMoG dazu nicht mehr verpflichtet sind. Voraussichtlich geht diese Befreiungsmöglichkeit des Gesetzgebers somit faktisch ins Leere.

Das deutsche Handelsrecht befindet sich schon seit einigen Jahren im Spannungsfeld der internationalen Rechnungslegungsentwicklung. Eine wichtige Veränderung des europäischen Bilanzrechts wurde bereits im Juni 2000 mit der Veröffentlichung einer neuen Rechnungslegungsstrategie durch die EU-Kommission angestoßen. Hauptziel dieser neuen Strategien war die Schaffung eines internationalen Rechnungslegungsstandards, durch den die europaweite Vergleichbarkeit und die Transparenz der Jahresabschlüsse erreicht werden sollte. Zwischenzeitlich wurden mit der sogenannten „IAS-Verordnung“ vom 19.07.2002 auf EU-Ebene die IFRS in das europäische und somit auch in das deutsche Bilanzrecht eingeführt und damit Kapitalmarkt orientierte Unternehmen verpflichtet, ab dem Jahr 2005 beziehungsweise 2007, ihren Konzernabschluss nach den IFRS aufzustellen.

Neben mittelgroßen und kleinen Kapitalgesellschaften müssen auch große Kapitalgesellschaften für Zwecke der Gewinnausschüttungen und der Besteuerung weiterhin einen zusätzlichen Abschluss nach den geltenden deutschen HGB-Vorschriften aufstellen. Einer vollständigen Übernahme der IFRS in den Jahresabschluss (Einzelabschluss) hat der deutsche Gesetzgeber bis zum jetzigen Zeitpunkt zu Gunsten des HGB nicht umgesetzt.

Welche Gründe könnten bestehen, dass der deutsche Gesetzgeber die IFRS für handelsrechtliche Zwecke bisher nicht auch für den Einzelabschluss ausschließlich übernommen hat? Es bestehen unterschiedliche Zielsetzungen der Rechnungslegung nach IFRS und nach HGB.

Nach der Informationsfunktion, die im Vordergrund der IFRS steht, soll die Rechnungslegung die verschiedenen Abschlussadressaten über die wirtschaftliche Situation und Entwicklung des bilanzierenden Unternehmens informieren. Der Jahresabschluss nach HGB richtet sich an viele Adressaten. Hierunter fallen z.B. aktuelle oder potentielle Anteilseigner, Gläubiger, Arbeitnehmer, Lieferanten, Staat sowie Öffentlichkeit. Der deutsche Gesetzgeber strebte bislang einen Ausgleich der zum Teil sehr unterschiedlichen Interessen der unterschiedlichen Abschlussadressaten an. Dies geschieht durch die strenge Anwendung des Vorsichtsprinzips. Man hat dem deutschen Handelsrecht oft vorgeworfen, es würde sich zu sehr am Vorsichtsprinzip orientieren und den Blick in die Zukunft vergessen. Das handelsrechtliche Vorsichtsprinzip ist gerade dadurch gekennzeichnet, dass festgestellte Risiken im Jahresabschluss unmittelbar erfasst werden müssen, Chancen jedoch erst nach deren jeweiliger Realisierung.

In der Rechnungslegung nach IFRS hat das Vorsichtsprinzip eine eher untergeordnete Rolle. Bei den IFRS steht nahezu ausschließlich die Informationsfunktion des Jahresabschlusses im Vordergrund. Danach besteht ein Hauptziel der IFRS Rechnungslegung darin, Informationen zur Entscheidungsfindung für Investoren, die dem Unternehmen Risikokapital zur Verfügung stellen könnten, bereitzustellen. In dieser speziellen Ausrichtung auf die Informationsbedürfnisse der Investoren besteht der wesentliche Unterschied im Vergleich zum deutschen HGB.

Außerdem beinhaltet der IFRS-Abschluss keine Funktion zur Bemessung der Ausschüttung an die Gesellschafter.

Das primäre Ziel der IFRS-Rechnungslegung besteht darin, die Vermögens- und Finanzlage einschließlich deren Veränderungen um die wirtschaftliche Leistungsfähigkeit eines Unternehmens unter Fair-Value-Aspekten darzustellen.

Eine Besonderheit im deutschen Recht ist der sogenannte Grundsatz der Maßgeblichkeit der Handelsbilanz für die Steuerbilanz. Nach § 5 Abs. 1 Satz 1 Einkommensteuergesetz (EStG) ist bei der steuerlichen Gewinnermittlung das nach den handelsrechtlichen Grundsätzen ordnungsmäßiger Buchführung (GoB) auszuweisende Betriebsvermögen anzusetzen, soweit dem nicht steuerliche Vorschriften (z.B. Verbot des Ansatzes bestimmter Rückstellungen) entgegenstehen. Der handelsrechtliche Jahresabschluss bildet somit grundsätzlich die Ausgangsbasis für die steuerliche Gewinnermittlung. Unter Berücksichtigung von in den Steuergesetzen geregelten Ausnahmen, ist bisher die Steuerbemessungsfunktion ein nicht unwesentlicher Nebenzweck der handelsrechtlichen Rechnungslegung gewesen.

Im Rahmen der Ausgestaltung der IFRS, insbesondere durch die Fokussierung auf eine Fair-Value-Bilanzierung, spielt die Steuerbemessung jedoch gerade keine Rolle. Durch das BilMoG und das damit verbundene Festhalten am HGB in veränderter Form hat sich der deutsche Gesetzgeber deutlich für die Aufrechterhaltung des bestehenden Grundsatzes der Maßgeblichkeit der Handelsbilanz für die Steuerbilanz entschieden. Diese Entscheidung ist ausdrücklich zu begrüßen.

Faktisch kann man den Referentenentwurf zum BilMoG als einen Mittelweg bezeichnen, der in einer Modernisierung und Aktualisierung einzelner Rechnungslegungsvorschriften des HGB besteht. Nicht mehr zeitgemäße Bilanzierungs-und Bewertungswahlrechte sollen abgeschafft werden. Das Gesetz ist gerade keine völlige Hinwendung zur anglo-amerikanischen Bilanzierung.

Kurzüberblick über wesentliche Regelungsbereiche des Bilanzrechtsrechtsmodernisierungsgesetzes

Aktivierung von selbsterstellten immateriellen Vermögensgegenständen

Eine der wesentlichen Neuregelungen ist die Aktivierungspflicht für selbst erstellte immaterielle Vermögensgegenstände des Anlagevermögens zu Herstellungskosten, soweit diese auf die Entwicklungsphase entfallen.

Nach derzeitigem Rechtsstand besteht hierfür ein strenges Aktivierungsverbot (§ 248 Abs. 2 HGB). Nach den geplanten Regelungen des BilMoG sind jedoch eine Ausschüttungssperre und erweiterte Anhangsangaben vorgesehen, um Gläubigerschutzgesichtspunkten weiterhin gerecht zu werden. Auch in Zukunft sind Forschungskosten nicht aktivierbar, da diese durch eine zu große Ferne zum eigentlichen Herstellungsprozess gekennzeichnet sind.

Der bilanzielle Ausweis soll durch eine neu zu schaffende Bilanzposition „selbstgeschaffene gewerbliche Schutzrechte und ähnliche Rechte und Werte“ erzielt werden.

Die Aktivierbarkeit selbsterstellter immaterieller Vermögensgegenstände ist strittig. Das bisherige Verbot einer Aktivierung war als strenge Ausprägung des handelsrechtlichen Vorsichtsprinzips zu verstehen. Als

Begründung für die Nichtaktivierbarkeit wurde zutreffend angeführt, dass gerade für die selbsterstellten immateriellen Gegenstände (z.B. Patente, Schutzrechte etc.) oft kein regelmäßiger Markt besteht, auf dem sachgerecht und transparent Marktpreise zur Vergleichbarkeit der Buchwerte ermittelt werden können.

Der geplanten Ausgestaltung des BilMoG kann diesbezüglich auch entgegengehalten werden, dass keine gesetzliche Definition für die immateriellen Vermögensgegenstände gegeben wird. Zu begrüßen wäre hingegen die gezielte Einführung einer Ausschüttungssperre in Höhe der aktivierten Beträge.

Sollte die Regelung in der geplanten Form umgesetzt werden, müsste die Kommentarliteratur und Rechtsprechung sicherlich entstehende Konfliktbereiche lösen. Die Orientierung an den IFRS als Hilfestellung zur Auslegung des HGB sollte vermieden werden.

Zwingende Aktivierung des derivativen Geschäfts- oder Firmenwertes

Für einen entgeltlich erworbenen Geschäfts- oder Firmenwerts besteht nach den gegenwärtigen handelsrechtlichen Vorschriften ein Aktivierungswahlrecht. Nach dem bisherigen § 255 Abs. 4 HGB darf als Geschäfts- oder Firmenwert der Unterschiedsbetrag angesetzt werden, um den die für die Übernahme eines Unternehmens bewirkte Gegenleistung den Wert der einzelnen Vermögensgegenstände des Unternehmens abzüglich der Schulden im Zeitpunkt der Übernahme übersteigt. Der Betrag ist in jedem folgenden Geschäftsjahr zu mindestens einem Viertel durch Abschreibung zu tilgen. Die Abschreibung des Geschäfts- oder Firmenwertes kann aber auch planmäßig auf die Geschäftsjahre verteilt werden, in denen er voraussichtlich genutzt wird. Bisher galt der entgeltlich erworbene Geschäfts- oder Firmenwert noch nicht als Vermögensgegenstand, sondern war ein „Posten besonderer Art“. In der Literatur wurde dieser Posten auch als Bilanzierungshilfe bezeichnet.

Nach dem BilMoG ist der derivative Geschäfts- oder Firmenwert als Vermögensgegenstand anzusehen und daher zu aktivieren (§ 246 Abs. 1 Entwurf-HGB). Er ist planmäßig über seine voraussichtliche Nutzungsdauer abzuschreiben, wobei eine widerlegbare Vermutung gilt, dass die voraussichtliche Nutzungsdauer in der Regel fünf Jahre nicht überschreiten soll. Sollte eine außerplanmäßige Abschreibung erforderlich sein, ist bei einer späteren Wertaufholung keine Zuschreibung vorzunehmen, da es sich bei dieser Wertsteigerung wiederum um einen selbstgeschaffenen Geschäfts oder Firmenwerts handeln würde (§ 253 Abs. 5 Entwurf-HGB). Selbstgeschaffene Geschäfts- oder Firmenwertes sind jedoch im Gegensatz zu anderen selbsterstellten immateriellen Vermögensgegenständen auch weiterhin nicht aktivierungsfähig.

Im Gegensatz zu IAS 36, wonach ein entgeltlich erworbener Geschäfts- oder Firmenwert nicht planmäßig abgeschrieben werden darf, sondern nur einem jährlichen Impairment-Test zu unterziehen ist, hält der deutsche Gesetzgeber in seinem Referentenentwurf zum BilMoG weiterhin an der grundsätzlichen planmäßigen Abschreibung fest.

Diese Verfahrensweise ist zu begrüßen, da der entgeltliche erworbene Geschäfts- oder Firmenwert ein Posten besonderer Art in Form eines vom Unternehmen aufgewendeten Betrages ist, der grundsätzlich auch einem zeitlichen Wertverzehr unterliegt.

Veränderte Abgrenzung der Herstellungskosten und Änderungen im Bereich der Folgebewertung von Vermögensgegenständen

Die handelsrechtlichen Herstellungskosten sollen zukünftig neben den Einzelkosten auch zwingend sämtliche variablen Gemeinkosten umfassen (§ 255 Abs. 2 Entwurf-HGB). Diese Veränderung entspricht faktisch einer Angleichung an die steuerliche Untergrenze der Herstellungskosten und auch einer Annäherung an die IFRS. Bisher bestand die Untergrenze für die Ermittlung der handelsrechtlichen Herstellungskosten ausschließlich in den Einzelkosten, also denjenigen Kosten, die einem Kostenträger direkt zurechenbar sind. Nach geplanter Rechtsänderung sollen nur noch angemessene fixe Gemeinkosten ebenso wie diejenigen Fremdkapitalzinsen, die auf den Zeitraum der Herstellung entfallen, wahlweise in die Herstellungskosten einbezogen werden können.

Auch in der Zukunft dürfen keine Forschungs- und Vertriebskosten, aufgrund der mangelnden Nähe zum Herstellungsprozess, aktiviert werden. Die Abänderungen sind aus Gründen der Annäherung an das Steuerrecht und der damit verbundenen Bewertungsvereinheitlichung grundsätzlich zu begrüßen.

Ferner war es bilanzierenden Unternehmen bisher möglich, im Rahmen der Folgebewertung ergänzende außerplanmäßige Abschreibungen auf Vermögensgegenstände des Umlaufvermögens wegen „künftiger Wertschwankungen“ sowie Abschreibungen im Rahmen „vernünftiger kaufmännischer Beurteilung“

vorzunehmen. Diese beiden Formen der Abschreibung wurden in der Bilanzierungspraxis eher selten angewendet und in der Literatur dahingehend kritisiert, dass es sich oft um nur schwer nachvollziehbare Bewertungsvorgänge handelt. Außerdem wurde den anwendenden Unternehmen dieser Abschreibungsformen häufig der reine Zweck der Umsetzung von Bilanzpolitik vorgeworfen. Die Abschaffung dieser Abschreibungen ist daher aus Gründen der Vereinfachung des HGB zu begrüßen. Es werden dadurch bisherige Bilanzierungsspielräume verringert. Die IFRS kennen derartige außerplanmäßige Abschreibungsformen nicht. In Zukunft ist ferner eine voraussichtlich nicht dauerhafte Wertminderung auf Vermögensgegenstände nur dann vorzunehmen, wenn die Gründe für die mögliche Abschreibung nicht innerhalb von 12 Monaten nach dem Bilanzstichtag wieder entfallen sind. Auch diese Regelung ist aus Gründen der Bilanzklarheit sinnvoll.

Die auf die Bewertungs- und Verbrauchsfolge zielenden Bewertungsvereinfachungsverfahren des bisherigen § 256 HGB werden mit dem BilMoG neben dem Standardverfahren des gewogenen Durchschnitts auf das LIFO- ("last in - first out") und das FIFO- ("first in - first out") Verfahren beschränkt. Somit sind weitere Verfahren, wie etwa das preisorientierte HIFO ("highest in - first out") zukünftig verboten. Es bleibt bei der Angabepflicht der Methode und des gegen den Marktpreis gerechneten Unterschiedsbetrages gem. § 284 Abs. 2 Nr. 4 HGB im Anhang. Auf eine weitere Einschränkung, wie sie etwa nach IFRS erfolgt ist, wird mit dem Verweis auf die Zulässigkeit der LIFO- und der Durchschnittsmethode im Steuerrecht verzichtet.

Zusammenfassende Würdigung

Die skizzierte geplante Fortentwicklung des deutschen Bilanzrechts durch eine Verschlankung bestehender Ansatz- und Bewertungswahlrechte im Einzelabschluss orientiert sich zum Teil (wenn auch mitunter stark abgewandelt) an den geltenden internationalen Rechnungslegungsvorschriften. Der deutsche Gesetzgeber geht jedoch mit der Umsetzung des BilMoG und dem Festhalten an einem eigenen Handelsgesetzbuch einen besonderen Weg. Für Einzelabschlüsse gelten daher weiterhin verbindlich die Regelungen des HGB.

Die Ausgestaltung des BilMoG ist grundsätzlich auf die Beibehaltung des bisher geltenden Maßgeblichkeitsprinzips der Handelsbilanz für die Steuerbilanz ausgerichtet. Ob sich dieses Prinzip letztlich unproblematisch anwenden lässt, muss die endgültige Fassung des BilMoG in der Praxis zeigen.

Es wurden wesentliche geplante Änderungen einzelner HGB-Regelungen erwähnt, wobei diese im Hinblick auf den Gesamtumfang des vorliegenden Entwurfs zum BilMoG (insgesamt 234 Seiten) nur einige wichtige Änderungen sein können.

Zu welchem Zeitpunkt das BilMoG tatsächlich verabschiedet wird und in welcher konkreten Fassung steht zum jetzigen Zeitpunkt noch nicht fest. Voraussichtlich wird das Gesetzgebungsverfahren aber noch bis zum Ende des Jahres 2008 abgeschlossen sein. Ob die dann geltenden veränderten Vorschriften in der Praxis problemlos angewandt werden können, werden die ersten Jahresabschlüsse nach neuem Recht zeigen.

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FINANCIAL ACCOUNTING AND MANAGEMENT ACCOUNTING SUPPLIERS OF INFORMATION ABOUT COSTS IN COMPANY'S MANAGEMENT FROM ROMANIA

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Resume: Now, according to the Romanian law, the companies stipulated in the law must organize and lead their own accountancy, financial accountancy according to the Accounting Law and the management accountancy adapted to the specific of the company.

The differences between the financial accountancy and management accountancy generate a double classification of the expenditures:

in the financial accountancy according to the criterion of the economic-financial condition (exploitation, financial and extraordinary expenditures)

in the management accountancy according to the criterion of expenditures destination (the expenditures of the main activity, the expenditures of the auxiliary activity, indirect production expenditures, general management expenditures and sale expenditures).

Key words: Production costs, profit brute increase with partial costs, variable costs, fixed cost, cost of period, direct expenditures, indirect expenditures.

In present time, in Romania " Companies, national companies, government –owned corporations, national institutes for research and development, co-operative companies, and others legal entities have the obligation to organize and manage their own accounting , financial accounting , according with accounting law, and management accounting adapted to the specify of the activity".

Financial accounting is" the activity specialized in measuring, evaluating, knowledge, management and control of the assets, debts, and own capital, also of obtained results from the activity of legal entity and natural person" authorized. Accounting "must assure chronological registering and systematic, processing, publishing, and keeping information about financial position, financial performances and cash flows, also for internal tasks, and in relation with investors present and potential, financial and commercial creditors, clients, public institutions, and others users".

Management accounting is destiny, mainly, for registration of the operation about collecting and distribution of the expenses on destinations, respective, on activities, departments, fabrication phases, deduction of the production and calculus of the production costs for the products, executed works, performed services, including production in execution. Why we use production cost?

First of all, production cost, use as base for grounding of selling price. It is understood that selling price is establish by the market. But less theoretical must be a Base, according to relation:

$$P_V = C_P + M_{BP} (1)$$

We have "Selling price"(P_V),"Production cost"(C_P) and" Gross Margin of the Profit"(M_{BP}) We noticed that selling price is higher than production cost and the company is recovering production(operating) expenses and get profit, in invert situation , the expenses are not recovered and the company is pointing to bankrupt.

Second of all is useful for evaluation and recording of the inventories of finished products, in financial accounting (getting in financial administration): 345=711….(C_P). Finished products could be recorded also to the recording price: 345=711…..(Pi) when production cost is unknown. Anyway this should be calculated in the moment when we know all its components and must establish and recorded the differences of price (D_p) or deviation between “Production cost” (C_P) and “Recording price” .(Pi) 345=711…(D_p), in black or red depending the differences positive or negative.

Coming back to the accounting record 345=711 , at the first impression it influenced results account by the incomes from the account “ 711 – Variation in stocks “. In reality the things are a little bit different because the company for producing make consumptions recorded as expenses, such: raw materials, and outside services, electric energy, fuel and water, salaries of personnel. All that expenses will contra balance, in profit and loss account, incomes in variation in stock which is recorded at production cost. If we are referring strictly to those recode, results account will be affected in situation in which the production cost is identify with incomes from the stoked production don’t incorporate strictly the expenses that where done foe realization of those products. In that case the results will suffer temporally lack of poise, more or less significant, thing that we will present in the following:

Even more, inverse accounting formula: 711=345… at (C_P) or (Pi) which is used in unloading the financial administration, doesn’t present importance because the sale take place in the period of calculus and income tax. Our approach is based on the difficulty of effectuation of an exact calculus of the production cost; otherwise there are no nets sure for finding them. The difficulty of the calculus results, mainly, in identification of same categories of production costs, common for produced manufactured and conventional relocation of those costs.

