

## THE EVOLUTION OF THE INTERNATIONAL STANDARDS OF ACCOUNTANCY IAS/IFRS, AREA OF APPLICATION AND THE MECHANISM OF ADOPTION

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### **Abstract:**

*Unifying the economical-financial information at an international level represents today, within the context of the globalization and integration of the financial markets around the world, an important and urgent demand (necessity). Actually, we are talking about a necessary prerogative for the comparability of the international companies' performances for the transparency, efficiency and the development of the financial markets across the world.*

*Unifying the accountancy rules and the general use of a common accountancy language constitutes the necessary condition for a homogenous financial information circulation, understandable and transparent, necessary for a higher credibility and a better possibility to compare balances, and most of all that the investor trusts this accountant information document. (the balance sheet).*

*EU = unifies the financial information of the societies at the stock market, for the protection of the investments.*

**Key words:** International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), IASB (International Accounting Standard Board), financial information

## 1. INTRODUCTION

Starting with 1<sup>st</sup> January 2005, 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.

Applying the international accountancy standards, they try to gain confidence on the financial markets, making easier in the same time the international and transborder negotiations of real estate values. In 2002, the first Regulation is established regarding the application of the international accountancy rules.

Regulation nr.1606/2002 (CE) of the European Parliament and of the Council, from 19<sup>th</sup> of July 2002, regarding the application of international accountancy rules.

The Communication of the Commission from 13<sup>th</sup> of June 2000, called "EU Strategy regarding the financial information : accomplishment module" – proposes that all the EU societies (that make public appeal to economies) starting 2005, must publish and elaborate the consolidated

balance sheet, according to international accountancy principles, better said "International Accounting Standards (IAS).

The great majority of the member states have accepted favourably the communication of the European Commission, underlying the fact that the comparability of the quoted societies' balances, of the financial institutions, of the insurance companies constitutes an essential factor for the integration of the financial markets.

The societies interested have accepted in a favourable manner the application of the IAS principles, as they would make easier the commercialisation of the real estate, fusions and transborder acquisitions as well as the financing operations.

The community accountancy legislation of the 70s had to be updated so that the system of the financial situations of the quoted societies could satisfy the demands of the actual investors. Very often the titles of the societies are held by more investors, of different nationalities, so, it seems only logic- having the quoted societies to publish the balance in conformity to international accountancy principles.

## 2. DEFINITIONS

The international accountancy principles defined as "IAS" – are adopted by international organisms of accountancy regularization IASB (International Accounting Standard Board), with the headquarters in London, but represented by the European Commission.

The common standards are called IFRS – (International Financing Reporting Standards).

Priorities

- a) – Installing the conditions for a market of integrated and efficient, establishing balances that are in the great part comparables on the unique market, favorizing the competition and the circulation of capitals;
- b) – the necessity to apply a rule that could help us know if all the societies quoted in EU have correctly applied the IAS (credibility, evaluation, competence).

## 3. APPLICATION AREA

Starting 2005, all the societies quoted in EU (including the banks and the insurance companies.) have made balances of high quality, applying international accountancy principles. In the same time, the member states can authorise or determine some societies to apply the international accountancy system on the annual accounts.

So, the new standards can be imposed to the societies that do not have titles negotiated on the public markets.

Calendar and status of the european directives

Even if the deadline was established for 2005 The Regulations proposed leave to the member states the time to get used to the new accountancy system in a progressive manner. In the same time, the legislation of the IAS come to complete the demands from the accountancy directives: finally the member states can request some societies starting 2007 to apply certain dispositions for the societies that have the titles negotiated on a public market from the European Community or on a regulated market of some country.

## 4. THE MECHANISM OF ADOPTION

In order to apply an international accountancy principle, this application has to lead to an authentic and correct vision on the financial position and on the activities of a company; it should contribute to the European public interest and to respect the criteria regarding the quality of the information in it.

The European Commission will establish together with the Committee for European Authority for Regulation of the Real Estate (CAERVM), a common way for the application of international accountancy

The present Regulation is adopted following a mechanism structured on two levels:

a) – a normative level – through the institution of a Committee for The Accountancy Regulation, formed by the representatives of the European Commission, who will decide the adoptions of the principles of IAS, based on the propositions made by the Commission. The aim is to guarantee a total transparency and to assume responsibility in the confrontations with the Council and the European Parliament.

b) – a technical level = by a technical Committee of Accountancy, the Consultative Group for the financial information in Europe (EFRAG) – formed by expert accountants from the private sector from different countries; that will supply at the right moment the necessary assistance and competence for the evaluation of the principles IAS – and for the counseling the European Union regarding the modification (advantageous or not) of the operative legislation.

