NATIONAL AND INTERNATIONAL APPROACH TO FINANCIAL INSTRUMENTS

Briciu Sorin
University " 1 decembrie 1918", Address: Nicolae Iorga, 11- 13 Alba Iulia, Romania
0258-806263, E-mail: briciusorin@gmail.com
Samara Silvia
"Virgil Madgearu" Economical High School Constanta, Address: No.46, Ghe.Marinescu Street, Bl. N4B, SC. C, Ap.32 Constanta,Romania, Phone no: 0040722285622, e-mail: amara_vet@yahoo.com

Due to the international character of the financial markets and to the general tendency of globalization, the accountancy treatment of the financial mechanisms and instruments acquire a special importance because the theory, the norms and especially the practice in this domain quickly pass the borders of a country or of an entity. At the level of the international accountancy reference system, the accountancy politics and options regarding financial investments and financial instruments represent the object of the international accountancy norms: IAS 32 „Financial instruments: presentation and description" and IAS 39 „Financial instruments: acknowledgement and assessment", IFRS 7 "Financial instruments: information to be provided". The affiliation of securities to the sphere of financial instruments and their presence on the capital market is treated by the identification of securities in the wider category of financial instruments and clarifying the differences between different securities.
Keywords: financial instruments, securities, IAS 32, IAS 39, IFRS 7.
M41

Introduction

The dynamic nature of the international financial markets had as a result the wide use of a variety of financial instruments, starting from the primary traditional instruments such as bonds, to various forms of derived instruments such as swaps of interest rate.
The objective of these Standards is to support the users of financial situations in understanding the significance of the financial instruments of balance and extra balance and their signification, connected to the financial situation, the results and fluxes of cash of a company.
The IAS 32 standard recommends certain requirements for the presentation of the financial instruments which enter the balance and identify the information which have to be presented in relation with the financial instruments of balance (acknowledged), and with those extra balance (not acknowledged). The standards regarding the presentation deal with the classification of financial instruments in debts and own capitals, the classification of interest, dividends, as well as losses and earnings associated with these, and the circumstances under which the financial assets and financial debts can be compensated. The standards regarding the information which need to be provided refers to the factors which affect their value, moment and degree of certitude of the future cash fluxes of a company associated with financial instruments, and also the accountancy politics applied to those instruments. At the same time, the Standard encourages the presentation of information about the nature, amplitude of using the financial instruments by an entity, the purposes that they serve, the risks associated with them as well as the managerial strategies for controlling these risks. This Standard applies to all financial instruments included in the consolidated financial situations of the mother – companies, regardless of the fact that those instruments are owned or have been issued by the mother – company or by its subsidiary. Similarly, it applies to the financial instruments owned or issued by an association in participation and included in the financial situations of a partner of such a company either directly or by proportional consolidation.
The objective of the Standard IAS 39 is to establish principles to acknowledge, assess and present the information regarding financial instruments in the financial situations of a company. According to the definition offered by IAS 32, the financial instrument is represented by any

contract from which it simultaneously results both the financial assets of the company and the financial debt or an instrument of the own capital of a company. The American accountancy Standards have a definition similar to that of the financial instruments, the international norms being strongly influenced by US GAAP, U.S.A being the first country in the world which approached the issue of financial instruments from the accountancy point of view. The American Standards stipulate that a financial instrument is based on cash, a right or a contractual obligation which is liquidated by providing cash or interests of property in an entity.
The IFRS 7 Standard is the product of a remake of the requirements of describing the financial instruments and the risk management stated in some already existent standards. The IASB objective, by publishing the IFRS 7 standard is the remake of the presentations referring to the financial instruments in the light of new concepts and approaches of the risk management which have evolved in the last years, and also in the light of the new techniques the companies resort to for the assessment and management of exposure to the risks which derive from the financial instruments used. The objective of the IFRS 7 Standard is to impose to the companies a series of presentations which could allow users of the financial situations to assess: the importance of the financial instruments within the context of the position and financial evolution of the company, the nature and dimension of the risks which derive from the financial instruments to which the company is exposed including the management of these risks.