Production cost (C_P) represent, as we are mentioned before, the totality of operating expenses occasioned by the producing of a product, service, (calculation object –P, L, S): $C_{P(P,L,S)=\sum CH_I}$ (2)

The notion of cost was extended in specialized literature concerning those partial costs, as: variable cost (totality of expenses that are modified with the volume of the production), fix cost (totality of expenses that rest constant with variation of the volume of production), period cost (totality of costs for a period), the cost of a costs sector, which are used mostly in profitability analyses than in accounting records.

If at the production cost we are adding the general expenses for administration and distribution we have complete cost or commercial of those.

Operating expenses are recorded by there nature in the accounts from the 6-th class in the financial accounting and will regrouped for calculation of the costs by destinations in the accounts from the 9-th class in the management accounting. For the calculus of the production costs are used different procedures specify for every situation

The relation between financial accounting and management accounting is illustrated in the following table:

<table>
<tr><td></td><td>Tabel nr.2.2</td></tr>
<tr><td>FINANCIAL ACCOUNTING</td><td>MANAGEMENT ACCOUNTING</td></tr>
<tr><td colspan="2">FLOW OF EXPENSES (ALOCATED RESOURCES)</td></tr>
<tr><td>I. OPERATING EXPENSES</td><td rowspan="5">DESTINATIONS

I. Account 901 "Internal Discounts about expenses"
II. GROUP 92 "Calculation Accounts"
Accounts :
921 - Base Activty Expenses</td></tr>
<tr><td>GROUP 60 "Expenses with raw materials and goods ": account 607</td></tr>
<tr><td>GROUP 61 "Expenses with works and services executed with externals ": accounts 611 to 614</td></tr>
<tr><td>GROUP 63 "Expenses with taxes": accounts 631 to 635</td></tr>
<tr><td>GROUP 64 "Personnel Expenses ":
Accounts 641 and 645</td></tr>
</table>

<table>
<tr><td>GROUP 65 "Others Operating Expenses": Accounts 654 and 658</td><td rowspan="5">922 -Auxiliary Activities Expenses
923 - Indirect Production Expenses
924 - General Administration Expenses

925 - Distribution Expenses</td></tr>
<tr><td>II. FINANCIAL EXPENSES</td></tr>
<tr><td>Account 666 "Expenses about interests"</td></tr>
<tr><td>III. EXPENSES WITH DEPRECIATION AND PROVISIONS</td></tr>
<tr><td>Account 681 "Operating Expenses about depreciation and provitions"</td></tr>
<tr><td colspan="2">FLOW OF THE GETTING PRODUCTS</td></tr>
<tr><td>GROUP 20 "Intangible assets"</td><td rowspan="6">Account 902 "Internal Discounts about internal production about getting production "
GOUP 93 "Cost of getting production"</td></tr>
<tr><td>GROUP 21 "Tangible assets"</td></tr>
<tr><td>GROUP 23 "In course assets "</td></tr>
<tr><td>GROUP 33 "Producion in execution "</td></tr>
<tr><td>GROUP 34 "Goods"</td></tr>
<tr><td>GROUP 36 "Animals"</td></tr>
<tr><td colspan="2">FLUXUL ABATERILOR DE PRODUCȚIE (PROGRAME)</td></tr>
<tr><td>Contul 348 "Price differences at products"</td><td rowspan="2">Account 903 "Internal Discounts about price differences"</td></tr>
<tr><td>Contul 368 "Price differences at animals and goods "</td></tr>
</table>

The differece betwen financial accounting and management accounting generate a double clasification of the expenses:

- In financial accounting the criteria is economico-financial nature(operating expenses, financial and extrordinary);
- In management accounting the criteria is the destination of expenses(base activty expenses, auxiliary activity expenses, indirect production expenses, general administration expenses and distribution expenses)

In conclusion there are two independent circuits of accounting, every circuit realising a pointed prelucration on objectives.

On the other hand are two forms of aplication of the same technique that supply different information .

The start for management accountig is taking from financial accounting of the operating expenses that will be analysed toghether with operating incomes, why management accounting is called internal accountng, analitic, or management.

By management accounting legal entities can get information that assure an efficient administration of the assets, respectiv:

- information about costs of goods, works, services, for legal entities that have production activities, services, and the cost of the sales goods for legal entities on trade;
- Information that stay on base of budgeting and control of the operating activities;
- Necesary information for the financial analysis pointing the foundamantation of the management strategies about internal management;
- Others information requaired of a performnt management.

Informational system of management accounting could be defined by its functions:

- *Function of measure of the cosumptions destinated for production and trade;*

This function includes others functions of the organization, (production function, personnel function, trade function) in a certain structure technico- organisational. The importance of this function is given by its capacity to measure the raport cost/ efficency.

– *Function of prediction for the two components: planning and prognose.*

Plannig is refering to the short and medium periods of time and regarde especialy microeconomic sector, while the *prognose* is reffering to the long periods of time beeing utilised in macroeconomic sector.

– *Function of optimization*

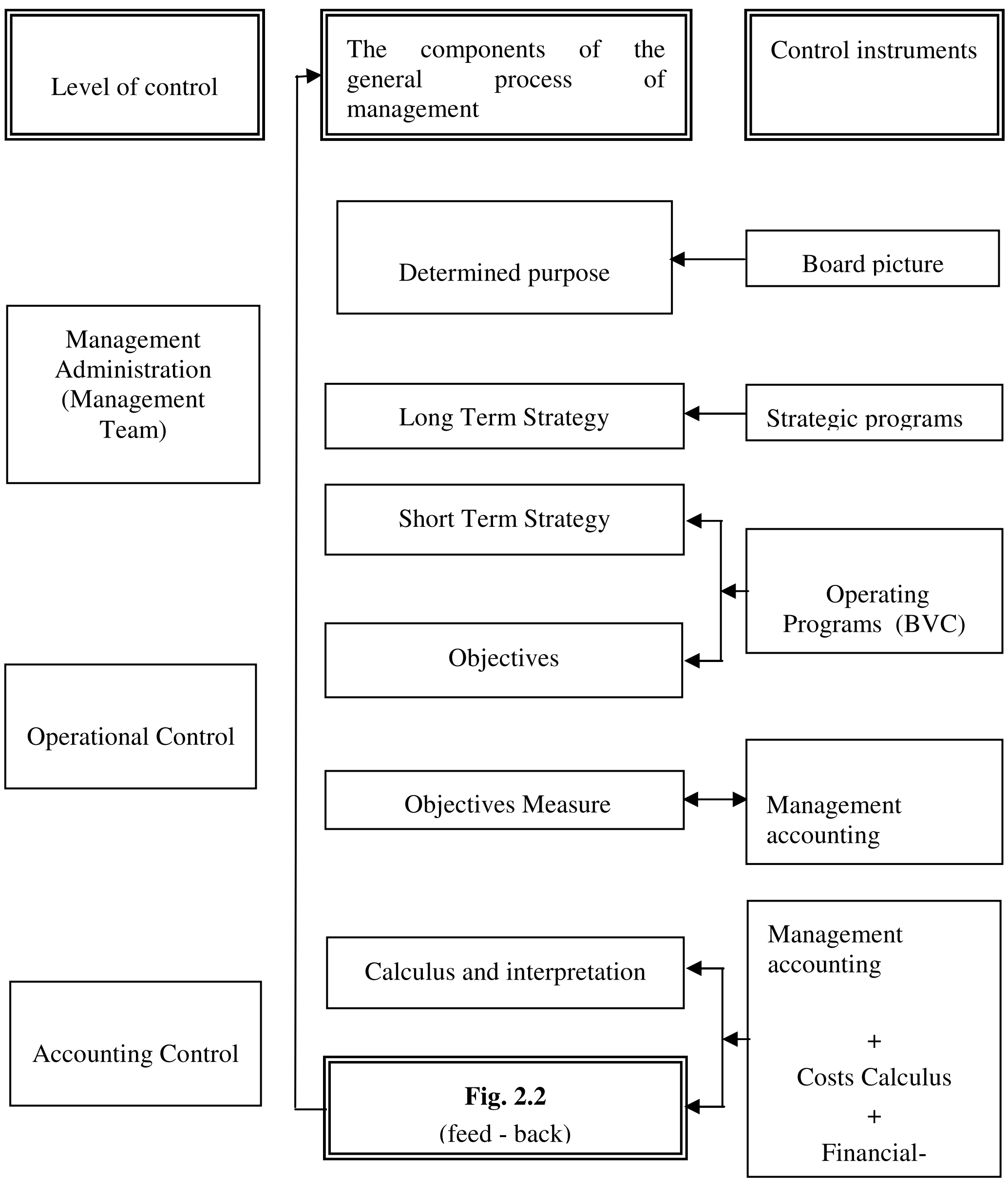
This function is refeerin to the alocation of the limitted resources according with existing pririties. Optimisation is related with foreseeing founction and is realised by mathemathical methods.

– *Function of folowing, control and regulation.*

Its role is to explain the differences between planed levels and realised levels, based on income and expenses budgets.

In the following scheme is represented the place and the instruments of action of accounting as component part of the general process of administration.

The place of management accounting in general management process



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TRIDIMENSIONAL APPROACHES OF THE INTERNAL AUDIT, PRIVATE, PUBLIC AND BANKING SYSTEM

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Abstract. Entities, no matter what operating system they have, private, public, banking, have as a purpose the value adding. The internal audit has its contribution to the achievement of this goal. This research explains the tridimensional approach of the concept of internal audit and identifies the elements that emphasize, in a tridimensional way, the internal audit. The steps of the reaserch take into consideration a synthesis of the materials published by the national and international accounting standards, by professional bodies, papers on this theme proposed for debat, as well as materials of the economic entities.

Key words: internal audit, internal public audit, banking internal audit, risk, plusvalue

1. The internal audit concept, a tridimensional approach?

Coming into being from Ancient times, the internal audit has had the sense of an administrative proceeding which consists in checking the documents, taking an inventory of goods and reporting the past events to the responsible persons. The internal audit concept was founded during the economic crisis from USA in 1929, when the officially quotated entities had the obligation to certify the financial situations by the external auditors. In order to diminish the costs of the external auditors' fees, the entities created internal audit departments to carry out the preceeding audit works, the external auditors' job remaining the one of certifying the financial situations. After the economic crisis ended, the internal auditors has continued their mission in a way which allowed the extension of the audit domain, being necessary a specific function for the internal audit activity within each entity. So, it begins to settle into shape the internal audit function, which has been recognized in France since 1960, based on its accounting control origin.

The evolution analysis of the internal audit concept, reveals that the risk concept emergence has influenced the internal audit concept, too. The internal audit development has known three stages: risk identification and analysis, internal control systems, audit of activities with emphasis on risks (Namee & Selim, 1997). In general terms, the risk is defined by the combination of event occurence and its consequences. Thus, the risk is a series of challenges to confront in the context of making major decissions because it diminishes the emphasise on success and restrains results achievement.

In terms of the International Standards of Internal Audit, the risk is the possibility of an event occurence that could have impact on the objective accomplishment.

In terms of the internal control – internal audit relationship, the risk is an assembly of occurences that could have negative consequences upon an entity whose internal control and internal audit have as a mission the ensurance of a good control upon them.

Though different, the presented definitions have as a common denominator the incertitude and the negative impact on the financial performance of entities.

Setting out the Internal Auditors Institute (IAI) and giving a complex definition to this concept have led to the development of the internal audit. In terms of the International Standards of Internal Audit issued by IAI, the internal audit is an independent and objective activity which gives to an entity assurance regarding the degree of controlling the operations, offers guidance to the entity in order to improve its operations and contributes to an additional value. Internal audit helps this organization to achieve its objectives, evaluating, by a systematic and methodologic approach, its risk management processes, its control and management processes, helping it with proposals of effectiveness consolidation.

Adhesion to the European Union and economies globalisation led to the internal audit creation in Romania in 1999. The major objective of any entity, that is progress, is sustained by the internal audit, too. In this regard, the concept of internal audit has been defined for each system: private, public and banking.

In the private system entities, the internal audit is the activity of objective examining of the economic activity assembly in order to provide an independent evaluation of the risk management, control and leadership processes. When the organizational frame involves state participation, the entity receives the title of a public entity, and the audit becomes a public internal audit. The public entity concept nominates the public authority, public institution, autonomous regia, national company/society, commercial society where the state or an administrative-territorial unit is a majority shareholder and bears juridical personality.

The national regulations define the public internal audit as being the independent and objective activity which offers assurances and couselling to the managing board for the good administration of public revenues and expenses, improving the activities of the public entity; it supports the public entity to achieve its objectives by means of a systematic and methodological approach that evaluates and improves efficiency and effectiveness of the leadership system based on the risk, control and administration process management.

The public sector entities development, and implicitly the economy development, cannot be sustained without the existence of a secure banking system. The national regulations in the banking field do not offer an appropriate definition for the internal audit in the credit institutions or the given definition was in accordance with the banking system existing five years ago: the internal audit is an independent activity assigned for the credit institution improvement, either by accomplishing certain audit agreements or by awarding certain consulting services to the audited structures/entities.

Thourough examination of the internal audit definitions in private-public-banking terms shows that all of them emerge from the internal audit definition given by the Inernational Standards of Audit. No matter what sector of activity it applies, the internal audit follows the same main goal: to add plusvalue, to support the entity in achiving its objectives by missions of assurance and counselling which take into consideration the risk, operational control and governance management. The internal audit major responsibility is also sustained by Morris (1992) who appreciates the vital role of the internal audit and the support given to the managing board ”to take charge of the internal control”. This opinion consolidates the internal audit role, regardless of the operating system, those of certifying to the managing board the quality of existing internal controls, the way of applying them, the implemented strategy correctness and effectiveness, offering courage and trust. In our opinion, we consider that the tridimensional delimitation of the internal audit is not conceptual but rather on regulation and activity area.

2. The internal audit tridimensional characteristics

Though the internal audit concept is unique, there exists a series of elements which defines this concept in a tridimensional way. As regards to the applicability, the internal audit in the private sector is compulsory only for the entities whose annual financial situations are examined either as a result of law or as a decision of the shareholders. For the entities which have no obligation of financial situations audit, the implementation of the internal audit function represents a measure whose opportunity and necessity are appreciated by the managing bodies, and the norms applicable to the fuction and to those who bear it keep the character of recommendations.

In the public system, the entity has the obligation, by law, to organize and assure the mission of public internal audit. Besides the attributes at micro level, of promoting the economic development and implicitly the social one, by creating the appropriate frame and sizing the appropriate prises, the state takes part differently, according to the fields, in specific markets being interested in an optimum management of the resources involved. In addition, for the public entities, having the role of satisfying the community interests at local or national level, of accomplishing certain economico-social objectives within the responsibility area of the state and adminstrative-territorial units authority, the existence and way of functioning of the managerial function of internal control to be monitorized by means of an internal audit mission represent indispensable attributes, instruments whose usage assure the guarantee of increasing the success chances and, last but not least, of a good and responsible manager image which the public percieves regarding the state and its institutions.

In the banking system, the risk is a permanent companion for any transaction or process developed by the credit institutions, with negative consequences upon them by impairing the quality of affairs, diminishing the profit or even registration of losses leading to the alteration of the institution functioning. Thus, the internal audit has become compulsory by law, instrument by means of which the banking system can be monitorized and any infringement of regulations can be immediately notified, analysed and monitorized till their solving.

The internal audit tridimension is more evident from point of view of the objectives taken into account.

For the private system, the internal audit covers the assembly of the economic entities activities, each of them, individually or cummulatively, possibly being the weak link of the processual chain to affect the accomplishment of the entity goals in efficency conditions.

In the public sector, according to the national regulations, the internal audit focuses on the following aspects:

- Financial activities or with financial implications developed by the public entity from the moment of concluding the agreements until the use of funds by the final beneficiaries, including the funds from external assistance;
- Establishing the public revenues, respectively the certification and establishment of credit bonds, as well as the facilities awarded at their incashing;
- Administration of the public patrimony as well as the purchasing, pledging, concessioning or renting of goods from the state private/public domain or the domain of administrative-territorial units;
- Financial and control management systems, including related accounting and informatics systems.

By this research we consider that the creation, use of public funds and administration of public patrimony represent the characteristics which delimit indubitably the public internal audit from the private one, respectively the banking one.

On the opposite side there is the banking internal audit, which has the role of offering to the managing board information in order to diminish the negative consequences generated by risks in achieving the goals of the credit institution, as well as the efficiency of the risk management process.

The internal audit tridimensional characteristics are emphasized by its typology in the following way:

Internal audit in the private system	The regularity (conformity) audit checks if the entity does what it says it does, if the rules and proceedings established by the entity itself are rightfully applied
	The effectiveness audit answer the question regarding the management of the entity with maximum of effectiveness and efficiency
	The management audit is interested in the existence of the management policy, the integration of the sectorial policy in it, knowledge and apllication of this policy
	The strategy audit confronts the entity policies and strategies with the environment and among them, having as a goal the assurance of global coherence
Public internal	The system audit is a detailed assessment of management and internal control systems in order to establish if these systems operate in economic, effective and efficient ways for identifying the defficiencies and for enouncing recommendations for their correction

audit	The performance audit examines if the established criteria for the implementation of the objectives and public entity's tasks are right for evaluating the results and it appraises if the results are in line with the objectives
	The regularity audit checks the actions upon the financial effects taking into account the public funds or the public patrimony, under the compliance with the principles, procedural and methodological rules which are applied to them
Banking internal audit	The financial audit checks the accounting and informatics system credibility and the credibility of the financial situations
	The conformity audit checks the compliance with the laws, regulations, policies and proceedings
	The operational audit has as objective the check of systems and proceedings quality and adequacy, the critical analysis of the organizatoric structure, evaluation of the methods and resource adequacy in relation with the established objectives
	The board audit assesses from qualitative point of view the way in which the management function is undergone for the accomplishment of credit institution objectives

Tridimensional approaches of the internal audit typology

The analysis of the internal audit typology from private-public-banking view emphasizes the fact that although the internal audit forms interfere with the three systems, it has different titles and the public system characteristic is reflected by the performance audit characterized by the application of the principles of economy, efficiency and effectiveness and dominated by the analysis exigence ”if the public money was properly spent”.

Conclusions

The undertaken analysis shows that no matter what property form the capital bears, the entities organization, the operating system – private-public-banking, the internal audit concept is not tridimensional. Independence, objectivity, competence and professional competence represent the fundamental principles governing any internal audit mission. Its goal is unique: to ensure the degree of control upon the operations for the entity, to guide the entity in order to improve its operations and to contribute to the adding of a plusvalue.

The tridimensional delimitation of the internal audit is based on the objectives and the activity area, and all the further differencies are generated by these delimitations. The tridimensional characteristics analysis of the internal audit emphasizes that for the private system the internal audit covers the economic entities' assembly of activities, each of them, indicivually or cumulatively, possibly being the weak link of the processual chain to affect the accomplishment of the entity goals in efficency conditions. For the public system, the internal audit is focused on what has influence upon the good administration of public revenues and expenditures.

On the opposite side there is the banking internal audit, which has the role of offering to the managing board information in order to diminish the negative consequences generated by risks in achieving the goals of the credit institution, as well as the efficiency of the risk management process.

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BETWEEN THE EXTERNAL CONTROL AND THE INTERN CONTROL

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Eight years ago, in a specialty paper, the authors appreciated that "the trade societies censors can be considered a combination between the own control and the external one of the enterprise". Starting from this statement, the authors of the present paper are asking a question, which can be formulated in a concise way like this: Which is in present the place, but more special the role of the censorial control in the frame of the Romanian economic units? Giving an answer implies the approach in the present paper of the aspects that regard the censors of the trade societies and the activities developed by those in the native patrimonial entities, based on the legislative regulations in this moment in our country.