SECURITIES VS. FINANCIAL INSTRUMENTS

Securities can be defined as being papers/ documents under a materialized and non materialized form, which incorporate patrimonial assets and offer rights and obligations to their holders, namely the issuers, resulted from commercial or financial operations and which can be negotiated on the market. Securities issued by entities can be the object of transitions both on the basic capital market and on the secondary one. Entities resort to the services of the capital market in order to purchase or sell securities. On the secondary capital market securities are also named movable values/ assets or financial titles („securities" in the Anglican and Saxon countries), suggesting an investment which guarantees good earnings. In the French concept of accountancy, securities appear under the name of titles of portfolio and are made of movable values defined as: titles of participation, immobilized titles of the portfolio activity, other tangible titles and movable values of placement. In Romania, securities are met in theory, practice and regulations under the name of movable values. These are defined as: "negotiable financial instruments that can be transmitted by conveyance or registration in an account, offering equal rights on categories and giving to their holders the right to a fraction of the subscribed capital of the issuer or a general right of debt over the patrimony of the issuer, and / or susceptible of being transitioned on a regulated market". The movable assets defined as such include: state titles, bonds issued by the central and local public administration and commercial companies, and other titles with the maturity bigger than one year; from the financial and accountancy analysis of the securities regarded as financial instruments, we can identify some overlaps and also some situations of not being covered by the securities, of the area of including financial instruments.

Delimitations regarding securities and financial instruments

Securities	Financial instruments
The concept is more limited	The area of inclusion is wider and embraces the area of the securities.
Frequently transitioned on the organized financial markets.	They have no nominal value nor full value and they not have their own market.
They are volatile and have a liquid market (daily variation of the full value)	They have no volatility nor liquidity
They are almost substituted by cash	They do not have an immediate capacity of turning into cash.

Securities	Financial instruments
They are contracts which generate simultaneously financial assets for a contracting company and financial debts or instruments of their own capital for another contracting entity.	They are contracts which generate simultaneously financial assets for a contracting company and financial debts or instruments of their own capital for another contracting entity.
For their issue or purchase the entity accesses the monetary or capital market.	For the initiation of a financial instrument, other than a security, the entity enters classic commercial relations.

Table drawn be authors

The practical utility of these delimitations for the entity is that of finding operative and safe solutions of managing the portfolio of securities or simply taking good decisions of financing and investing.

CRITERIA OF DIFFERENTIATION

The criteria of differentiating securities are:

a)The juridical criterion presents and considers securities as titles of credit which offer to their holders a right of debt equivalent to a counter service. They are synalagmatic contracts. They include: titles of commerce (the bill of exchange, the promissory note and the cheque), movable values/ assets (shares, bonds and other titles issued by the patrimonial entities), securities of the nature of social shares, representative titles of the merchandise (the bill of lading and the deposit receipt).

b)The financial criterion reveal the financial characteristics of the securities related to the negotiability and incomes that they generate. We use the name of financial titles for the movable assets (shares, bonds, futures contracts, options, etc). The legislative frame of the capital market from Romania, uses the notion of movable assets to designate the instruments issued and transitioned on the capital market. **Movable assets** in the literature of specialty are defined as **non banking financial assets** expressed on a material support or into an account and negotiable on the secondary market at the full value. Financial assets are defined as the monetary correspondent of the real assets and are structured into: **banking assets**, represented by availabilities and deposits which generate interests, and **non banking assets** in whose category we can include **monetary assets and capital assets.**

c)The accountancy criterion classifies the securities differently according to the approach and the normative conception of the accountancy. In the approach of the International Standards of Accountancy, securities are financial instruments which are represented by any contract which simultaneously generates financial assets for an entity and a financial debt or an instrument of own capital for another entity. It results that in the accountancy of the entity, securities can be found under the form of **financial assets, financial debts or instruments of the very own capital.** The differentiation is based on the definition of the financial instrument. The same financial instrument is differently classified in the accountancy of the issuer and of the holder (investor). At the issuer it generates instruments of own capitals or financial debts and at the investor – holder, financial assets. The accountancy approach of the financial assets proposed by the international norms contains certain differences compared to financial one. The Standards extend the area of this notion over all commercial debts on short term, or limits it by excluding some “classic” financial assets of the type of derivatives on merchandise regularized by physical delivery, so that their discount should not involve the cash transfer or other financial assets.

From the presentation of the criteria **of differentiation it results that securities are a financial instrument but not every financial instrument represents securities as not all financial instruments can be transitioned.** The area of inclusion of financial instruments is wider than that of securities.