Key words: censorial control, external control, trade societies, financial audit

In general by control is understood "a permanent analysis or periodical of an activity, situation and so on, by following its course and by taking measures of improvement"[412]. This is taken also at the level of the patrimonial entity (microeconomic) and at the level of the sub-branches and at the branches of activity, economic sectors and national economy (macro economy), because represents an efficient and necessary function of the management, an human activity which "works" in every field of the social-economic activity; the control being imposed as a necessity of information of the decisional factors, regarding the management way of the patrimony, of the material resources, human and financial and of the contribution of those to the creation and development of the performance.

The organizations palette and the colours of the aspects which characterize the activities given by those, claims the existence of many control forms that are put in frame by different juridical persons (authorities, institutions) or physical persons. One of the criteria namely the position of this (of the comptroller or comptrollers) which make the verifications in report with the organization of which activities are submissive to the comptroller, allows us to distingue two forms of the comptroller: on a side, [a] *the external control*: is realized outside the organization, regular by the state, through specialized authorities, and on the other hand [b] *the intern control*: is that of own control of the organization, which is made in the inside of this by one ore more of the employed persons.

In 2000 when it was published a specialty paper, the authors were appreciating that "the trade societies censors can be consider to be a joint between the own control and the external one of the enterprise"[413] . Those explain the phenomenal through we quote "when it started the reconstruction of the juridical mechanism of the trade market, the Romanian regulations gave priority to the … to some field of work existent before the communist era neglecting the fact that mean while the European countries and the others capitalist countries evaluated in a alert rhythm becoming something else from what they were before the war". It ends with the next consideration: "obvious, when we will reach to a considerable trade economy, the censorial control will become a real independent external control and it will be treaty in the theory of the organization of the financial economic control as a part of the financial-accounting audit".

Starting from this point of view, we ask the question, which can be succinct formulated like this: What is now the place but especially the role of the censorial control in the frame of the Romanian economic entities? Formulating an answer implies to approach the aspects that regards the trade societies censors and the activities taken by those in the native patrimonial entities, based on the legislative regulations from nowadays on the Romanian territory.

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In our country, the normative act which regulates at present the activity given or the control taken by the censor is the Law no. 31/1990 regarding the trade societies, republished with all the modifications and supplements subsequent, in the Official Monitor no.1066 from November the 17 2004. The regulation regards especially the societies with certificates of stock and those on partnership of certificates of stock which are obliged to have three censors and three substitutes if by the constitutive act does not foresee a bigger number. In all the cases, the number of the censors must be odd. For the societies with limited liability, the regulations of those can foresee the choosing one or more censors, and if the number of the associates passes over 15, the naming of the censors is compulsory. To those it will be applied depositions foreseen by the law for the censors of the societies with certificates of stock. In the lack of the censors, each one of the copartners which is not an administrator will exercise the right of control which the copartners have in the societies in collective name.

The trade society's censors are chosen and are named by the general meeting of the copartners, at the beginning from the constitutive one and subsequent from the regular one. Those must practice personal their mandate which has duration of 3 years with the possibility to be reelected after that. The censors must give a declaration on their own responsibility from which to say that those accomplish the requests foreseen by the law, document that comes with the register petition of the society in the register of trade. According to the law[414] at least one of the censors must be an authorized accountant or an auditor. The censors are obliged to deposit before they are invested in the position a third part from the insurance requested for the managers. Are excluded from this obligation the auditor censors or the authorized accountants if they make prove of the insurance of professional civil responsibility. At the same time the censors can be copartners of the society excluding the auditor censors and the authorized accountant which can be third which practice individual the profession or in associations' forms.

The members of the board committee and the directors of a society with stocks will not be without the authorization of the administration board, censors in other competitive societies or having the same object, neither to have the same trade or other competitive on their own or to another person, under the penalty to recalling and damaging liability [art. 145, paragraph (5)].

According with the regulations (art. 161), in a trade society there can not have a censor mandate (can not be censors, and if they were elected they are dismissed from their mandate):

a) the relatives and including the persons to the fourth near relations or the spouse of the managers;
b) the persons that receive under any form from the managers or from the society a payment or a payment for other functions besides the on of censor or of which employees are stipulated in the contract or are in competition with this;
c) to the persons to which is forbidden the manager function namely they not have the capacity (are not capable) and the ones that suffered convictions for management facts or in administration (ill management, confident abuse, fake, use of forgery, fraud, dilapidation, false perjury, giving or taking bride);
d) the persons which during they attributions offered by this quality, have attributions of control in the frame of the Ministry of Economic Affairs and Finance or to other public institutions, excepting the situations foreseen deliberated in the law.

Giving up from the function of censors it can be done by the recalling them, by renunciation or by stopping the mandate in decease case, physical or legal impediment. Recalling the censors will be made only by the general committee with the vote requested to the extraordinary meetings. This means that is necessary the presence of the copartners representing the third part from the social capital, and the decision to be taken with the vote of a number of copartners which to represent at least a half of the social capital. The same extraordinary meeting will choose in this situation another censor. When releasing the function the censor in all the cases will be replaced with the oldest one. If in this way the number of the censors can not be completed the remaining censors name other persons in the vacant places which will be on a determinate period of time, till the meeting of the most appropriate general meeting. In the case that their does not remain in function no censor the society administrators will convoke the urgent general meeting, which will choose other censors.

[414] *Law no. 31*, *regarding the trade societies, republished in* (2004) Official Monitor of Romania no. 1066: art. 159, 16

By law of trade societies there are given a series of *attributions, responsibilities, rights, obligations, liabilities and interdictions of the censors*. Which we will present further on in chronological order mentioned by the mentioned regulation:

- the censors can not be stock holders with main dividend without the right to vote [art. 95, paragraph (3)];
- at the general meetings, the censors must notice by proceedings the deposit to places shown by the constitutive act or by notice and on time (at least 5 days before the meeting) of the certificate of stocks for the stockholder which have bearer stocks for those to benefit from the vote right. The certificates of stocks will remain deposit till the general meeting but will not be retained more then 10 days from this date [art. 123, paragraph (1)] ;
- releasing of a certificate by the censor from which to result the deposit of the administrators of the insurance requested by the law, which must be presented to the office of trace register, in the same time with the signatures for the function of administrator [art. 141];
- administrators are responsible with their immediate predecessors if they know by the disorders made by those and they do not communicate them to the censors or to the financial auditors [art.148, paragraph (4)]; In the societies that have more then one administrators the liability for the acts or for the omissions does not get to the administrators that made the establishment, in the decisions register of the administration council against them and told about this in write to the censors and in some cases to the financial auditors [art. 148, paragraph (4-5)];
- the right to be convoked to the meetings of the administration council [art.151];
- any stockholder has the right to claim the censors acts that they think that must by censored, and those are obliged to verify them and if they find them real to take into account for the report of the general meeting. If the claim is made by a fourth part of the stockholders from the social[415] capital they are obliged to convoke immediately general meeting. On the contrary they must refer to the first meeting. The committee must take a decision of the claims made [art. 154];
- another mission of the censors is the administrators naming. So if one or more administrators is/are on vacation the other administrators together with the censors and deliberating on the presence of two third parts and with absolute majority proceeds if by constitutive act is not disposable in another way, to the naming of a temporary administrator till the general meeting. When the society has only one administrator and this can not deal with its attributions (decease, physical impediment), the temporary naming is made by the censors but the general meeting will be convoked urgently in order to name the administrator. Also if this whishes to withdraw it will convoke the general meeting [art. 156];
- the censors are obliged to supervise the management of the society, to check if the financial situations are legal and in concordance with the registers, if the last ones are right keep and if the evaluation of the patrimony elements was made according to the established rules for the indite and presentation of the financial situations. The censors will make and present to the general meeting a detailed report in relation with all those and also the proposals which they consider necessary regarding the annual financial situations and the profit[416] repartitions. Is to specificity that the general meeting will not be able to approve the annual financial situations if those are not with the censors report[417] or in other case of the financial auditors. Also the censors are obliged to make every month unexpected inspections to the house and to check the titles existence or values that are the property of the society or they were received as deposits, guarantee or storehouse. Another obligation of the censors is the one to convoke the ordinary meeting or extraordinary one when this was not convoked by the administrators. In

[415] The fourth part from the social capital is proved by depositing the stocks to the Romanian banks or to the units of those, namely by blocking the stocks in the account in case the stocks will be deliberated in immaterial form

[416] In order to accomplish this obligation the censors must vote together; they can make case if there is any disagreements, reported separated which will be presented to the general meeting. In exchange the others obligations imposed by the law the censors must work separately

[417] The report of the censor must be made at least 15 days before the general meeting

the same time the censors have the obligation to take part to the general meeting those can even ask to put down some distinct points on the agenda proposals that they believe necessary. By the censors' obligations is the one to see the regular deposit of the insurance from the administrators. Those have the obligation to see if the law depositions and the one of the constitutive act are accomplished by the administrators and by the liquidator. In order to accomplish those obligations foreseen by the law the censors can take part to the administrators meetings with the right to vote. They also have the right to obtain every month from the administrators a situation regarding the operations functioning. The censors must notice the administrators about the disorders in management and the disorders from the legal depositions and from the foresights of the constitutive act which they find and the important cases will be told to the general meeting without telling them to the stockholders in particular or to the third persons referring to the society operations, found during their mandate [art. 163-164];

- is forbidden to the censors to present as a mandatory the stockholders in the general meeting [art.171];
- referring to the annual financial situations verification of the trade societies we have to specify the fact that the administrators have the obligation to present to the censors at least a month before from the established day for the annual financial general meeting for the previous financial exercise with their report and the justificative documents [art.181];
- in the case in which the trade society goes into liquidation, the liquidators are accomplishing their mandate under the control of the censors [art.253]. In the same time the liquidators can not in the absence of special depositions in the constitutive act or in the act of their naming to make mortgages on the society goods if their will not be authorized by the instance with the censors approval [art. 255, paragraph (2)]. After the liquidation is finished the liquidators make the final financial situation showing the part for each certificate of stock from the repartition of the asset of the society, accomplished by the censor report or in case the report of the financial auditors [art. 268].

The censors from the trade societies have important responsibilities of which area and effects are determined by the mandate rules. Those are responsible to the society for the; reality of the payments made by the stockholders/copartners the real existence of the dividends paid, for the existence of the registers requested by the law and their right maintenance the exact accomplishment of the decisions of the general meeting the strict accomplishment of the duties that the law and the constitutive acts impose. Before their entrance in function those must deposit a guarantee that represents the third part from the guarantee requested for the administrators.

The findings made by the censors during their mandate and also all their deliberations will be put down on a special register for the trade societies on certificates of stocks existing the compulsoriness to keep this document through the censors care.

The censors report together with the one of the administrators and/or of the financial auditor is used as a fundament of the discussion approval or modifications of the annual financial situations. Also to the chapter of reports needs to be mentioned that according to the law to the certificates of stocks societies one or more stockholders have at least 10% from the stocks representing the social capital, they may ask-individual or together – to the court to establish one or more experts, to analyze certain operations from the society management in order to be analyzed and to be taken right measures.

For the activity developed the censors of the trade societies are paid with a fix sum. The measure of this is determined through the constitutive act or is stipulated by the general meeting that named them, than being able to change. Also will be given to the censors any others sums or advantages but only based on the decision of the ordinary general meeting. Information's regarding the payments of the censors is presented in note 10 "Other information's" to the annual financial situations.

At the chapter offences the Law no.31/1990 tells us that the punishment with prison is: from a month to a year or with fine the censor that does not convokes the general meeting in the case in which he is obliged by law; and to 3 months to 3 years the persons which accepts or keeps the duty of censor, contrary to the depositions [art.161, paragraph (2)].

According to the art.161 from the Law no. 31/1990, the financial situations of the trade societies which enter under the incidence of the accounting regulations harmonized with the European norms and the international standards of the accounting will be examined by the financial auditors- physical or juridical persons- under the conditions foreseen by the law. In exchange to the trade societies of which the annual financial situations are not submissive to the financial audit the ordinary general meeting of the stock holders can decide to get a financial audit or naming the censors in case. Also to the societies with limited liability will be applied the depositions we discuss [art. 199], in this case the meeting of the stockholders can name one or more censors, this having the obligation to name the censors, to revoke or to decide the contraction of the financial audit when this does not have an obliged character [art. 194].

But, which are the societies that enter in the category of the units which annual financial situations must audited according to the law? The response is given by the Order of the ministry of public finances no. 1752/2005 for the approval of the accounting regulations according to the European norms which at art. 5 tells us that the annual financial situations made by the juridical persons which at the date of the balance sheet pass over the limits of two from three criteria's (total assets: 3.650.000 euro, the net number; 7.300.000 euro, medium number of the employees during the financial exercise: 50) are audited according to the law. The audition is realized by one or more physical persons or juridical authorized. The financial auditors must express their opinion regarding the grade of the report of the administrators with annual financial situations fro the same financial exercise. The financial auditor is physical or juridical persons that gets this quality under the law conditions and the financial audit represents the activity of examination, with the purpose to express by the financial auditors the opinion on the financial situations according with the audit standards, harmonized with the international audit standards and approved by the Chamber of Financial Auditors in Romania.

On the other side the annual financial situations simplified are checked according to the law, the juridical persons which by the time of the balance sheet does not pass over the limits of two of the criteria's of measure foreseen not having the obligation of the audit of the annual financial situations. The accounting regulations does not nominate the censors as being responsible for the annual accounts checking, as well as in case of the financial auditors, saying just that the annual situations of those entities is being checked according to the foresights of the law.

In the end, we conclude. The censor control claims the belonging to the external control. The censors of the trade societies must by guarantees of the reality, fidelity and credibility of the accounting documents, for all the external users of the accounting information. The essential condition in order to satisfy this request is that those to have a neutral position given to the enterprise and to act as competent professionals, independent and full responsible fro their work and for their opinions.

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ACCOUNTANCY OPTIONS FOR TANGIBLE ASSETS

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Abstract: The contemporaneous evolution of the accountancy is characterized through strong tendencies of international accountancy normalization and adapting. This signifies that in most countries the accountancy is supported by common rules and that it drafts synthesis documents whose models are identical for all economic entities. Through the subject approached, this article has in view as main goal presenting the main accountancy operations the companies have as regards acknowledging, assessing and reassessing the tangible assets. The accountancy options concerning the issues mentioned are analyzed with the help of means specific to the financial accountancy in the context of applying the International Accountancy Standards and the International Financial Reporting Standards. The practical examples within this paper will have as role emphasizing the fact that the companies can now choose the most favorable option among the accountancy options allowed by the international standards.

Key words: long term assets, recognizing, assessing, amortization, standard, cost, value.

Defining and recognizing the tangible assets

In the circumstances of applying in Romania the International Financial Reporting Standards, the accountancy options as regards long term assets must be analyzed according to the provisions of IAS 16 "Tangible assets". This standard is applicable to the tangible assets held by an entity. For the tangible assets held by an entity in order to be sold, the standard mentioned will not be applied but there will be taken into account the content of the International Financial Reporting Standard IFRS 5 "Tangible assets held for selling purposes and interrupted activities". The biologic assets corresponding to the agriculture activities are comprised in the application domain of IFRS 41 "Agriculture" and the exploitation and assessment assets are subject matter of IFRS 6 standard "Exploiting and assessing mineral resources". The long term assets created or developed by an economic entity for subsequent usage as real estate investment are regulated by IAS 40 "Real estate investments". For studying the accountancy options concerning the tangible assets there will also be analyzed the provisions of other standards such as: IAS 23 "Costs of being indebted", IAS 36 "Assets depreciation", IAS 17 "Leasing", IAS 20 "Including in the accountancy the governmental subsidies and publishing the information connected to governmental assistance" and IAS 8 "Accountancy policies, accountancy estimations and errors".

A tangible asset is a long term asset held in order to be used for producing goods or for supplying services, in order to be rented to third parties or for administrative purposes and which it is expected to be used for a period of time greater than one year. An element of the tangible assets is recognized as being am asset if the following two conditions are fulfilled at the same time: the asset will generate future economic benefits for the entity; the asset's cost can be credibly assessed.

An economic entity assesses all costs of its tangible assets when they occur according to the principle of acknowledging. These costs imply initial costs for purchasing or building some elements of tangible assets, as well as the costs incurred subsequently for adding or replacing a part of that long term asset. The costs for maintaining and current repairing the tangible assets are not acknowledged in the accountancy value of those elements because they do not observe the two conditions for acknowledging them as assets.

Assessing and reassessing the tangible assets

An element of the tangible assets which is acknowledged as an asset will be initially assessed according to its price that can be, according to the manner that element entered the patrimony, purchasing price or production price. The purchasing price for the tangible assets comprises:

- buying price, including the custom duties and the non-recoverable charges, after deducting the commercial discounts and the abatements;
- any costs that can be directly assigned to bringing the asset to the location and in a condition required for it to operate in the manner desired by the management;
- the initial estimation of the costs for demounting and moving the element and for restoring the location where it will be moved;
- indebt costs that can be directly assigned to purchasing an asset according to the alternative treatment allowed in IAS 23 “Costs of being indebted”.

If paying the purchasing price is postponed over the crediting term, the difference between the cash price and the total payment made is acknowledged as interest for the crediting period of time aside the situation when such an interest is acknowledged in the accountancy value of the long term element according to the alternative treatment allowed in IAS 23 “Costs of being indebted”.

The production price for a tangible asset comprises: costs for raw materials and materials required for the production; costs for salaries of the staff directly involved in the production, as well as any contributions corresponding to them; share of the indirect production expenses, rationally assigned on the production costs; initial estimation of the demounting and moving costs as regards the element and for restoring the location where it will be moved; indebt related costs that can be directly assigned to purchasing an asset according to the alternative treatment allowed in IAS 23 “Costs of being indebted”. Examples of costs that are not included in the price of the tangible asset are[6, p.910]: costs for opening a new plant; costs for introducing a new product or service (including the costs for advertising and promotional activities); costs for directing the activity in the new location, including the costs for preparing the staff; administrative costs; initial exploitation losses, such as the ones registered at the time of increasing the demand for the product produced by that tangible asset; costs for relocating or partial or full reorganizing the entity’s activities; abnormal costs for waste, labor or other resources registered for building on its own an asset; costs registered for remaking functional an asset or for ones resulted from exploiting it below its regular capacity.

The initial value of some tangible assets used by a lessor within a leasing contract is determined according to the rules set out by IAS 17 “Leasing”. Thus, the tangible assets are registered either according to their honest value provisioned in the contract, either according to the updated value of the minimal payments provisioned in the contract, if the latter’s value is lower than the honest value. The accountancy value of the tangible assets can be diminished by the size of public subsidies according to the standard ISA 20 “Including in the accountancy the governmental subsidies and publishing the information connected to governmental assistance”.

Applying in the Romanian accountancy the aspects connected to the initial price of a tangible asset, dealt in IAS 16, will be emphasized through the following two examples:

Example 1: An economic entity in the wood industry purchases a plant in the following conditions:

- price negotiated with the supplier lei 80 000;
- transport, mounting and packing expenses invoiced by the supplier lei 2 000;
- costs for arranging the production section in order to mount the plant invoiced by a specialized company lei 1 000;
- costs for partially reorganizing the activity of that entity as consequence of introducing the new plant 900 lei;
- the architect’s fee lei 800;
- costs for training the staff that will operate that plant lei 1500.

The costs elements	The purchasing price elements	The period related expenses
Price negotiated with the supplier	80 000	
Transport, mounting and packing expenses invoiced by the supplier	2 000	
Costs for arranging the production section in order to mount the plant invoiced by a specialized company	1 000	
Costs for partially reorganizing the activity of that entity as consequence of introducing the new plant		900
The architect's fee	800	
Costs for training the staff that will operate that plant		1 500
Total	83 800	2 400

Table 1: Assigning the cost elements

Registering the patrimony entrance for the plant according to its purchasing price assumes:

2131 "Technological plants"	=	%	83 800	
		404 "Long term assets suppliers"		82 000
		401 "Suppliers"		1 800

Example 2: During a financial year a company produces on its own a building incurring the following expenses:

- raw materials lei 60 000; supplies lei 5 000;
- manual labor expenses lei 12 600;
- expenses for maintaining and operating the plants (indirect expenses) rationally assigned on the production cost lei 4 000;
- expenses for the interest corresponding to a loan contracted for building the real estate lei 1 000 (according to the alternative treatment allowed in IAS 23 "Costs of being indebted");
- expenses for salaries as regards the administrative staff lei 3 000.

After analyzing the expenses mentioned and after observing the regulations in IAS 16, we can notice that in the production price cannot be included the salary expenses concerning the administrative staff. As a consequence, the building's production cost is:

60 000 + 5 000 + 12 600 + 4 000 + 1 000 = 82 600 lei.

Receiving the building will be registered in the accountancy thus:

212 "Buildings"	=	722 "Incomes from producing tangible assets'	82 600	82 600

A tangible asset can be purchased through a total or partial exchange with another tangible asset of the same type or with another asset. The cost for such a tangible assets element is assessed, according to the circumstances, to its hones value or to the accountancy value of the asset assigned. The honest value will be used only if the exchange transaction is not commercial. If the tangible asset received is not assessed to its honest value then it will be assessed according to the accountancy value of the asset assigned. The economic entity determines if the exchange transaction is commercial through analyzing the degree in which the future treasury flows are forecasted to change as result of the transaction. An exchange transaction is commercial if:

a) the value, the frequency of the cash flows and the risk connected to them generated by the asset received are different of the ones of the transferred asset; or

b) the using value of a part of the entity's activities influenced by the transaction is modified as a result of the exchange and

c) the differences resulting in a) or b) are significant as against the honest value of the exchanged assets.

There must be emphasized that in the Romanian accountancy practice there are not observed the provisions of IAS 16 as regards exchanging assets. As a consequence, the assets exchange is reflected through simultaneous buying and selling operations.

Example: An economic entity exchanges an "A" vehicle assessed to an honest value of lei 37 000 for a "B" vehicle assessed for lei 40 000. The registration value (initial cost) of the "A" vehicle is lei 48 000 and the amortization registered until the date of the transfer is lei 27 000. Registering the exchange upon observing the provisions of IAS 16 is made thus:

- net accountancy value of the "A" vehicle = 48 000 – 27 000 = lei 21 000;
- amount to be paid in order to compensate the honest value difference = 40 000 – 37 000 = lei 3 000;
- value with which it is diminished the initial cost of the vehicle = 48 000–40 000 = lei 8 000;
- income obtained of the exchange made 40 000–21 000–3 000 = lei 16 000.

2813" Amortizing the plants, the transportation means, the animals and plantations"	=	%	27 000	
		2133 "Transportation means"		8 000
		5121 "Accounts in lei with banks"		3 000
		7583 "Incomes from assigning the assets and other capital operations"		16 000

After its initial registration as asset, a tangible asset can be registered in the accountancy registers either according to its cost less the accrued amortization and any loss in the accrued depreciation, either through reassessing. Reassessing the tangible assets held by a company will be made on a regular basis in order to ensure that the accountancy value is not too much different of the one determined through using the hones value on the balance date. The value resulting from reassessing a tangible asset is its honest value on the reassessment date less the subsequent cumulated amortizations and the subsequent cumulated value losses. The value losses must be analyzed according to IAS 36 "Assets depreciation".

The honest value of the lands and buildings is, regularly, determined by qualified experts. This honest value is, in general, the market value. The market value is the estimated amount for which a real estate (a land or a building) will be exchanged, on the assessment date, between a decided buyer and a decided seller, through a transaction having an objectively determined price, after an adequate marketing activity, in which the parties acted knowingly, prudently and without constraints. The estimated amount for determining the market value is the best price that the seller can obtain, in reasonable manner, and the most favorable price that the buyer can obtain. A decided buyer is a buyer being motivated, but not constrained to buy, a buyer that is neither anxious to buy, neither determined to buy at any cost, a buyer that purchases according to the realities of the present day market and not of an imaginary market. A decided seller is neither anxious nor constrained to sell, nor forced to maintain a certain price. The honest value of the production plants is, usually, their market value determined through estimation means. For the strictly specialized tangible assets that are not subject matter of some regular transactions, the hones value is identified, most times, with its replacement costs, less the amortizations.

An asset cannot be reassessed in an isolated manner. The reassessment must be applied to the ensemble of assets in the same category, in other words, for all assets having an identical type and using manner. Through reassessing the assets in the same category, it is avoided at the same time a greater heterogeneity in the manner of assessing different issues in the financial statements. When the accountancy value of an asset will increase as a consequence of a reassessment, the growth also has as effect increasing the reassessment reserves as elements of the own capital. To the degree a positive reassessment compensates a negative reassessment of the same asset, previously to including it for expenses in the accountancy register; the positive reassessment must also be registered in the accountancy books for incomes. When the accountancy value of an asset is diminished, as a consequence of a reassessment, this reassessment must be registered in the accountancy books as expenses. Although, there must be for a negative reassessment to be directly charged to the corresponding reassessment reserves to the degree such a reduction would not surpass the size of the reassessment reserves concerning the same asset. The reassessment reserve comprised in the own capitals can be transferred, in a direct manner, to the result carried forward, when the reassessment reserve is obtained. The entire reassessment reserve is obtained on the occasion of removing from operation or assigning the asset. Still, a part of the reassessment reserves can be obtained to the degree the asset is used by an economic entity. In such a case the size of the reassessment reserves obtained is the difference between the amortization relying on the reassessed accountancy value of the asset and the amortization relying on the entry cost of the asset. [2, p. 101].

As regards reassessing tangible assets, the problem arisen would be the manner for dealing the amortization on the reassessment date. A method would be re-calculating the amortization pro-rated with the gross accountancy value of the asset thus that after the reassessment the accountancy value of the asset to be equal to its reassessed value. The second method assumes eliminating the amortization of the gross accountancy value of the asset, thus performing only the reassessment of the net accountancy value. This method is often used for buildings.

Example: An economic entity holds buildings that have been purchased for a price of lei 900 000 and the registered amortization until the reassessment date is lei 300 000. The honest value determined by the accountancy experts is lei 1 000 000.

According to the first reassessment method:

- it is calculated the ratio between the honest value and the net accountancy value of the buildings:

$$1\ 000\ 000/\ (900\ 000 - 300\ 000) = 1{,}66$$

- - the cost of the long term assets and the cumulated amortizations are reassessed through applying the growth coefficient which leads to:
  - the reassessed cost of the constructions: 900 000 x 1,66 = lei 1 494 000;
  - reassessed cumulated amortizations: 300 000 x 1,66 = lei 498 000;
  - value that an be amortized after the reassessment: lei 996 000.
- - registering the reassessment operations:

212 “ Buildings”	=	%	594 000	
		2812 “Amortizing the buildings’		198 000
		105 “Reassessment reserves”		396 000

According to the second reassessment method:

- - it is annulled the registered amortization and it is diminished the amortization size of the value of buildings costs:

2812 “Amortizing buildings”	=	212 “Buildings”	300 000	300 000

- - reassessing the constructions:

212 “Building”	=	105 “Reassessment reserves”	396 000	396 000

- - value that can be amortized after the reassessment = 900 000 – 300 000 + 396 000 = 996 000 lei.

After analyzing the two methods it is noticed that any of them results in the same value that can be amortized after the reassessment.

As regards the reassessment, the Anglo-Saxon accountancy has a series of particular characteristics as against the international standards’ regulations.[5, p. 110] For this there must be mentioned that in Great Britain a complete reassessment of a tangible assets category can be made every five years and an interim assessment can be made during the third year. If the full reassessment is made by an internal assessor, then it must be reviewed by an independent assessor through sampling.

Conclusions

The economic entities must apply the accountancy policies and options as regards the tangible assets in order to supply a clear, complete and trustworthy image of the long term assets in the financial statements. For each long term assets category the financial statements will supply the following information: assessment basis for determining the entry accountancy value, used amortization methods, using durations, gross accountancy value and the cumulated amortization (together with the losses accrued from the depreciation) at the begin and at the end of the period. In order to reconcile the accountancy value at the beginning and at the end of the management period, it is recommended to be made reference to information on: the long term assets' entries, the assets held for selling purposes according to IFRS 5, increasing or diminishing during the period of time and resulting from reassessment, the evolution of depreciation related losses, amortization, other modifying. The existence and the value of the tangible assets created as security, mortgage, or granted as guarantee for certain debts of the entity will be mentioned separately in the financial statements. The economic entities must not neglect the value of the long term assets in progress of being purchased or in progress of being built. For this, we will include in the financial statements the value of the contractual obligations for purchasing some tangible assets and the value of the costs acknowledged in the accountancy value of a tangible asset during its creation.

In this article has been approached the subject of reassessing the tangible assets, emphasizing on the two methods for managing the amortization on the reassessment date. After analyzing the examples supplied it is noticed that both methods generate the same amortizable value after reassessment. No matter if one method or the other will be chosen, the economic entity will have to supply, in its financial statements, the following information: date when the reassessment will enter in force, whether the entity employed an independent assessor, the significant methods and assessments applied for estimating the hones value of the elements, the reassessment excess, thus identifying the modifying corresponding to the period of time and the limitations as regards distributing it to the shareholders. For each reassessed category of tangible assets it is necessary to mention the accountancy value that would be obtained if the cost model would be applied.

We must take into account that improving a company's performances involves the operative and as exact as possible measuring the efforts and the effects, as well as efficiently using the tangible assets. Organizing and leading the accountancy management of the tangible assets relies more and more on careful researching the structure and dynamics elements, but especially on decoding the evolution tendencies of the phenomena that occur in the company and in its external environment. An economic entity will be able to change its accountancy option as regards the tangible assets' elements only if it will prove that the new option will have an important effect in the current period of time or in the next periods. The main effect of adopting the new option must be more accurately and more authentically presenting the tangible assets in the financial statements.

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ROMANIAN PUBLIC SECTOR ENTITIES BETWEEN PERFORMANCE AND AUDIT OF PERFORMANCE

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Abstract: Performance creation and measurment in the public sector entities has become a priority in the Romanian public sector. Limited resources, many and different requests for quality services compel the government to have a greater control upon the way of spending public money and providing economy, efficiency and effectiveness services. By this constructive research we define the performance concept, identify the ways of measuring and assessing the degree of performance achievement in the public sector from Romania.

Key words: performance, economy, efficiency, effectiveness, audit of performance

1. Performance aproaches in the public sector entities

Taking into account the recessions, limited resources and the public's claims for diverse and qualitative services, performance in the public sector entities has become a priority.

Generally, performance is the synonym for the best result of an activity. Literature offers different aproaches of performance concept.

Performance bears the terms of progress, effort, doing always the best […] (Bourguignon,1995).

Rudman (1995) states that performance is a process by which an entity tries to achieve its objectives. Peters & Waterman (1982) approach entity's performance by means of social performance. Thus, performance is assimilated to excellence, which is based on four determiners: efficiency, social identity, achieving objectives, reputation/fame.

Alzarad & Sépari (1998) consider that performance implies a global view of interactions between internal and external indicators, quantitative, technical and human indicators, physical and financial indicators of management.

The above approaches emphasise that performance in the public sector is important, complex and difficult to define. Though different, they have a common denominator: performance is defined according to the way the human, material, informational and financial resources are used in order to achieve the proposed objectives at the beneficiaries' expectations.

The definition of performance has not been a major concern for the national standards. The development of the public sector entities' accounting by the assimilation of the International Accounting Standards for Public Sector (IPSAS) underlines the concept of performance (2002). This is defined by means of financial performance, reflected by patrimony result (excess/deficit).

2. Performance measurement in the public sector entities – a paradox?

It is difficult to undertake performance measurements in the public sector entities due to the public system dynamics and complexity. Jones&Pendlebury (2000) argue that the difficulty and complexity of performance measurement in the public sector result from the fact that the entities try to accomplish both commercial and non-commercial objectives. Bouckaert & Balk (1991) have tried to establish if it is really possible, appropriate or even necessary to measure the public sector performance.

Meyer & Gupta (1994) state that performance measurement in public sector is a paradox. They refer to a weak correlation between performance indicators and performance itself. The performance paradox is explained by the tendency of performance indicators to run down over time: as performance gets better, indicators lose their value of detecting bad performance; on the other hand, when entities have learned which aspects of performance are measured (and which are not), they can use that information to manipulate their assessments. The same opinion is sustained by Wilson (1989) who brings into discution the elusive character of the policy objectives, because public policies often have multiple and contradictory goals.

In opposition, the advocates of performance measurement in the public sector propose the measuring of performance in terms of indicators, results, in terms of the trinom economy – efficiency – effectiveness, from point of view of management and policy.

Smith (1990), Likierman (1993), Stewart & Walsh (1994), suggest performance measurement in the public sector entities by a set of indicators. Thus, Likierman (1993) considers that performance indicators in the public sector are valuable managerial tools if properly used. Indicators could ensure that resources are not wasted and managerial actions are not distorted. Based on a research carried out during a three year period involving 500 middle and senior grade public service managers using performance indicators, he categorizes his research findings into four groups: concepts, preparation, implementation and use. Likierman outlines the desired components and activities that need to be considered under each of the four mentioned groups when implementing performance indicators as managerial tools. His arguments are that these activities would help the entity to use performance indicators to better effects. Moreover, the system of indicators can help to evaluate the managerial actions.

Kaplan & Norton (1996) propose that performance of an entity could be based on a performance monitoring system, called ”balanced scorecard”. This method helps the entity to unify the long-term strategies with the short-term actions. According to ”balanced scorecard” method, performance can be measured from four interacting perspectives: 1) translating the vision into objectives; 2) communicating and linking strategies at all levels of the organization; 3) activity planning; 4) feedback and learning.

Performance measurement through economy – efficiency – effectiveness trinom, a new paradigm into the public sector, appeared in 1982, under the name of « value for money». This shows the economic way of resources procurement and their efficient use in the process of achieving the public management objectives while respecting simultaneously the conditions of « the three Es », respectively : economy – efficiency – effectiveness. Thus, it can be said that « the three Es » significantly influence the process towards performance.

Leory (1991), respectively Jones & Pendlebury (1993) are the advocates of measuring performance by economy, efficiency, effectiveness. By their researches, Jones & Pendlebury conclude that economy measures are relative and usually concern the inputs. In opposition, Rudman (1995) states that the focus is on inputs related to outputs and proposes the completion of economy measures with efficiency and effectiveness measures, arguing that economy measures are not sufficient to measure economic performance. In order to use efficiency measures, Rudman categorizes them into two classes: accounting efficiency, which concentrates on performance of the entity and economic efficiency, which is based on achieving a pareto-optimal allocation of resources.

Another view states that performance in the public sector can be measured through result. But Jones & Pendlbury (2000) say that the result is difficult to assess in many public sector entities because of its nature.

Stewart & Walsh (1994) approach the issue of performance assessment in the public sector entities depending on the politics perspective, outlining that these entities are owned and controlled by government. They consider that the assessment of performance will shift as the political debate shifts and, therefore, the performance measures used by these entities will have limitations.

The opinions sometimes divergent, from the literature on public sector have a common denominator: performance measurement is a very important process and, at the same time, a very difficult process. But without reference to performance, managers and not only, cannot evaluate objectively and consciously the quality of made decisions.

According to the national regulations, performance in the public sector is explicitly financial and it is measured through the patrimony result. This is reflected by the patrimony result account and is determined on the basis of agreements accounting, as a substraction between the achieved revenues and the expenses from the current financial exercise. Searching the components of the financial situations, we have also discovered other methods of performance measurement, such as: operation result, treasury result, global result. Will co-existence of four methods of performance measurement, though three are not explained, allow managers to focus on results and on the best strategies in order to achieve those results, or will it generate an information surplus which will create difficulties to management?

Performance measurment through economy, efficiency and effectiveness in the public sector from Romania is still a challenge. This method of performance measurment implies elaboration and implementation of a new system of performance monitoring which is continuously growing as *learning organizations* in the process of achieving the best performance level.

3. Audit of performance – instrument of independent assessment of performance in the public sector entities

Related to the concept value for money, performance audit is an audit of money value. According to the International Standards INTOSAI, the audit of performance is an evaluation or an independent examination of the degree an activity, programme or entity operates efficiently and effectively, respecting the economy measure. A performance audit can be an audit of economy, efficiency and effectiveness or a combination of two of them. In national regulations view, the audit of performance examines if the established criteria for the implementation of the public entity's objectives and tasks are correct for the assessment of results and it appraises if the results are in line with the objectives.

The above mentioned approaces, though different, outlines the fact that the audit of performance is focused on the trinom of «the three E», respectively, on the assessment of the measures undergone regarding the accomplishment of the principles of economy, efficiency and effectiveness:

- Economy means minimazing the cost of the alloted resources for achieving the forecast results of an activity, mentaining the appropriate quality of these results. It is concerned with lowest costs possible for highest quality achievement.
- Efficiency is represented by the ratio between outputs and inputs. The entity is considered to be efficient if it produces maximum results using a given quantity of resources, or it uses a minimum quantity of resources in order to achieve a result of a certain quality and quantity.The ratio result is bigger than the one planned. It is based on the relation between results and the resources used for their production.
- Effectiveness is the ratio between the achieved results and the planned ones and it reflects the degree of accomplishing the programmed objectives for each of the activities. It is concerned with the achievement of certain forecast objectives whose result can be compared to the objectives.

A thourough search of these three principles outlines the fact that the audit of performance answers the followiong questions: Was the work done correctly? Was it done what it had been necessary? By the given answers, performance audit limits the waste of resources, fraud and corruption possibilities and it detects on time the anomalies and defficiencies. The consequences of the public entities' lack of economy, efficiency and effectiveness, the consequences of legal provisions infringement and, implicitly, of a vicious management are felt at level of the entire society and are materialized in the faulty use of available resources, with negative effects regarding the objectives achievement, as well as the internal process operation without remarkable performances.

Conclusions

In the public sector, entities create their image upon the quality of provided services and their capacities of satisfying the public. This image becomes difficult to create in terms of lack of resources and the constantly growing needs of various and qualitative services.

Will the Romanian public service entities succeed in overpassing these impediments and in creating a favourable image? The undertaken research offers the answer and identifies the strategy. The answer is affirmative and it is based on the couple of performance and audit of performance. Performance, as a simple result, proves to be an old fashioned concept if it is not analysed the way performance has been achieved. The triad economy – efficiency – effectiveness explains the process through which the entities achive performance. The audit of performance evaluates the way in which the entities comply with the principles of economy, efficiency and effectiveness in spending the public money, offering recommendations to the managing board to improve the triad.

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DER WERTHALTIGKEITSTEST (IMPAIRMENT TEST)

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The Impairment test is one of the most important topics of the IFRS, that's why it is an obliging low value test for the assessment of the fixed assets. The execution of the tests requires in many cases a capitalized value of potential yield inquiry by a Discounted-cash-flow method.

An impairment test is carried out for a line of business (cash Generating Unit). Under certain requisites, a whole line of business is tested on a decrease in value, not only single objects.

US-GAAP and IFRS ask a periodical judgment of possible indicators of a lasting value impairment. It is the aim that the assets aren't shown in the balance more highly than her obtainable value.