The accountancy normalization and harmonization of the financial instruments

For the last two decades we have assisted to a considerable development of the international financial markets, so that more and more companies try to be quoted of markets abroad. The pressure in favor of the international accountancy harmonization grows constantly and the harmonization of the national accountancy systems has become a necessity. Starting from the idea that users want to know the financing structure of the entity in order to take decisions, and managers support expenses in order to present a certain image of it, the Regulator must have in view a system of classification which could respond to the needs of users and limit the possibilities of manipulation. All entities must publish information regarding the importance of the financial instruments that they issued or hold, the risks which derive from these as well as the way in which those risks are managed. The European accountancy normalization is represented by the Directives of the European Union. By derogation from Directive IV-th of CEE it is anticipated the possibility that member states of EU prescribe specific structures of the annual accounts of the investment companies and financial holding companies. According to Directive IV-th of CEE in the structure of balance, the financial instruments which fulfill the qualities of securities are presented in assets as financial investments on long term and as current financial investments and in the liabilities as financing on long term or current financing. The balance structure recommended by Directive IV-th of CEE underlines the role of financial titles in the investment activity and in that of financing the entities. The American Regulator FASB approach the issue of financial instruments before IASB, existing nowadays more American standards which offer detailed guidance regarding different types of instruments, transactions and activities. The American norms have been and still are an important source of inspiration for the international ones. Characterized by a strong financial market, the American economy has the greatest experience in using financial instruments. This can explain the American origin of the first norms regarding financial instruments as well as the great influence exercised by US GAAP over IAS/IFRS. The notion of financial instruments includes a variety of elements. As a result, the Regulator - International Accounting Standards Board – IASB decided the elaboration of different standards in order to accurately deal with different types of fiancial instruments. Nowadays there are three international norms or standards which strictly deal with financial instruments: IAS 32 „Financial instruments: presentation" and IAS 39 „Financial instrumnets: acknowledgement and assessment" and IFRS 7 "Financial instruments: information to be provided". IFRS 7 refers to the necessity of describing the importance of financial instruments for the position and performance of a company, and also of qualitative and quantitative information about the risks which derive from financial instruments. IAS 39 comes to complete the provisions stipulated in IAS 32 in a series of problems related to the acknowledgement and assessment of financial instruments, as well as to the politics of administrating risks. Some of the provisions included in IAS 32 are resumed and debated in a more complex manner in IAS 39.

Regulating securities in Romania

In Romania, the capital market is not seen as a real alternative to the traditional sources of financing such as bank credits. The share issues are rarely practices, although during the last years there have been several initial public offers at the Stock Exchange from Bucharest. The advantages of listing on the stock exchange by launching initial public offers do not seem to be known or understood by many of the Romanian companies whose partners are not willing to share property with other share holders or to answer in front of the investors on the capital market by writing transparent periodic financial reports. Referring to bonds we may say that they are financial instruments whose presence on the Romanian financial market is quite recent, the first issues being transacted at the Stock Exchange from Bucharest in the fall of the year 2001. The bonds offered by the Romanian firms or local authorities are not very sophisticated, not representing complex features or special clauses. The derived financial instruments started to be used in the year 1997 at the Monetary- Financial and Commodity Stock Exchange of Sibiu under the form of futures contracts on different currencies. The options on futures contracts appeared one year later when the transaction of the derivates also started at the Romanian Commodity Exchange. The most transacted types of derivates at BMFMS are, futures contracts. The options hold an extremely reduced part of the total of transacting volume, the main explanation being that these are financial instruments more sophisticated and expensive than futures contracts, so that only initiated investors dare to use them. The range of financial instruments offered in Romania on the regulated market and on OTC is very poor, shares, city bond and several types of derived contracts being all that local or foreigner investors have at their disposal. Another category of financial instruments little used in our country is that of state titles, these are sold/ bought, for the time being, only on the monetary market, the banks being the main agents authorized by the National Bank of Romania on the primary and secondary market. In Romania, the state titles of the type of treasury certificates, treasury bills or state bonds are not transacted at the Stock Exchange from Bucharest, the main agent remaining the banking system. As for the national treatment of financial instruments, these are regulated by *O.M.F.P. no. 1.752/2005.* As it is also mentioned in *O.M.F.P. no.1752/2005* regarding the accountancy regulations according to the European directives, a financial instrument represents any contract that simultaneously generates financial assets for an entity, an entity and a financial debt or an instrument of own capitals for another entity. According to this regulation, those elements from the financial situations which fulfill the conditions of financial instruments are evaluated according to the general base rules used at the acknowledgement and assessment of assets and financial debts. The same general rules are used to assess derived financial instruments. As for the evaluation rules of the financial instruments at the right value, these are used only in the consolidated financial situations. Thus, in the individual financial situations, the rules of assessing derived financial instruments are the general rules used at the evaluation of assets and financial debts. Although these are not expressly defined or named as such in the harmonized accountancy regulations, securities are financial instruments in the literature and in the spirit of the International Standards of Accountancy. Securities correspond to the definitions given by IAS 32 and IAS 39 to financial instruments. In forming the harmonized balance according to European norms and international standards, the financial instruments which generate securities appear under the form of: **financial assets** within the tangible/fixed assets, as **financial fixing** and within the *circulating assets* as **financial investments on short term,** *financial debts* within current debts, which have to be paid in a period shorter than one year; and within long term debts, which have to be paid in a period longer than one year, *instruments of own capital*. Romanian accountancy harmonized regulations do not make expressed references to the financial instruments derived neither in the general Plan of accounts nor in the structure of the balance.