Werthaltigkeitstest, Cash Generating Units, Wertminderung, Wertaufholung

Als einer der wichtigsten Themenbereiche der IFRS, ist der Werthaltigkeitstest (*Impairment Test*) ein verpflichtender Niederstwerttest zur Bewertung des Anlagevermögens. Die Durchführung der Tests erfordert in vielen Fällen eine Ertragswertermittlung durch ein Discounted-Cash-Flow-Verfahren.

Ein Impairment Test wird für einen Geschäftsbereich (Cash Generating Unit) durchgeführt. Unter bestimmten Voraussetzungen werden – wie etwa bei der außerplanmäßigen Abschreibung des Firmenwerts nach HGB – nicht nur einzelne Vermögensgegenstände, sondern ganze Unternehmensteile auf eine Wertminderung getestet.

US-GAAP und IFRS verlangen eine periodische Beurteilung von möglichen Indikatoren einer nachhaltigen Wertbeeinträchtigung. Das Ziel ist, dass die Aktiva nicht höher als ihr erzielbarer Wert bilanziert werden.

Ergibt sich aus dem geplanten abgezinsten Cash-Flow der Folgeperioden ein Verlust, so ist entsprechend das Anlagevermögen abzuschreiben, in der Reihenfolge:

- Goodwill
- Immaterielle Vermögensgegenstände
- Sachanlagen

Entsprechend IAS 36.2 gilt der Werthaltigkeitstest für alle Vermögenswerte mit Ausnahme von: Vorräten (IAS 2), Fertigungsverträgen (IAS 11), aktiven latenten Steuern (IAS 12), Vermögenswerten aus Leistungen an Arbeitnehmer (IAS 19), Finanzinstrumenten (IAS 39), Immobilien für Zwecke der Wertanlage nach IAS 40, Agrarprodukten (IAS 41), bestimmten Vermögenswerten aus Versicherungsverträgen (IFRS 4) und mit Ausnahme von zur Veräußerung stehenden langfristigen Vermögenswerten (Gruppen langfristiger Vermögenswerte; IFRS 5). Also Wertminderungen von immateriellen Vermögenswerten, von Sachanlagen und des Firmenwerts betreffen IAS 36.

Stellt man eine Wertminderung fest, wird eine außerplanmäßige Abschreibung erfordert. Doch, nach IAS 36.59, darf eine außerplanmäßige Abschreibung nur dann erfolgen, wenn die Bedingungen des Werthaltigkeitstests erfüllt sind.

Bei der außerplanmäßigen Abschreibung von Sachanlagen berücksichtigt man Rückgriffsrechte oder Versicherungsentschädigungen nicht, sondern ertragswirksam als Forderung angesetzt, sobald der Forderungsanspruch entsteht (IAS 16.65f).

1. Anhaltspunkte für eine Wertminderung *(Trigger Events)*

Besteht ein Anhaltspunkt für eine Wertminderung, dann führt man ein Werthaltigkeitstest grundsätzlich durch (IAS 36.9; *trigger events).* Diese Anhaltspunkte ergeben sich aus externen und internen Informationen, insbesondere aus den folgenden Merkmale (.12):

- erheblich gesunkener Marktwert;
- eingetretene oder drohende nachteilige Veränderung der rechtlichen, wirtschaftlichen oder technischen Rahmenbedingungen;
- Anstieg der langfristigen Zinsen oder der erwarteten Renditen, die den Barwert künftiger Mittelzuflüsse zur Berechnung einer Wertminderung wesentlich verringern;
- der Buchwert des Eigenkapitals des Unternehmens ist höher als seine Marktkapitalisierung;
- Änderung in der Nutzung des Vermögenswerts, Verkaufs- oder Stilllegungspläne;
- Informationen aus der Kostenrechnung, die auf eine verschlechterte Wirtschaftlichkeit hinweisen;
- Verschlechterung der Netto Cash Flows aus der Nutzung des Gegenstands oder Nichterreichen budgetierter Netto Cash Flows.

Auch wenn keine Anhaltspunkte für eine Wertminderung bestehen, sind die immaterielle Vermögenswerte mit unbestimmbarer Nutzungsdauer, noch nicht betriebsbereite immaterielle Vermögenswerte und der Firmenwert (IFRS 3) jährlich auf Wertminderung zu testen. Jedes Jahr muss der jährliche Werthaltigkeitstest zum selben Zeitpunkt durchgeführt werden, sonst können verschiedene Vermögenswerte zu verschiedenen Zeitpunkten getestet werden. Bei immateriellen Vermögenswerten mit unbestimmbarer Nutzungsdauer sind auch Erleichterungen vorgesehen. IAS 36.10 besagt, dass bei Anhaltspunkten einer Wertminderung ggf. ein zusätzlicher Werthaltigkeitstest erforderlich ist.

2. Umfang der Wertminderung

Eine Wertminderung liegt dann vor, wenn der erzielbare Betrag *(recoverable amount)* unter den Buchwert gefallen ist, laut IAS 36.59. In diesem Fall kommt es zu einer außerplanmäßigen Abschreibung.

Nach IAS 36.6, versteht man als erzielbarer Betrag entweder:

- der Fair Value abzüglich Veräußerungskosten *(fair value less cost to sell)* oder
- der Nutzungswert *(value in use*).

Der höhere Betrag ist entscheidend. Wenn einer der beiden Beträge über dem Buchwert liegt, dann muss der andere Betrag nicht mehr ermittelt werden. Soll der Vermögenswert ohnedies veräußert werden, ist regelmäßig nur auf den Fair Value abzüglich Veräußerungskosten abzustellen (IAS 36.21).

Der beste Hinweis auf den Fair Value abzüglich Veräußerungskosten ist der Preis in einem verbindlichen, fremdüblichen Vertrag, vermindert um zusätzlich für die Veräußerung anfallende Kosten (.25). Unter Veräußerungskosten versteht man alle der Veräußerung direkt zurechenbaren, zusätzlich entstehenden Kosten, nicht aber Finanzierungskosten und Ertragssteuern (.6). Mögliche Kostenvorteile aus der Veräußerung dürfen nicht gegengerechnet werden (.28).

Als Nutzungswert versteht man der Barwert der erwarteten, zukünftigen Cash Flows, die aus der Nutzung des Vermögenswerts und gegebenenfalls aus einer zukünftigen Veräußerung zu erzielen sind (IAS 36.6).

Der erzielbare Betrag darf mit dem Nutzungswert gleichsetzt werden, als ein Ausnahmefall der IAS 36.20, wenn der Fair Value abzüglich Veräußerungskosten sich nicht verlässlich ermitteln lässt.

Laut IAS 36.39, alle Einzahlungen, die mit dem Vermögenswert erwirtschaftet werden können, einschließlich Veräußerungserlöse werden von den Cash Flows umfasst. Die direkt zurechenbaren Auszahlungen zur Aufrechterhaltung der Einzahlungen sind abzuziehen (IAS 36.41).

Folglich IAS 36.43f und IAS 36.50, nicht zu berücksichtigen sind Zahlungen:

- die anderen Vermögenswerten zurechenbar sind,
- im Finanzierungsbereich,
- für aktivierungspflichtige Verbesserungen der Anlage oder für Umstrukturierungen des Betriebs,

– für Gewinnsteuern (bzw. aus Steuerrückzahlungen).

Es existieren zwei Verfahren für die Berechnung der Discounted Cash Flows (.A2): der traditionelle und der Erwartungswertverfahren. Nach dem ersten Verfahren werden Trends in der Cash Flow-Prognose, Inflation, Marktliquidität und Risikoprämien im Diskontierungszinssatz berücksichtigt. Nach dem Erwartungswertverfahren werden diese Faktoren bei der Berechnung der einzelnen Cash Flows berücksichtigt.

Kann ein Unternehmen seine zukünftigen Cash Flows nicht eindeutig schätzten, verlangt das Erwartungswertverfahren eine Gewichtung unterschiedlicher Szenarien nach deren Eintrittswahrscheinlichkeit (vgl. IAS 6.A11).

Vor Steuern sind die maßgeblichen Cash Flows, deshalb setzt man auch ein Zinssatz vor Steuern für die Abzinsung ein (IAS 36.55). Dieser Zinssatz entspricht dem langfristigen Marktzinssatz und berücksichtigt die Inflation und das Risiko der Investition.

Existiert ein direkter Zusammenhang zwischen einem Vermögenswert und den damit erzeugten Cash Flows, dann kann der erzielbare Betrag festgestellt werden. Die Cash Flows müssen unabhängig von jenen anderer Vermögenswerte sein (IAS 36.22). Wenn man den Vermögenswerten keine weitestgehend unabhängigen Cash Flows zugerechnet werden können, dann soll man folgendermaßen vorgehen:

– man darf einen angemessenen Näherungswert für den Nutzungswert bzw. den Fair Value abzüglich Veräußerungskosten ermitteln. Dieser Näherungswert kann anstelle des exakt ermittelten Nutzungswerts verwendet werden, wenn der Näherungswert nahe am Fair Value abzüglich Veräußerungskosten liegt (.22f);
– kann man keine angemessenen Näherungswerte feststellen, dann fasst man die funktionell zusammengehörige Vermögenswerte zu einer *cash generating unit* („zahlungsmittelgenerierenden Einheit“) zusammen und diese werden danach insgesamt einer Bewertung unterzogen (.66 und .69).

3. Wertaufholung

Nach IAS 36.109ff ist eine Zuschreibung geboten, wenn den Fall einer Wertaufholung einer in der Vergangenheit erfassten Wertminderung existiert. Diese Wertaufholung ermittelt man aber nur dann, wenn Anhaltspunkte für einen höheren erzielbaren Betrag bestehen (IAS 36.110). Die Anhaltspunkte entsprechen jenen für die Feststellung der Wertminderung.

Der Zuschreibungsbetrag ermittelt sich aus dem Anstieg des erzielbaren Betrags. Die Anschaffungs- oder Herstellungskosten bzw. begrenzen die Wertaufholung (IAS 36.117).

Im Vergleich zum HGB können sich erhebliche Gewinnfluktuationen ergeben, wegen den vorübergehende Wertminderungen die unter den dargestellten Voraussetzungen abzuschreiben und ggf. wieder zuzuschreiben sind.

Dem Konzept in IAS 36 konnte sich das amerikanische FASB nicht anschließen: Zinsen werden durch der Abschreibung auf den Barwert künftiger Überschüsse vorangestellt. Es kommt eigentlich im Laufe der Zeit zu einer Wertaufholung in Höhe der Zinsen, weil der Barwert kontinuierlich ansteigt. Nach US-GAAP liegt ein impairment nur dann vor, wenn der undiskontierte Gesamtbetrag künftiger Cash Flows unter dem Buchwert liegt.

IAS 36.124 lässt keine Wertaufholung beim Firmenwert ist zu, denn ene einmal festgestellte Wertminderung kann nicht mehr rückgängig gemacht werden; eine Zuschreibung käme der Aktivierung eines selbst erstellten Firmenwerts gleich.

4. Test von Cash Generating Units

Wegen des Mangels einer direkten Zurechnung von Cash Flows zu einzelnen Vermögenswerten, kann man in vielen Fällen den Nutzungswert nicht ermitteln (IAS 36.22). Dies gilt insbesondere für den Firmenwert *(goodwill)*, weil es auch Cash Flows nur in Verbindung mit anderen Vermögenswerten erzeugt.

IFRS 3.54f verbietet eine planmäßige Abschreibung für den Firmenwert. Deshalb testet man es, wie immaterielle Wirtschaftsgüter mit unbestimmbarer Nutzungsdauer, in jeder Periode auf eine Wertminderung zu, auch wenn keine Anhaltspunkte einer Wertminderung vorliegen.

Die Wertminderung wird auf einer übergeordneten Ebene ermittelt, der *cash generating unit*, wenn Cash Flows den Vermögenswerten nicht direkt zugerechnet werden können. Nach IAS 36.6 definiert sich eine *cash generating unit* als die jeweils kleinste identifizierbare Gruppe von Vermögenswerten, die Mittelzuflüsse (Cash Flows) erzeugen, die weitestgehend unabhängig von den Cash Flows anderer Vermögenswerte oder Gruppen von Vermögenswerten sind.

Die Einteilung von *cash generating units* hängt von der Messung der Leistung des Unternehmens ab oder von der Entscheidung über die Weiterführung oder Aufgabe von Unternehmensteilen oder Vermögenswerten. In IAS 36 findet man eine sehr allgemeine Definition dieser, gerade um dem Unternehmen eine möglichst sinnvolle und flexible Einteilung entsprechend der internen Leistungssteuerung zu ermöglichen. Die *cash generating units* befinden sich auf der untersten Ebene der Leistungssteuerung, weil sie die kleinstmöglichen Messeinheiten sein müssen.

Beispiele für selbständige *cash generating units* währen:

- Filialen einer Handelskette, wenn bei diesen z.B. der Erfolg einzeln gemessen wird und sich die Einzugsgebiete nicht überlappen;
- eine Produktionsstätte, die Vorprodukte für die Weiterverarbeitung in anderen Produktionsstätten erstellt, aber einen Teil der Vorprodukte auch an Dritte über einen aktiven Markt veräußert oder veräußern könnte.

Beispiele, in denen keine selbständigen *cash generating units* vorliegen:

- ein Gebäude im Besitz eines Produktionsunternehmens, das zur Hälfte als Verwaltungsgebäude genutzt und zur anderen Hälfte für Wohnzwecke vermietet wird; der Hauptzweck des Gebäudes ist die Verwaltung, die Mieteinnahmen sind daher nicht unabhängig von den Gesamtumsätzen des Unternehmens, die ein Verwaltungsgebäude erfordern;
- ein Bergbauunternehmen betreibt seine eigene Bahnstrecke zum Transport der Abbauprodukte. Da die Bahn nur zum Schrottwert veräußert werden kann und keine unabhängigen Cash Flows generiert, liegt keine eigene cash generating unit vor.

Der Werthaltigkeitstest einer *cash generating unit* ist verhältnismäßig aufwendig. IAS 36.96ff sieht auch Vereinfachungen vor, weil der Firmenwert zumindest jährlich zu testen ist, auch ohne Anhaltspunkte für eine Wertminderung:

- Der Test kann jederzeit während des Abschlussjahres durchgeführt werden, solange er in jedem Jahr zur selben Zeit stattfindet. In der Praxis erfolgt die Prüfung meist im dritten Quartal.
- Wurde schon in der Vorperiode ein Werthaltigkeitstest über den Firmenwert durchgeführt, dann dürfen die Ergebnisse des Vorjahres auch für das Abschlussjahr herangezogen werden, aber mit der Bedingungen, dass sich die Zusammensetzung der *cash generating unit* seither nicht wesentlich geändert hat, der erzielbare Betrag deutlich über dem Buchwert lag und sich aus der Analyse der zwischenzeitlichen Ereignisse ergibt, dass eine Wertminderung unwahrscheinlich ist.
- Wenn der Firmenwert im Jahr eines Beteiligungs- oder Unternehmenserwerbs noch nicht vollständig den einzelnen *cash generating units* zugeordnet werden kann, dann darf die Zuordnung auch in der folgenden Periode erfolgen.

Grundsätzlich fasst man in der *cash generating unit* nur Vermögenswerte zusammen, die zu den Mittelzuflüssen der *cash generating unit* unmittelbar beitragen, während die Schulden nicht zuzuordnen sind, weil ihre Zuordnung die Abschreibungsbeträge vermindern wurde. Deshalb ist die sinnvolle Zuordnung von Vermögenswerten und Schulden zu einer identifizierten *cash generating unit* ein Hauptproblem des Werthaltigkeitstests.

Schulden, als Ausnahmefall, werden dann zugeordnet, wenn der erzielbare Betrag der *cash generating unit* nicht sinnvoll ohne die Mittelabflüsse für diese Schulden ermittelt werden kann. Der Buchwert der Schuld wird in diesem Fall vom Nutzungswert und vom Buchwert der *cash generating unit* abgezogen (IAS 36.78).

Die Zuordnung des Firmenwerts ist auch nicht leicht, denn laut IAS 36.80 soll der Firmenwert jenen Unternehmensbereichen zugeordnet werden, die von den Synergien des Unternehmens- oder

Beteiligungserwerbs profitieren, also kann es sowohl erworbenen Unternehmensbereichen als auch vor dem Erwerb vorhandenen Unternehmensbereichen zugeordnet werden, soweit sich Synergien ergeben.

IAS 36 enthält keine konkreten Bestimmungen oder Beispiele für die Verteilung des Firmenwerts auf *cash generating units*. Ist die Zuordnung nicht eindeutig möglich, dann soll man aus mehreren *cash generating units* eine Gruppe bilden und der Firmenwert wird dann gemeinsam mit der Gruppe auf eine Wertminderung getestet (.80).

Aus der Zusammenfassung sollten sich die kleinstmöglichen Gruppen ergeben. Diese ist aber begrenzt, denn eine Gruppe kann nicht den gesamten Konzern umfassen. Nach IAS 36.80 gelten als Obergrenze die Segmente im Sinne von IAS 14 zur Segmentberichterstattung.

Bei der Gruppenbildung ist wichtig jene Ebene, auf welcher der Firmenwert durch die Unternehmensführung im Rahmen der internen Leistungserfassung gemessen wird (IAS 36.81 spricht von *„internal management purposes"*, es meint also die operative Unternehmensführung, nicht notwendigerweise den Konzernvorstand).

Die einzelnen *cash generating units* müssen auch jeweils für sich getestet werden, trotz der Gruppenbildung, ohne Zuteilung eines Firmenwerts. Dieser Test findet aber nicht jährlich statt, sondern nur bei einem Anhaltspunkt für eine Wertminderung (.88).

Für das allgemeine Konzernvermögen *(corporate assets)* ist dasselbe Verfahren wie für den Firmenwert vorgesehen (.100ff). Dieses ist ebenfalls den einzelnen *cash generating units* zuzurechnen, soweit dies eindeutig und konsistent möglich ist.

Existiert nicht die Möglichkeit einer Zuteilung zu *cash generating units*, dann ist folgendermaßen vorzugehen:

- Zuerst testet man jede *cash generating unit* für sich auf Wertminderung (d.h. ohne Zuteilung allgemeinen Konzernvermögens) und man schreibt es ggf. ab.
- Danach bildet man die kleinstmöglichen Gruppen von *cash generating units*, denen das allgemeine Konzernvermögen eindeutig – ganz oder teilweise – zurechenbar ist. Der so ermittelte Buchwert jeder Gruppe ist dann ggf. auf den niedrigeren erzielbaren Betrag abzuschreiben.

Soweit es möglich ist, sollen der Firmenwert und das allgemeine Konzernvermögen beim Test der *cash generating units* bzw. Gruppen gleichzeitig zugerechnet werden (.104 erster Satz). Die Zurechnung von allgemeinem Konzernvermögen vergrößert daher die potentielle Firmenwertabschreibung.

5. Wertminderung bei *Cash Generating Units*

Ein Ausgleich zwischen Firmenwerte verschiedener *cash generating units* ist nicht möglich, weil der Firmenwert nur auf Ebene der *cash generating units* bzw. deren Gruppen auf die Werthaltigkeit getestet wird.

Ist der erzielbare Betrag niedrigerer als der Buchwert, dann ist eine Abschreibung notwendig. Erstens wird die Wertminderung vom Firmenwert der *cash generating unit* bzw. Gruppe abgeschrieben. Existiert der Fall einer größeren Wertminderung als der Firmenwert, dann sind auch die übrigen Vermögenswerte der *cash generating unit* bzw. Gruppe wertgemindert.

Die Abschreibung wird proportional zu den Buchwerten der übrigen Vermögenswerte abgesetzt (IAS 36.104). IAS 36.105ff spricht auch über die Einschränkungen der proportionalen Abschreibung, um dabei keine stillen Reserven zu legen:

- Der erzielbare Wert jedes einzelnen Vermögenswerts soll nicht unterschritten werden. In diesem Fall ist die Wertminderung proportional auf jene Vermögenswerte zu verteilen, deren Buchwert noch über dem jeweiligen erzielbaren Wert liegt.
- Können die erzielbaren Beträge nicht einzeln ermittelt werden, soll das Unternehmen die Wertminderung nach eigenem Ermessen innerhalb der *cash generating unit* oder Gruppe verteilen.

Im Konzernabschluss werden auch Beteiligungen von weniger als 100 % vollkonsolidiert, man spricht von Minderheitengesellschafter. Aber im konsolidierten Beteiligungsbuchwert ist nur der Firmenwert enthalten, der auf den Anteil des Mutterunternehmens entfällt. Weil auch der erzielbare Betrag jenen Anteil am

Veräußerungswert bzw. an den Cash Flows, der den Minderheitengesellschaftern zukommt umfasst, muss daher der Firmenwert um einen fiktiven, den Minderheitengesellschaftern zustehenden Firmenwert erhöht werden (IAS 36.92).

Ist es die Rede um eine einer Beteiligung von z.B. 50 % wird der Firmenwert verdoppelt (Multiplikator: 100/Prozentsatz der Beteiligung des jeweils übergeordneten Konzernunternehmens). Diese Erhöhung wird aber nicht verbucht, denn sie erfolgt nur in einer Nebenrechnung zur Ermittlung der Wertminderung.

Im Falle einer Wertminderung werden zuerst die Firmenwerte reduziert. Immerhin ist der Minderheitenfirmenwert nicht in den Büchern erfasst, deshalb wird auch die auf Minderheitenfirmenwerte entfallende Abschreibung nicht verbucht (.93). Wenn nach der Abschreibung beider Firmenwerte noch eine Wertminderung bleibt, werden die übrigen Vermögenswerte nach IAS 36.104 abgeschrieben.

Der Werthaltigkeitstest beim Firmenwert vergleicht Buchwerte mit dem erzielbaren Betrag. Wurden seit dem Erwerb stille Reserven aufgebaut, wird dadurch ggf. die Firmenwertabschreibung verhindert. Ein Extremfall wurde heißen, dass der aktivierte Firmenwert nur durch stille Reserven gedeckt ist, was die Firmenwertabschreibung verhindert. Der „implizite Firmenwert" wird nach US-GAAP ermittelt und folglich wird der Wert einer Einheit *(reporting unit)* mit dem Fair Value der Vermögenswerte, anstatt dem Buchwert, verglichen.

6. Zur Veräußerung stehende langfristige Vermögenswerte (IFRS 5)

Für langfristige, zur Veräußerung stehende Vermögenswerte enthält IFRS 5 Sonderbestimmungen hinsichtlich Ausweis und Abschreibung.

IFRS 5 betrifft langfristige Vermögenswerte (idR Sachanlagen oder immaterielle Vermögenswerte) oder Gruppen von langfristigen Vermögenswerten und Schulden**,** die zur Veräußerung stehen (*non-current assets held for disposal; disposal groups*), Ausweisfragen bei aufgegebenen Geschäftsbereichen, sowohl auch Beteiligungen assoziierter, Gemeinschafts- und Tochterunternehmen (IAS 28, 31 und 27), wenn sie bereits in Weiterveräußerungsabsicht erworben wurden (IFRS 5.3 iVm .6ff). In diesen Fällen erfolgt die Bewertung nach IFRS 5, nicht nach den vorgesehenen Methoden in IAS 28,31 und 27.

Ausgelassen werden die aktive latente Steuern, finanzielle Vermögenswerte nach IAS 39, das Restvermögen aus gedeckten Pensionsplänen (IAS 19) und die Vermögenswerte im Sinne von IAS 40, IAS 41 und IFRS 4.

Wenn der im Restbuchwert verkörperte Nutzen vorwiegend aus der Veräußerung realisiert werden soll, stehen die Vermögenswerte oder Gruppen von Vermögenswerten zur Veräußerung (IFRS 5.6).

Ist das Vermögen im gegenwärtigen Zustand bereit zur Veräußerung zu marktüblichen Konditionen und die Veräußerung sehr wahrscheinlich, dann wendet man IFRS 5 an. Eine Veräußerung ist sehr wahrscheinlich nur unter den folgenden Bedingungen, die kumulativ erfüllt sein müssen:

- das Management verfügt über die ausreichende Kompetenz zur Veräußerung und hat einen Verkaufsplan;
- ein aktives Programm zur Käufersuche ist angelaufen;
- das Vermögen wird aktiv und zu einem marktüblichen Preis zum Verkauf angeboten;
- die Veräußerung führt innerhalb eines Jahres zur Gewinnrealisierung;
- noch nötige Veräußerungsmaßnahmen werden wahrscheinlich nicht zu wesentlichen Änderungen im Veräußerungsplan führen.

Laut IFRS 5.15, die zur Veräußerung stehende Vermögenswerte oder Gruppen von Vermögenswerten und Schulden sind mit dem Buchwert oder dem niedrigeren Fair Value abzüglich Veräußerungskosten anzusetzen. Die Abwertung kann von einem höheren Nutzungswert nicht verhindert werden, wie es bei IAS 36 der Fall war, denn es kommt nicht auf den Nutzungswert an. Nach IFRS 5.17, erfolgt die Veräußerung erst nach der ein Jahresfrist, dann ist der Barwert des Fair Value abzüglich Veräußerungskosten heranzuziehen.

Sonderbestimmungen gelten dann, wenn das Vermögen mit dem Ziel der Weiterveräußerung angeschafft wurde, insbesondere bei der Kaufpreisallokation im Rahmen der Kapitalkonsolidierung.

Die tatsächliche Abnutzung würde einen niedrigeren Fair Value und damit eine Abschreibung ergeben, weshalb eine Überbewertung nicht zu befürchten ist (IFRS 5.BC32).

Eine erfolgswirksame Aufwertung der Vermögenswerten oder der Gruppen von Vermögenswerten findet statt, wenn der Fair Value abzüglich Veräußerungskosten in der Folgeperiode steigt. Immerhin dürfen nur Abschreibungen im Sinne von IFRS 5 oder IAS 36 aufgeholt werden. Die Wertaufholung ist daher folgendermaßen begrenzt:

- auf die Anschaffungskosten bei nicht abnutzbaren Vermögenswerten;
- auf die bis zur Einordnung unter IFRS 5 planmäßig fortgeschriebenen Anschaffungs- oder Herstellungskosten bei abnutzbaren Vermögenswerten.

Unter IFRS 5 fallen ebenfalls die zur Veräußerung stehende Gruppen von Vermögenswerten und die damit verbundene Schulden. Die entsprechend zurechenbaren Firmenwerte gehören auch zur Gruppe, wenn es eine oder mehrere *cash generating units,* denen nach IAS 36 ein Firmenwert zuzurechnen ist, umfasst.

Für die Aufteilung des Abschreibungsbetrags auf die Vermögenswerte der Gruppe sind die Bestimmungen zum Werthaltigkeitstest anzuwenden (IFRS 5.23 iVm IAS 36.104(a), 36.104(b) und 36.122). Die Abschreibung wird zuerst vom Firmenwert und dann von den langfristigen Vermögenswerten innerhalb der Gruppe vorgenommen.

Wenn der Wert der Gruppe wieder ansteigt, sind ebenfalls nur die Abschreibungen nach IFRS 5 und IAS 36 aufzuholen (IFRS 5.22). IFRS 5 verweist dazu auf die Bestimmungen zur Wertaufholung in IAS 36; daher darf insbesondere ein einmal abgeschriebener Firmenwert nicht mehr aufgewertet werden (IFRS 5.23 iVm IAS 36.122).

IFRS 5.38ff deutet auch Ausweisbestimmungen an: die zur Veräußerung stehende Vermögenswerte und Schulden sind getrennt in einer Zeile auf der Aktiv- bzw. Passivseite der Bilanz auszuweisen und diese dürfen nicht saldiert werden.

Neben der Bewertung und Darstellung zur Veräußerung stehender langfristiger Vermögenswerte regelt IFRS 5 auch die Darstellung aufgegebener Geschäftsbereiche im Jahresabschluss.

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THE BUDGET OF THE EUROPEAN UNION

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The growing deficit after the adhesion to the EU and its volatility represents a serious problem. Our country must have more ambitious budgetary objectives, in order to avoid the breaching of the rules of the Pact for stability and growth and to limit the growth of the external deficit and the inflationist pressures, that constitute a risk for the macroeconomic and financial stability.

According to the law of the budget for 2008, the budgetary deficit will represent 2.7% from the Gross Domestic Product. The level of the deficit is an economic condition foreseen in the Pact for stability and cannot exceed 3% from the Gross Domestic Product in the countries member of the European Union. At the same time the increase of the deficit is essential for the adhesion of Romania to the unique European currency

Key Words: budget, deficit, states member

The money of the contributors is used by the Union for the financing of the activities that all the states member and parliaments agreed in the treaties. The sum of money that can be put at the disposition of the Union is limited by an agreement of the states member and the parliaments. At present, the maximum is fixed at 1.24% from the gross national income of the Union for the payments realized from the budget of the EU. In comparative terms, approximately 45% from the gross national income of the Union is allocated to the national public costs, regional and local within the states member.

A large number of activities are financed in the states member, for example in the agriculture, fishing, infrastructure (construction of roads, bridges and railways), education and formation, occupation of the working force and social politic, health and protection of the consumer, research, to mention just a few fields. Also, there are in process initiatives to offer the citizens of the EU a space of freedom, security and justice without internal frontiers. A part of the budget of the EU is spent for the financing of economic development in the world and for the humanitarian aid offered to the countries from outside the EU, which are affected by natural disasters and other crisis situations.

The budget covers the expenses of all the institutions of the Union. It fixes the income and costs fro that year, enumerates all the activities that are to be financed and establishes the total sums of money, as well as the available personnel for each of the. Also, cites the documents of authorization for every action. Before being able to be put into practice, almost all activities require also a legislative communitarian document – a document of authorization or a juridical basis – proposed by the Commission and approved by the legislative authority – the European Parliament together with the Council of Ministers, in many cases.

The costs of the EU are limited also by a multi-annual agreement finalized between the members of the European Parliament, the Council of Ministers and the European Commission. This agreement contains a 'multi-annual financial framework'. The most recent cover plans of the costs for periods of seven years, from 2000 until 2006 and from 2007 to 2013.

The general budget of the European Union is structured on sections, titles, chapters, articles and positions. The most important component is the chapter, this being the one that indicates the competence of the budgetary authorities able to authorize certain transfers from one chapter to another.

In realizing budgetary incomes there were realized two stages: until the year 1970, the budget was conceived entirely on the basis of direct contributions of the states member, so that afterwards the budget be financed through the 'own resources' of the Community, which actually represents the incomes agreed by the states member to represent legal communitarian resources.

The budgetary resources had the following structure:

- custom taxes for imported goods from outside the community, by applying the common tax;
- the custom drawings on the import of agrarian products (from 1995 there were replaced with the custom taxes);

- the VAT resource collected in each of the states member according an applied tax to the VAT cashed by each state member (1% in 1979,1,4% in 1986,0,75% in 2002 and 0,5% in 2004).

This modality of determination of the proper resources proved to be inadequate because:

1. As consequence of the multilateral negotiations GATT it was realized a reduction of the custom taxes over the imports realized by the community and this led to the diminishing of the contribution of this resource to the communitarian budget;
2. It were reduced gradually the imports of agrarian products as a result of growth of the communitarian agrarian production what it determined the diminishing of the budgetary incomes at the expense of these custom drawings;
3. There stagnated also the incomes coming from the VAT due to the decline of costs for consume realized by the people from the European Community.

The effect of these factors concretized in the apparition of a true budgetary crisis at the middle of the ninth decade of the 20th century.

It was conceived a new system of the budgetary incomes based on:

1. the principle of growth of the VAT brink to 1.4% in 1986;
2. the maintenance of own resources coming from custom taxes and drawings to the import of agrarian products;
3. the adding of a new resource named ‘the fourth resource’ created on the basis of the reform program, known as ‘Delors package’, in 1988. this fourth resource results from the application of a rate on the PNB from all the states member, fixed each year and has the role of covering the total level of costs registered within a budgetary exercise. It must offer the necessary incomes for the covering of supplementary costs, so that the total volume of resources would represent maximum 1.2% from the GDP of the European Union. This fourth resource gained a great importance and position within the communitarian budget that in 2000, for example, was representing 48.3% from the budgetary incomes.

In what regards the costs from the general budget, they are structured and ordered on six sections: European Parliament – I, Council – II, Commission – III, Court of Justice – IV, Court of Accounts – V, Economic and Social Committee and Regions’ Committee – VI.

The payments realized at sections I, II, IV, V and VI are called payments (credits, costs) of functioning, that is administrative, while those from the section III, European Commission, are grouped into two categories: credits (payments, costs) of functioning and are meant to cover the costs of the Commission with the personnel, buildings, materials, publications, informational system, specific missions, pensions for officials etc, and operational credits.

The operational credits administered by the European Commission have the following destinations:

1. financing of agriculture within FEOGA, section guarantee;
2. financing of structural actions: European Fund for Regional Development (FEDR), European Social Fund (FSE), FEOGA - Section Orientation; Fund for Cohesion, The Financial Instrument of Orientation of Fishing (IFOP);
3. the covering of the costs from the educational field (Socrates program), professional formation (Leonardo program), audio-visual (media program), culture, social relations, public health;
4. the covering of the costs allocated for energy;
5. the covering of the costs allocated for the improvement of functioning of the internal market;
6. financing of the programs for research and technological development;
7. financing of costs connected to different actions of economic and financial cooperation with third parties;
8. the covering of the costs generated by the actions within the external politic and common security;
9. guarantees and reserves (non-usable credits at the moment of voting the budget) that will be used during the budgetary exercise.

Starting with the 80s the rule according to which the general budget of the Communities is equilibrated and entirely financed from own resources it started not to work, because in many years the cost exceeded the estimated incomes. As first remedy was the passing to the national budgetary contributions.

The causes that triggered the financial crisis were: the growth of communitarian agrarian costs; the expansion of structural funds; the tendency of reducing the charges from custom taxes; the reduction of charges due to the custom tax applied to the import of agrarian products; the growth of the restrictions volume for the export of agrarian products, the reduction of the cashing from the VAT within the communitarian countries.

The reduction of the budgetary incomes generated tensions between the resources and the communitarian needs, the Communitarian Institutions signed and Inter-institutional Agreement between the Parliament, Council and Commission in which it is agreed about the budgetary priorities defined in the financial perspectives of the Union. These indicate the maximum size and the structure of costs.

The elaboration of the budget is realized by the Ministry of Public Finances according the budget projects of the main commanders of credits n order to improve the budgetary procedures, there were realized the following progresses:

- the improvement of management of public costs, through the extension of the budget based on programs to a number of 13 main commanders of credits, from a total number of 53;
- towards a number of 11 special funds that functioned in 2000, in the state budget were included 7 special funds, this leading to the simplification and growth of transparency of the budgetary procedures;
- the growth of the local economy, by decentralization of some public services and the financing of these from local budgets.

The elaboration of the budget project is based on new rules and principles, which circumscribe to the following goals:

- the realization of the multi-annual previsions of incomes and budgetary costs;
- the extension of the financing according programs;
- the restructuring of the budgetary costs, in report to the resources and strategic priorities of each domain of activity.

We consider that the report between the funds received by our country from the budget of the European Union and its contribution to the general budget must be similar to the proportions applied to the States Members with the lowest level of the GDP/citizen from the European Union.

The transitory arrangement required is justified through the considerable financial efforts that must be realized during the period after the adhesion, as well as the fact that the entire payment, from the moment of adhesion, in the conditions of a reduced level of the GDP/citizen, would diminish the rhythm of real convergence – economic and social – of Romania to the European Union.

The budgetary effort of Romania (engagements) is determined according the principles of co-financing established through the methodologies of access to the structural funds and of cohesion of the European Union, as well as from the calculation of Romania' s contribution to the budget of the European Union. Romania' s contribution to the budget of the EU is calculated applying a percentage of 1.14% to the Gross Domestic Product of Romania forecasted at the level of the years 2007-2009. It result a budgetary effort of Romania (engagements) of almost 7.4 billions euro, for the period 2007-2009.

The budgetary effort of Romania (payments) is determined according the principles of co-financing established through the methodologies of access to the structural funds and of cohesion of the European Union, as well as from the calculation of Romania' s contribution to the budget of the European Union. Plus, in this case intervene also the necessities of co-financing induced by the deduction of the funds of pre-adhesion engaged in the previous years (until 2006).

The net balance of financial transfers between Romania and the European Union is calculated as the difference between the proposed payments of the European Union through the financial package and the contribution of Romania to the budget of the EU.

The macro-economic impact of the financial package cannot be reduced only to the absolute value of the sums granted to Romania. This because the programs and structural actions developed from that sums can generate and support a process of durable economic growth, at least in the field of agriculture, infrastructure and environment, of human resources, a growth of social cohesion through the rural development and equilibrated regional development.

The budget of the European Union is the document that authorizes every year the financing of the ensemble of activities and communitarian interventions. According to this there can be observed every year the priorities and political communitarian orientations. Its evolution in time reflects the successive transformations of the European construction. In 1970, the budget of the community was of 3.6 billions ecu (at January 1st 1999, 1 ecu = 1 euro) and was constituted almost entirely from funds for costs connected to the common agricultural politic. Today the budget of the EU is endowed with approximately 93 billions euro. Here there can be found the politics of the EU: the costs of the agricultural common politic, the politic of regional development, research costs, education, formation, actions of international cooperation etc.

But after the first year after adhesion, our country contributed to the European budget with approximately one billion euro.

Our country is one of the countries that plead for the maintenance of the actual quota of contribution to the European budget and for the maintenance of the funds for agriculture and the funds of cohesion. The tensions within the European Union about the budgetary projection for 2013-2020, when France and Great Britain, beneficiaries of some important finances from the EU, dueled in arguments, because none wants to renounce to its own facilities.

France is the biggest beneficiary of the Common Agricultural Politic – that was up to approximately 44 billions euro annually, that is 40% from the entire European percentage. France is the unique big producer of cereals from Europe and a big exporter of meat. Great Britain, on the other hand, benefits of the so called 'rebate' return of two thirds from the difference between the sums coming from the VAT that pays to the communitarian budget and the European funds used in the United Kingdom. The rebate has come to worth approximately 5 billions euro annually, leaving unsatisfied many of the European leaders who appreciate that the situation of Great Britain has improved during the last 20 years and no longer needs these funds.

Beyond the interests of each state member, the reform of the budget cannot be postponed beyond the actual budgetary exercise – it needs more flexibility and transparency without touching the 'fiscal sovereignty' of the states.

The budgetary strategy proposed by our country for the following years is not compatible with the careful fiscal prudence needed to keep under control the growth of the external deficit and the inflation pressures that threaten the process of convergence.

The proposed program shows a continuation of the politic of high budgetary deficits, existing also the risk of an excessive deficit (over 3% from the GDP, n. red.). Our country has not made enough progresses in order to reduce its budgetary deficit below 1% from the GDP in 2011. Taking into consideration the risks presupposed by the budgetary targets and the necessary adjustments after 2010, it is less probable that the objective of reducing the budgetary deficit below 1% from the GDP in 2011 be reached.

Our country had so far a period of strong economic growth. But the growth of the external deficit and its volatility, represent reasons of worry. Romania must have healthier budgetary targets in order not to breach the Pact for Stability and Growth (that is in order not to exceed a budgetary deficit of 3% from the GDP) and in order to keep under control the growth of the external deficit and the inflation pressures that endanger the macroeconomic and financial stability.