Conclusions

A first advantage of the norm IAS 32 is that its text apply to the assembly of financial instruments, regardless of the fact if they appear or not in the balance. The elements outside balance must obey the same obligation, on the line of informing, just like the elements which are kept in books (have a balance), this fact being important for the financial analysis. Moreover, the norm IAS 32 allows the final regulation of the problem of classifying hybrid instruments. An essential contribution of the norm is to make compulsory the provision of information related to different financial risks the entity faces. Consulting the annexes, the users can have a precise idea regarding the exposure to the risk of credit, the risk of exchange rate, the risk of the interest rate or the market risk. IAS 32, in its annexes, indicates the fact that the financial instruments should be kept in books at the correct value, when entering the patrimony of the entity. IAS 39 can be applied to all entities, with no exception. Essentially the norm focuses on the notion of accurate value, especially for evaluating derived instruments, for registering the variation of the accurate value kept in books at the result or own capitals and, eventually, for the compulsory identification of the incorporated derivatives. Using the accurate value in Romania is quite limited because of ceratin conditions among which we mention: the priority of certain regulations which give advantage to juridical and fiscal aspects to the prejudice of the economic ones, the mentality of the specialist who do not accept the new concept with all its implications, the insufficient development of the capital market. IFRS 7 „Financial Instruments: information to be provided ” overtook many of the information requirements that existed in IAS 32 and IAS 30, some of those requirements supporting editorial modifications, moreover there have been anticipated new requirements. The entities must provide information that could allow the users to assess their exposure to the financial risks and the way in which those risks are managed. There are necessary information regarding: the importance of financial instruments for the position and financial performance of the entity; the nature and amplitude of the risks which derive from financial instruments (quantitative information); and the manner in which the entity manages those risks (qualitative information).

Bibliography

1. Cernuşcă L., Strategii şi politici contabile ,Editura Economică, Bucureşti 2004
2. Dobre E., Noi dimensiuni în contabilitatea şi gestiunea tutlurilor de valoare,Editura InfoMega, Bucureşti, 2005
3. Duţescu A., (2001). Ghid pentru înţelegerea si aplicarea Standardelor Internaţionale de Contabilitate, Editura CECCAR, Bucureşti, 2001
4. Feleagã, N., Sisteme contabile comparate Ediţia a II –a ,Editura Economică, Bucureşti, 2000 Vol. II - III
5. Feleagă L., Feleagă N., Contabilitate financiară- o abordare europeană şi internaţională, Ediţia. a 2-a,rev.Bucureşti, Ed.Economică, 2007, vol.II
6. Huian M.,C., Instrumente financiare:tratamente şi opţiuni contabile,Editura CECCAR, Bucureşti, 2008
7. Ristea M., Dumitru Corina, Daniela.Politici şi tratamente contabile privind activele imobilizate, Editura Tribuna Economică, Bucureşti, 2007
8. *** O.M.F.P. nr. 1752/2005 privind aprobarea reglementãrilor contabile conforme cu Directivele europene
9. www.iasplus.com
10. www.mazars.com
11. www.iasb.org.uk