There are strong risks – on the basis of the actual internal politics and the external shocks – that the disinflation process be harder to sustain. If these risks will be fed with relaxed fiscal politics and with big deficits, then these may lead to an inflation spiral, but also to a deepening of the public debt.

Romania renounced, in 2005, to the direct assistance of the FMI, after which, on January 1st 2007, it adhered to the European Union. The integration in the EU proves that the economy is sufficiently mature to no longer need the 'guidance' of the international financial organisms?

The renunciation to an agreement with the FMI in 2005 was a wrong decision. The agreement promoted at the end of 2004 had in view exactly the continuation of the reforms from the period 2000-2004, the strengthening of the public administration and the growth of the capacity to attract resources from the EU. The last three years proved that, in the absence of internal determination for the continuation of the structural reforms and the strengthening of the fiscal and commercial politic, the side-slips accentuated, the course of exchange and the inflation had unpredictable trajectories, and the external perception on the national economy started to degrade.

We consider that it is needed a new model of relationships that our country must have with the international financial organisms, for the rebuilding of the external credibility. In lack of a strategy, our country is perceived as a country that does not know where is heading to.

As longs as the incomes, as poise in the GDP, are modest and are not realized entirely the economy starts to lose the competitiveness. The budgetary resources must be kept, consolidated and efficiently spent. They cannot be wasted in the context in which the financial affluxes from the European Union are bigger and bigger, and the need for resources internally will be more pronounced.

We consider the budgetary strategy fixed in the program is not in conformity with a prudent fiscal politic, necessary to limit the growing external deficit and the inflations pressures that threaten the macroeconomic and financial stability as well as the process of convergence.

Romania became member of the European Union at the end of 2007 and should, according to the treaty of adhesion, adopt euro. Two of the three essential conditions for entering in the euro area are the tempering of the inflation and the maintenance of the budgetary deficit below 3% from the gross domestic product (GDP). The progresses for reaching the budgetary equilibrium for mid term are insufficient, despite the perspectives of solid economic growth. Taking into consideration the risks at the address of the budgetary targets and the significant adjustments that will be necessary after the period of the program, is unlikely that the objectives for mid term be reached until 2011.

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THE BALANCED SCORECARD IN THE SOCIAL DOMAIN

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Abstract: In the conditions, in which human resources are recognized as the main wealth of an organization, appears as a paradox the fact that all the implied disciplines in its activity are not ready to offer qualitative information in this domain. The accountancy, the finances and the management of which analysis and synthesis is generously when it's talked about material and financial resources, fix capital; they were in debt and never knew how to adapt to the new requirements generated by the social management. The apparition of the social scorecard to the management's initiative whishes to be a good start in the action of informational recovery connected by the human resources function and a signal towards the specialists of other disciplines, which have to involve in this kind of process. The present paper proposes an analysis of the social scorecard evolution and highlighting of the rules and principles which allow to each initiative in this sense to succeed.

Key words: previsional system, pay politics, social development, social climate, instrument of measure

I. The social information system and the balanced scorecard

Martory (2003) defines the social information system as "one of the information sub-systems of the organization, which is necessary to the human resources and managements' function for the good achievement of their mission". Peretti (2003) defines social balanced scorecard as "an assembly of simple or compound indicators, chosen to serve to the management of an organization's management in the human resources domain. The choice of the indicators, their degree of globality and the frequency of their change depend on the pursuit level. The most useful data compares the simple indicator with historic or prevision references."

Objectives. The objectives which the managers and the responsibles of the human resources function are looking after through the implementation of a social balanced scorecard are multiple and contingent.

1. *The organization of the social management*. In numerous cases the social information contributes to the segmentation of the social management. Although it can be said that the social balanced scorecard determines the human resources management of an organization, it comes to increase and resolve of the main problems of organizing the social management, at least through defining the responsibilities and the hierarchy of the authority.
2. *The observation of the legal duties and the achievement of an essential minimum of the social management.* In the developed EU countries is compulsory the achievement of a social balanced scorecard for the organizations which exceed a number of 300 employees, but also the negotiation with the social partners or the answers that have to be offered to the organizations' administration of state locals or centrals, in case of other organizations. These duties have to represent the occasion to form a minimum informational system materialized in some essential tables.
3. *The endorsement of the decisional process in view to increase its reactivity.* The social decisions are most of the time submitted to the pressure of events, with the occasion of the negotiation with the internal or external partners. If we dispose of automatic operational information's system, the decisions can be taken fast and have a reactive character.
4. *The improvement of the previsional aspect of the human resources function*. The concernments of the human resources and financial management refer to two imperatives, the first one bounded by the complex prevision of the effectives and competences, and the second one of knowledge of wages' evolution and salary funds

5. *The achievement of some social balanced scorecards to the compartments' level*, with information that can be easily taken and put into the organization, obtained after precursory determined procedures and which can ensure their fast combination.
6. *The observation of specific restraints of social management*, in order to facilitate the decision in a changing medium. Studies realized by several researchers identifies five types of restraints, as administration of important data basis, respecting the confidential information, following an evolutionist legislation, acting in a simple and independent manner, editing various documents, proper to more receivers (tables, graphics, letters etc.).

Followed domains

The practice from social management relieved four main domains in which concerns offering information thus four main chapters of social balanced scorecards. The first chapter is *managements' effectives and of human resources*, which refers to the assembly of practices that points out "the right man in the right place". It refers to recruitment, effective's statistics', human resources demography, provisional management of personnel, knowing the potentials and careers' organization. The second chapter refers to the *management of social climate, of employee's comportments and of social dialogues' development*. The management of an organization imposes that it can be in measure to appreciate periodically the employee's behaviors and of its groups. *Appreciation of the performance and following the investments in training* represents the third informational pillar of the social balanced scorecard. The position of the employees as the main resource of concurrent advantages, explains the role of appreciation and it's inclusion through the main chapters of social balanced scorecard. On the other side the appreciation has multiples bonds with other main activities of human resources function, as remuneration and managements' career. Thus*, the scheduling and the highlighting of wages and social costs* form the forth chapter followed in this important instrument. The information refers most of the times to knowledge of financial engagements that concerns human resources, wage politics etc. All these instruments claim an accounting and financial information, autonomic compared to classical accounting systems.

The role of informational filter

The filtration of information's and its aggregation are more important as it's more useful on the hierarchical scale. The reserved data covers three progressive levels of selection:

- *data basis*, which represents a first selection of information useful to the socio-economic management and are archived on informatics support which allow automatic integration; it refers to wage and allow realization of an social-management following working time, being bounded by accountable basis and management control;

- *statistical documents*, which is a first selection and present in a coherent manner data basis on different themes; in case of human resources function is going to be realized an detailed analysis of effectives upon sex, categories, age etc, which will be available to the responsible of its' inner;

- *social balanced scorecard,* instruments which includes a selection and a presentation of the key information in view to take some decisions. For answering to this sort of objective it has to be easy to read, be very selective and adapted to every user.

II. Elaboration of the social balanced scorecard

The fact that human resources have certain inertness, meaning that it can't be transformed as quickly as other factors, as the materialists or financial ones, leads to the conclusion that the management of effectives and of competences deserves to lean on a prospective informational system but also on a complete pilotage. Social management is organized in three times that is of designing the objectives, realizing the activities and measuring the deviation, and the last one of preparing the following phases.

Designing a target suppose to fix some social and socio-economical objectives. It could be about reaching a lower level of absenteeism or realizing a development of wages planned in the beginning of the budgetary year. Information system formalizes and presents the objectives facilitating the elaboration of the social plan who can present the strategic choices of the unit.

The way to this target requires a periodic measurement of the deviations compared to the idealistic trajectory towards the objectives. In this environment the information system provides from one day to another objective data which qualifies the environment evolutions. It allows the elaboration of some periodical indicators and provides information to the punctual studies which support the process of taking the social decisions.

Putting the rules into practice means the achievement of the trajectories for defining new targets, better and less inadequate in the conditions in which the environment changes and it's, most of the times, unpredictable with the realization of the previsions. This phase is essential for realizing the pilotage and requires the utilization of all the competences that the pilots have. The social balanced scorecards allow the determination of the deviations to the chosen objectives measures it and decomposes the significant ones among it. Thus options of social information are not the same in all the organizations, because their organizational and strategically options are different. In practice there are three progressive levels of implementation for the social balanced scorecards. The first level is the maiden in the organized construction of the social information and it refers to formalizing the mandatory data. The second and the third levels mark a progress, adding information and especially, realizing a bound and in thus a real system.

Level I, the essential minimum. In this first stage information are prepared which represent legal social obligations. The effort of realizing such a scorecard is big and supposes a presentation of some favorable data's for coming to a decision, a periodicity of work out which can be bigger than the one required by the legal obligations and a repartition of the information towards the concerned responsible. Thus is being set up a first structure of a social information system all round the social balance that is legal obligation. Thus a trading company with 280 employees from social and sanitary sector prepares a social balance. With this occasion it organizes a structure of social information that can allow comparisons with the same type of companies and prepare its legal obligations by the time of reaching the critical threshold of 300 employees. From this social balance it will be extracted significant data, as external mobility (turnover), pyramid of ages, remuneration levels, which will be included in the central balanced scorecard.

Level II, the transitional system. The main system is enriched with prospective character information, as projections on medium term of the personal effectives for the key components or foreseeing of wage fund, but more detailed, which can allow more profound analysis, as analyze of the difficulties on services, on personal categories, on time etc. *Level III, the advanced system*. It is characterized by a progressive integration of data concerning the fundamental aspects of the employee's management. Every decision that concerns the employees affects simultaneously all the social and economical equilibriums of the organization.

The social balanced scorecard - principles of formation and usage. The experience of some organizations that have successfully projected and utilized the social information system has permitted the highlighting some principles which ensures efficiency and pertinence of the social balanced scorecard:

1. Avoiding an initial informational surcharge, who weight the process of selection and refinement of data and who can determine the abandon of this type of project even from this phase;
2. Utilizing to the maximum information in the mandatory informational system, as social balance, pay system, legal documents etc and head working of the optimization process of the proportion between quality and costs of the selected data;
3. Scheduling the process' consolidation of selection and refinement of data to the level of localized structures, for it to be operational to the foreseen term; this is necessary for making the balanced scorecard to the high level, but also because this instrument is one who represents power and mobilizes compartments' responsible;
4. It does not have to be forgotten, also, that the ship is not sailed by the steering wheel, or the pilot and the balanced scorecard does not replace the strategic strength and the desire to realize an adequate social pilotage.

III. About the content and the relevance of the social balanced scorecard

Both literature and practice of human resources management (Mendoza and Taieb, 1988; Kaplan, 1998; Martory, 1999) relieve the structural variety of social information systems and specific social balanced scorecards and identifies six domains which answer most frequent to the requirements of the organizations.

The management of effectives and of structural changes. The object of this chapter aims to present a demographic analysis of human resources and of equilibriums that have to define, in view to avoid some penury and redundancy of personnel. The human resources equilibrium is vital for the organization, and regards some more elements, as age, the distribution of competences upon compartments, the organization of some more elements mobility.

For the analysis and the assurance of these equilibriums are being utilized three groups of indicators:

- a first group aims the monthly situation of the effectives, disinterested of their type and the measurement is done in number of registered persons, allow of effective work-time;
- follow up the structure of the effectives, respective to their distribution upon categories, the analysis of employment indicators, structure upon age with the specified pyramids (the second group);
- the foreseeing of the effectives upon 1-3 years based on age pyramids and/or job matrices on type of job which are determined in the percent of achievement and more evident in difficulties of enlistment.

Management of competences. Balanced scorecard that is mentioned here suggests managing correctly the collective intelligence of the organization. As for the individual information it takes the form of a situation of competences to the admittance in the organization, of following the careers and the training stages. The information given by the balanced scorecard is quantitative in most of the part but also qualitative, which makes this instrument to allow the access, selection and exploitation of qualitative information.

Management of the remunerations and wages. The management of the remuneration system implies knowledge of a real evolutionist system: wage politics that makes the object of a periodical review, the equilibrium of the remuneration system itself, which has to be flexible due to the environment evolutions. Afore of a system in a continuous transformation, information has to be continue, and that is why this chapter is the most important. The groups of the most utilized indicators in the construction of a balanced scorecard are specific to:

- following the structures of individual wages, which concerns the rapport between basis wage, representative from the competences view, the remuneration of the manner in which the job is occupied, legal and contractual peripherals: participation, gains, retirement system, insurances system etc;
- following the structure of collective wages, meaning of remunerations upon categories, on age levels, on type of professions etc, going from periodic exam of medium wage, of median wages, of gauges between different levels of remunerations;
- examining the global evolutions of wages, more precisely following the different components of wage and explicit factors' of these evolutions.

The measurement and development of the collective intelligence. The restrictions of the investment process determines the organization to have information instruments that allow the management of the accumulation process of intelligence, instruments that will be included in the social balanced scorecard. These are:

a) scheduling of the training, meaning the realization of some difficult adaptations between individual requirements and collective strategies, then the organization of the probations cater for legal frame and identification of some anomalous situations that concern the monthly individual frequency in stages of some persons;
b) following intellectual accumulations realized through training by treasuring up of some competences levels;
c) managing an investment in performance going from its results this tendency beyond the simple identification of the efficacy of some efforts in training.

The social climate. The degradations represent pertinent alert signals in measuring the social climate. The degradations represent significant alert signals according as are considered indicators in relation with the social climate. But even the notion of risk has to be taken and managed correctly. The risks appear shortly after the practices and social structures of an organization have significant losses in rapport with others. There is no secret that the social risks observed today are going to induct the developing of tomorrow's contra performance. Among specific inquiry of diagnosing the social climate or satisfying the employees, which are utilizable in more sophisticated balanced scorecards, in practice are being utilized more frequently three groups of indicators:

a) for the conflict stage appear: number of days lost because of the conflicts, incidents, claims etc;
b) the absenteeism will be reserved in its ensemble (number of hours and days of absence on a period of time) or through a good indicator of the climate, represented by the micro absenteeism, as for example, number of hours of reduced absence (under 2-3 days) related to the number of theoretical hours of work;
c) internal or external mobility (turnover) is, for example, a rich indicator that has double sense, if it's to reduced indicates a situation of an exigent rooted ness on posts, routine and diminution of performances and if it's to high characterizes inopportune measures of leaving due to a management with problems or to an inefficient integration.

The measurement of the socio-economic performances

The evolution of the organizations in the complex environment nowadays reveals that the social performances from today will determine the future economical performances and will ensure the basis of ways long term development. Also, following the performances gives ways of realizing socio-economic benchmarking, more than necessary in the conditions of an acerb concurrence. Balanced scorecards will include indicators that measure the social efficacy (degree of reaching the objectives) and, if it's possible, social efficiency, referred to the rapport between the utilized capital goods and the obtained results. The best indicator of efficiency is considered the productivity of work, defined as a rapport between the values of the obtained production and the realized work volume. To numerator it can be used the turn-over realized, added value and to denominator it can be chosen between total costs of work, wage fund, hours of work.

Conclusions

The future of the social balanced scorecard reveals its addition with strategic indicators of value creation conditions. The most precocious model of "balanced scorecard", realized by Kaplan and Norton (1996), introduces an analysis of process that allows the explanation of performances or financial contra performances of the organization. To the origin of amelioration of performances the two authors design a representative pedestal of "employees' competences", which initiates the possibility of amelioration of process and guarantees creation of the value in time. These proposals and those of Epstein and Manzoni (1997) have determined sustain of a double demarche that regards to fill the balanced scorecard through strategic indicators on long term. First of all, it's about the developing of some quantification of social and organizational factors that determine the performances. In the second place, it's about measuring in time the offer of the investments in competence and organization. The additional indicators aim to measure a capital of individual and collective intelligences, and not the flux of performance that appear in the traditional social balanced scorecards. Thus this instrument goes beyond the role of sustaining the management and conduces to developing the creation of social added value in time.

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THE PERFORMANCE AUDIT. THE EXPERIENCE OF OTHER SUPREME AUDIT INSTITUTIONS

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People using financial records, such as stockholders, bankers, creditors, governmental authorities and the public must be persuaded that the company's image, as presented, is not confusing. That is why the laws in force stipulate that the general manager has to obtain a second opinion, belonging to an expert outside the company, known as the financial auditor. The auditor does not depend on the company's management and does not represent a group of interests. The financial records are credible due to his expertise, education, integrity, practice of professional reasoning and, the most important of all, due to his independence. The auditor is responsible in front of the stockholders having designated him.
Key-words: external audit, international auditors, performance audit twinning

The performance audit of the financial resources in the public sector, as well as of the state public and private patrimony management has become the most evolved expression of external audit, which the supreme audit institutions in western countries are progressively adopting nowadays.

Performance audit in the public sector stands for an independent evaluation of the degree of effectiveness and efficiency of a certain activity, program or institution, while observing the principles of cost-effectiveness.

The Supreme Audit Institutions (S.A.I.) from countries such as Great Britain, Sweden, Netherlands or United States have taken the first steps towards measuring the cost-effectiveness and the efficiency of using public funds ever since 1980, therefore they have improved the work techniques and methods on a permanent basis.

The National Audit Office of the United Kingdom of Great Britain and Ireland (N.A.O.) considers that „measuring the performance represents a necessity managers at all levels, in order to get a clear image of their objectives, to assess and to weigh the results of the respective objective, wherever possible".

In the near future, the performance audit in Romania will have the same objectives as the performance audit in Great Britain.

The public audit in Great Britain is regulated by the National Audit Law, dating from 1866, amended and completed in 1921 and 1983, when the right of the Controller and Auditor General to carry out the performance audit came into force.

The British National Audit Office's motto is: „Let's help the nation spend wisely!"

In the United States, the General Audit Office of Public Accounts (G.A.O.) considers that performance audit is „an objective examination of reality in order to provide a systematic performance assessment of a major organization, program or activity, so that it obtains information concerning the use of public funds and the ease in the decision-making from the part of the responsible with monitoring and implementing corrective measures."

The objectives in view refer to the cost-effectiveness and the efficiency of using public money, as well as to the program audit, which includes determining the degree in which the expected results and benefits are reached, or whether the entity has observed the main laws and regulations concerning the respective programs.

Since 1989, The Swedish National Audit Office (S.N.A.O.) has had a separate division in charge with the performance control, designed to make more than examine the entities, monitor the activities and record the defaults, that is to pay more attention to analytical measures and substantiated recommendations.

In this country, the performance audit has therefore set the objective to assume a more active role in changing the efficiency and effectiveness of the governmental administration, wherever necessary.

The Dutch Chamber of Accounts examines "whether the money has been well spent, and also whether it would have been better spent elsewhere." The performance audit is defined as a scrutiny over the efficiency and effectiveness of the governmental policy, considered as a starting point.

The supreme audit institutions' competency to carry out performance audits, as well as the dimension and scope of the respective audits are regulated by the Constitution or by special laws of organizing and functioning.

The World Bank's experts recommend the countries which decide to adopt or to improve the performance audit (such as the Romanian Court of Accounts) to choose strategies implemented in countries with a substantial experience in the field.

Thus, the performance audit carried out by the General Office of Public Accounts from U.S.A. meets the requirements of the legislative power, interested in knowing whether the government's activities are efficient. The G.A.O. examines every program, activity and function of the federal government of the United States and draws up pertinent and substantiated conclusions.

Over the last century (the G.A.O. was founded in 1921), the Congress solicited the respective body to identify imperfections in the governmental activity, so that to eliminate the waste and inefficiency in public spending; the G.A.O. also confirms if the governmental funds are legally spent and if their evidence is accurate. Moreover, the G.A.O. decides if the program objectives are achieved within the established costs, and if changes in the governmental policy are necessary, it suggests what decisions should be made by the Congress in this respect.

The recommendations issued by the G.A.O. have triggered positive effects, reflected in significant cuts in budget expenses, as well as in revenue increases, estimated at about 100 billion dollars by the World Bank. Each year, the G.A.O. carries out over 1,000 performance audits, its representatives presenting themselves in front of the Congress committees around 300 times a year, in order to hand in reports on the audits.

Before initiating a performance audit, the G.A.O. establishes if such a measure is justified. In this respect, the body prepares a series of surveys and organizes debates around its responsibilities, to make sure that the audit can accomplish its mission and that the estimated budget is covered by the final results.

The final report takes into account independent viewpoints, supervised at various levels within the G.A.O., concerning the response to objections and the modifications brought to the initial forms.

The G.A.O. has also introduced a system of subsequent quality assessment of the performance audit, in order to amend the procedures; the system uses independent staff taking notes on deviations from the audit standards and procedures.

Due to this subsequent audit evaluation system, the G.A.O. brought in 1998 a series of amendments to its audit standards, known as the "Yellow Book"; according to the World Bank's experts, the "Yellow Book" stands for the highest quality standard in the field of performance audit.

Following the initiative of the Committee of Public Accounts within the British Parliament, in 1983, the performance audit was legislated; thus the National Audit Office of Great Britain became one of the top supreme audit institutions, being characterized by rigor, quality and objectiveness.

The N.A.O. carries out the most part of the performance audits on a specific theme or subject, nevertheless its works are monitored by several government departments.

The main N.A.O. objective is "to help the nation spend wisely."

Its primary role is "to verify and to independently inform the Parliament upon the way in which the governmental departments, the executive agencies and other public bodies accounts for and use the tax payers' money. It also helps these bodies to implement a better financial management."

The N.A.O. certifies the annual budgetary execution accounts of the public bodies, thus being responsible with the regular financial auditing of almost the entire amount of government expenditure (around 540 accounts); it is entitled to audit approximately 4,000 bodies receiving public funds for housing, education, professional formation, etc.

About 40% of the annual N.A.O. budget is directed to the performance audit, almost 50 reports being issued each year.

The quality and value of these reports have mainly grown as a result of applying strict audit methodologies and themes, of using audit experts, of identifying the possibility to set up a financial economy.

One of the priorities during the reform of the audit process with the Romanian Court of Accounts, and probably the most important one, is developing the financial audit, implementing the performance audit and harmonizing all these with the modern audit standards used by similar institutions in Europe and on other continents, much more advanced in this field.

This priority was also highlighted by the experts coming from the U.N. the World Bank and from the E.U. They benefited from the assistance of the SIGMA specialists in drawing their conclusions to the SIGMA reports between 1999 and 2005.

Based on the conclusions and recommendations included in the Reference Act and the Final Report, the Romanian Court of Accounts elaborated and approved the Strategic Development Plan between 2001 and 2004, setting as a strategic top objective of the institution "enhancing the institutional capacity to increase the degree of administrative responsibility in the legal and efficient use of public funds in Romania".

The peer-review between May and June 2000, as a stage in the strengthening of the institutional capacity of the Romanian Court of Accounts, reflects the major preoccupation for a fast integration in the process of institutional reform generated by the perspective of Romania's adherence to the European Union.

As a consequence of the recommendations received, several amendments were brought to the Romanian laws at the time; the audit area extended not only to the field of privatization, but also t the way of administering, managing and using the public funds and the public and private state patrimony; these were responsibilities consistent to the strategies of other Supreme Audit Institutions or Chambers of Accounts.

The differences appeared when auditing the financial management, the efficiency criteria, the cost-effectiveness and efficiency in using public funds. This situation was due to the lack of a strategy and a performance audit guidance book, which include indicators and performance criteria; also, the conclusions of the supreme audit institution from Romania reported to the Parliament did not have a pertinent finality, and the few recommendation were adopted by the beneficiaries.

Starting with the year 2000, the Court of Accounts has enjoyed EU funding through the PHARE programs. Thus, by means of the PHARE 2000 program, aiming at strengthening the institutional capacity, two components were financed:

- The twinning component created in collaboration with the U.K. N.A.O. (with the contribution of the Greek Audit Court) and completed in September 2003. The main activities included were the development of legal activity, the update of the legal framework, the development of human resource management and organization, the development of the IT component and the introduction of computer-assisted auditing techniques.
- The investment component, having as objective "The Development of the IT Infrastructure of the Chamber of Account, the Control and Human Resource Formation".

In December 2002, the reunion of the Presidents of the Supreme Audit Institutions from Central and Eastern Europe, Cyprus, Malta, Turkey and the European Court of Accounts took place in Bucharest. Special guests from the Russian Federation and the United States were invited to the debates on the transition process of the financial control structures from Romania.

The transition involved reshaping the monitoring mechanisms of the public finance management, of the efficient and effective use of public funds in the legal framework.

Still, this period also generated dangerous phenomena, which imposed joining efforts to find solutions to counteract corruption and fraud, flourishing due to the lack of legal framework, of the confusing status of property during the economic reform, as well as of the state's weakness.

The close ties with the similar European Supreme Audit Institution will lead to the harmonization of the Romanian laws, of he means and methods of financial audit with the European model.

Since 2003, the Romanian Court of Accounts, as Certifying Body of the financial assistance within the SAPARD program, has benefited from the technical support granted to the SAPARD Agency by another PHARE program, comprising two axes:

- The first axis, based on professional formation, included training courses for the staff involved in the activity of certifying the SAPARD funds (completed in 2003), in order to improve the theoretical and practical knowledge of employees responsible with auditing the funds allotted through the SAPARD program.

- The second axis, oriented towards long-term assistance and consultancy in the field of the SAPARD auditing programs was finalized at the end of 2004.

In 2003, the Romanian Court of Accounts received from the E.U. non-reimbursable financial assistance within the framework of another PHARE program, aiming at improving the institutional capacity, comprising two components:

The 0.8 million euro twinning component, materialized as a Twinning Convention between the Romanian and the Spanish Courts of Accounts, in collaboration with the German Court of Accounts, had the following objectives:

- Developing the auditing activities of funds granted by the E.U. and other international financing sources, in conformity with the European and international standards of external auditing of budgetary funds;
- Organizing training courses for staff involved in the privatization process;
- Continuing the development of the financial audit, both on local and central level;
- Improving the skills of the Court's personnel, in order to audit the following fields: health, banking, subsidies or other state-supported forms of financial assistance;
- Training courses for the Court's auditors, in order to give them the possibility to identify criminal activities (fraud, corruption, tax dodging, money laundering), to establish the legal measures to be taken and to apply them on the culprits.

The Twinning Convention was signed in November 2003 and extended over a period of two years.

- The investment component was directed towards linking the Romanian Court of Accounts to other public institutions, towards developing an information system concerning the control/audit activity, towards equipping the Romanian Court of Accounts with IT systems, as wells as towards modernizing four professional training centers.

In the monitoring reports issued by the E.U. Commission in October 2003, it was revealed the fact that the external audit systems from the adhering countries were much more developed than the internal control/audit ones, which led to a more intense cooperation in order to harmonize the professional standards in all the countries members of the EUROSAI (European Supreme Audit Institutions).

The PHARE program for institutional development between 2004 and 2006, addressing the Romanian Court of Accounts, stipulates a twinning contract with similar institutions in Spain and Germany, in order to set up an independent external control/audit institution for public funds, a professional, reliable entity, able to comply with the E.U. membership conditions.

In order to accomplish the above-mentioned objectives, we must: introduce modern auditing methods, consistent with the international audit standards and with the best European practices, employ well-trained personnel, constantly preoccupied with improving their professional skills, use modern technical support, prove an appropriate internal and external communication.

In the spirit of the permanent collaboration between the Supreme Audit Institution members of the EUROSAI, the Romanian Court of Accounts benefited from a financial assistance program set up by the International Development Department of the British Government, responsible with promoting the development and fighting against poverty on a global level.

The program has three stages, respectively:

- The first stage (October 2000-October 2001) referred to the technical assistance, having as main objective the improvement of the audit activity concerning the public expenditure in Romania, based on European and international standards.
- The second stage (2002) focused on training the 170 employees within the Romanian Court of Accounts in auditing the privatization process in accordance to the EUROSAI standards.
- The third stage (2003-2005) aimed at implementing the financial and performance audit in conformity with European and international standards.

- The main specific objectives of this program contributed to the improvement of cost-effectiveness and efficiency of public expenditure in Romania, to the initiative of supporting the Romanian Court of Accounts in the process of European integration, as well as to the carrying out of audits according to the International Audit Standards, the Rules of implementing the INTOSAI standards and the best European practice.

At present, the Training Program developed by the KPMG and the BPP for the Romanian Court of Accounts, with the support from the E.U. is in progress, as part of the project called “Authorizing the financial controllers of the Romanian Court of Accounts as international auditors”, implemented with European financing.

By raising the professional level of the public auditors in the field of financial, IT and performance audit, as a result of further formation and improvement programs with European assistance, the Supreme Audit Institution will be able to present the Parliament interesting audit reports and the public administration will be able to act following the Court’s recommendations. In the same time, by ensuring the transparency of the financial and performance audits, the institutions will prove reliable, both for the citizens, and for the international institutions and bodies interested in protecting their financial resources.

By modifying its organizing and functioning law, the Romanian Court of Accounts will have competencies in the field of financial and performance audit, thus accomplishing the proposed objectives; it will be also able to hand in to the Romanian Parliament, the E.U, to other institutions and to the public opinions high quality reports concerning the legal and effective use of public money.

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COST AND MANAGEMENT SYSTEMS BETWEEN COST CALCULATION AND PERFORMANCE MEASUREMENT

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Nowadays companies are facing with intense competitive pressure. Market conditions are characterized by aggressive competition, more and more demanding customers who pose serious questions about competitive strategies and underline the importance of an efficient management information and cost system.

In order to with the current requirements, to improve internal and external communication, there is a demand for accurate, reliable and versatile information on financial, internal processes and costs. Therefore the quality of management decisions and performance measurement is tightly linked to the quality of management and cost calculation systems and performance measurement systems.

The purpose of this paper is to cover the available literature in this field and to demonstrate that new and complex cost systems and cost calculation methods represents major innovations within an organization and permits not only cost calculation and analysis but also performance measurement, strategy definition are oriented through competition and customers.

KEY WORDS: costs system, cost calculation methods, performance measurement, strategy

1. INTRODUCTION

The American Accounting Association defined accounting in 1966 as: "The process of identifying, measuring and communicating economic information to permit informed judgements and decisions by users of the information."

This is an important definition (Collier, 2003) because:

- it recognizes that accounting is a process: that process is concerned with capturing business events, recording their financial effect, summarizing and reporting the result of those effects, and interpreting those results
- it is concerned with economic information: while this is predominantly financial, it also allows for non-financial information
- its purpose is to support informed judgments and decisions: this emphasizes the decision usefulness of accounting information and the broad spectrum of users of that information.

Managers need financial and non-financial information to develop and implement strategy by planning for the future (budgeting); making decisions about products, services, prices and what costs to incur (decision-making using cost information); and ensuring that plans are put into action and are achieved (control). This function is called **management accounting**.

Management accounting was defined by the National Association of Accountants (NAA) as "the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of financial information, which is used by management to plan, evaluate and control within an organization."

According to Johnson and Kaplan (1987) a management accounting system must provide timely and accurate information to facilitate efforts to control costs, to measure and improve productivity, and to devise improved production processes. The management accounting system must also report accurate product costs so that pricing decisions, introduction of new products, abandonment of obsolete products, and response to rival products can be made.

Since the 1980s global competition, that has taken place, has left management accounting behind in terms of its decisions usefulness. Traditional cost systems, such as job order costing or process costing, were no longer effective and efficient, they have lagged behind because they were not useful in a "high tech" environment (Cooper and Kaplan, 1989) and managers had different and various information need.

In time, developments and innovations appeared. Organizations confronted with automation of production processes and technological evolution developed new and complex cost and management systems. The decline of manufacturing and rise of service industries led to the need for "accurate knowledge of product costs, excellent cost control and coherent performance measurement." (Johnson and Kaplan, 1987:220) And the challenge of today's competitive environment is to develop efficient and effective management and cost systems which also allows to measure performances and provides timely and accurate information to facilitate efforts to control costs, to measure and improve productivity, and to devise improved production processes.

In this way, management accounting is now implicated with (Collier, 2003): value-based management, non-financial performance measurement systems, quality management approaches, activity-based costing and management and strategic management accounting in order to help managers to increase the value of the business.

2. Advanced management and cost systems and their relationship with performance measurement

2.1 Activity Based Costing and Activity Based Management

Activity Based Costing (ABC) is an alternative to the traditional way of accounting. Traditionally it is believed that high volume customers are profitable customers, a loyal customer is also a profitable one, and profits will follow a happy customer. Studies on customer profitability have unveiled that the above is not necessarily true. ABC is a costing model that identifies the cost pools, or activity centers, in an organization and assigns costs to products and services (cost drivers) based on the number of events or transactions involved in the process of providing a product or service. As a result, ABC can support managers to see how to maximize shareholder value and improve corporate performance.

The benefits of Activity-Based Costing include:

- Identifying the most and least profitable customers, products and channels.
- Determine the true contributors to- and detractors from- financial performance.
- Accurately predict costs, profits and resource requirements associated with changes in production volumes, organizational structure and resource costs.
- Easily identify the root causes of poor financial performance.
- Track costs of activities and work processes.
- Equip managers with cost intelligence to drive improvements.
- Facilitate better marketing mix
- Enhance the bargaining power with the customer.
- Achieve better positioning of products

Calculating and managing costs for all activities is related with using certain specific calculation techniques and its combination with proper managerial procedures. In order to measure up to these expectations the Activity Based Management is added to Activity Based Costing.

Activity Based Management (ABM) is considered by some authors as an improved version, others a sub product of ABC. Anyhow, most authors agree, that ABC/ABM couple is a complete management instrument, with the remark that ABC is a cost calculating system, while ABM is a philosophy of performance management. (Diaconu et al., 2003)

Managers use ABM (Albu, 2005) to learn how the structure of costs and their behavior influences the profits, being able to produce changes in the development of the sale prices or to eliminate the waste, to make the necessary changes in quality, efficiency, speed, and to select the suppliers and also to facilitate the decision making process on long terms though a process oriented thinking.

While ABC provides the necessary information in managing the activities, ABM uses these given information for improving the internal processes. It goes beyond the simple cost calculation and budgeting, it supports the strategic decision making among the companies, creating a relationship between the financial and non – financial information due to the cause - effect relationships.

More and more companies are implementing ABM and ABC techniques because (Barfield et al, 2001:911) "ABM is concerned with increasing throughput by reducing non-value-added activities; ABC is concerned with long-run, rather than short-run, cost measurement. ABM and ABC can provide information on the overhead impact created by reengineered processes to streamline activities and minimize non-quality work. As quality improves, management's threshold of "acceptable" performance becomes more demanding and performance is evaluated against progressively more rigorous benchmarks."

2.2 Balanced Scorecard

Performance measurements should concentrate on things that create customer value. Measures can be quantitative or qualitative, financial or non-financial. Measurement selection should be related to the performance that management wishes, usually the two most important performance measures of businesses at this time are quality and service.

A **Balanced Scorecard** was originally developed "to provide top managers with a set of measures that give a fast but comprehensive view of the business. The balanced scorecard includes financial measures that tell the results of actions already taken. And it complements the financial measures with operational measures on customer satisfaction, internal processes, and the organization's innovation and improvement activities—operational measures that are the drivers of future financial performance." (Kaplan and Norton, 1992:71)

A balanced scorecard can help an organization to assess its performance through the use of financial and non-financial as well as internal and external measurements. The four areas of the scorecard are (Kaplan and Norton, 2001:90):

1. ***Financial perspective*** – refers to the strategy for growth, profitability, and risk viewed from the perspective of the shareholder.
2. ***Customer perspective*** – refers to the strategy for creating value and differentiation from the perspective of the customer.
3. ***Internal Business Processes* –** refers to strategic priorities for various business processes that create customer and shareholder satisfaction.
4. ***Learning and Growth* –** refers to the priorities to create a climate that supports organizational change, innovation, and growth.

The scorecards four perspective reflect the dissimilar activities in which an organization must engage to prosper and survive. By analyzing these processes managers are able to monitor present performance but also try to capture information about how well the organization is positioned to perform well in the future.

Managers can use the Balanced Scorecard to:

- clarify and gain consensus about the strategy,
- communicate the strategy throughout the organization,
- align departmental and personal goals to the strategy,
- link strategic objectives to long-term targets and annual budgets,
- identify and align strategic initiatives,
- perform periodic and systematic strategic reviews,
- obtain feedback to learn about and improve strategy.

2.3 Quality management and quality costs

In order to be globally competitive in today's tumultuous environment, organizations place an increased emphasis on quality and productivity.

Total quality management (TQM) is an effort in this direction. TQM (Shim and Siegel, 1998:340) is a system for creating competitive advantage by focusing the organization on what is important to the customer. Total quality management can be broken down into:

- ***total*** - that is, the whole organization is involved and understands that customer satisfaction is everyone's job;
- ***quality*** - the extent to which products and services satisfy the requirements of internal and external customers; and "management" -the leadership, infrastructure, and resources that support employees as they meet the needs of those customers.

TQM is essentially an endless quest for perfect quality. It is a *zero-defects* approach. It views the optimal level of quality costs as the level where zero defects are produced. This approach to quality is opposed to the traditional belief, acceptable quality level which allows a predetermined level of defective units to be produced and sold.

Costs of quality are costs that occur because poor quality may exist or actually does exist. More specifically, quality costs are the total of the costs incurred by

1. investing in the prevention of non-conformances to requirements;
2. appraising a product or service for conformance to requirements; and
3. failure to meet requirements.

Quality costs are classified into three broad categories (Shim and Siegel, 1998:340-341):

- ***Prevention costs*** are those costs incurred to prevent defects. For example: amounts of money spent on quality training programs, researching customer needs, quality circles, and improved production equipment.
- ***Appraisal costs*** are costs incurred for monitoring or inspection; these costs compensate for mistakes that are not eliminated through prevention.
- ***Failure costs*** may be internal, for example scrap and rework costs or external for example product returns due to quality problems, warranty costs, lost sales due to poor product performance, and complaint department costs.

In order to achieve quality management and quality costs it is necessary to review, improve and facilitate the existing cost and management systems, the planning, control and decision making processes. By doing this managers can use quality cost information to implement quality programs, to evaluate the effectiveness of the existing quality programs and to elaborate short and long term strategies for business decisions.

3. CONCLUSIONS

Traditional cost and measurement systems have sprung from the finance function and focuse on control. These systems specify the particular actions they want employees to take and then measure to see whether the employees have in fact taken those actions. In that way, the systems try to control behavior.

New and complex cost and performance measurement systems, on the other hand, put strategy and visions to the centre. Financial and non-financial measures must be part of these systems for employees at all levels of the organization. Front-line employees must understand the financial consequences of their decisions and actions; senior executives must understand the drivers of long-term financial success. These systems are more than a collection of quantitative and qualitative measures they represent a process driven by the mission and strategy of the business units.

By combining the financial, customer, internal process and innovation, and organizational learning perspectives, and using both quantitative and qualitative, financial and non-financial information these systems helps managers to understand interrelationships within an organization, helps them to focus on continuous improvement and customer orientation and leads to the improvement of the decision making process.

Facing the intensive competitive pressure and environment, knowing the managerial needs regarding costs, strategies and performances each company needs to consider what cost and management system and performance measurement system contributes to their unique needs. These systems must help organizations to improve and achieve quality costs and quality management, to develop cost systems and evaluate managerial efforts that accurately measures costs, profitability and performances.

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