## 5. OBJECTIVE OF THE REGULATION (CE)

The Regulation applies directly and it does not need changes in the member states. It stipulates that the European Commission examines the functioning of mechanisms and procedures met in place after having been updated, at the latest until the half of 2007.

Taking into consideration the favourable opinion expressed by the Committee of accountant Regulation of EU, the European Commission adopts the relative Regulation of international accountancy principles IAS 39. Such a standard is valid for all EU societies, except for two temporary exclusions. The first exclusion refers to the application of „the fair value” for all the elements of the balance of a quoted society.

We remind that the method „the fair value” refers to the evaluation of the elements of the balance to the market value of the moment (and not at their acquisition value) and to the contabilization of derivatives, that is of the complex financial products, used by banks for covering risks.

The European Commission states that the Directive 78/660 CEE regarding the rights of the societies, does not consent to the application of the options of „fair value ” to the elements of passive and most of all to the shares and own parties (capitals) of the society.

The second exclusion refers to the application of some dispositions with regard to the covering accountancy, which, to the majority of the European banks, would provoke disproportional and expensive modifications regarding the financial administration of the active/passive of their accountancy system.

During 2005, IASB presented some propositions for total acquiry of IAS 39. Regulation (CE) nr.707/2004 of the European Commission from 06.04.2004 that modifies Regulation (CE) 1725/2003, that adopts the principles of international accountancy according to Reg.(CE) 1606/2002 of the European Parliament and Council.

In order to make easier the transition towards the international accountancy principles IAS/IFRS, IFRS1 was realized, the first application of international accountancy principles of financial information.

This (IFRS1) substitutes the interpretation SIC 8, which imposed tasks and conditions extremely difficult for societies and which at their turn would have rather had the IAS to the accountancy standards admitted at national level.

The new standard IFRS1 (the first application of international accountancy principles for financial information) takes in consideration the needs of the EU societies quoted at the Stockexchange, that applies the IAS for the first time from 01.01.2005.

This standard indicates the procedures that must be respected in the case which it is about the first application of IAS, especially to what regards the patrimony situation (balance) at opening, the start point, for the application of IAS/IFRS.

On the other hand, this standard guarantees transparency, imposing to the entity to publish the information in the balance sheet, to explain the effects that the passing to IAS will produce to financial situations, on the results and cash flow and at least to take into account the limitation of the market reactions.

Regulation (CE) nr.1725/2003 of the European Commission from 29.09.2003 that adopts the principles of international accountancy principles according to Reg.(CE) 1606/2002 of the European Parliament and Council.

This regulation refers to the approval of the international accountancy principles IAS and to the connex interpretations SIC, confirming the so-called mandatory application starting with the exercise of 2005, according to General Regulation on the principles of IAS (Reg CE nr.1606/2002).

The adoption of this Regulation takes place as a follow-up of the unanimous approval of IAS principles by the Committee of Accountant Regulation.

These approvals include all the principles of international accountancy and their interpretation, except for the IAS 32 and 39 and of SIC 5, 16 and 17.

The principles IAS 32 and 39 that treats accountancy and the publicity of financial instruments, have not been introduced because they are the object of reviewing by the IASB, in collaboration with the european expert accountants and most of all EFRAG (European Financial Reporting Advisory Group).

The directive 2003/51/CE of the Parliament and Council from 18/06/2003 that modifies the Directives 78/660/CEE, 83/349/CEE, 86/635/CEE and 91/674/CEE regarding the annual accounts and the consolidated accounts of different types of societies, banks and other financial institutions, insurance companies.

This directive aims to unify the accountancy principles applicable to the societies and other organisms that are not object of the Regulation (CE) 1606/2002 of European Parliament and Council regarding the application of accountancy principles by the societies quoted at the Stockexchange (around 5 million societies).

## 6. CONCLUSIONS

In this case this directive suppresses any discordance between the accountancy directives and the regulation regarding the application of the international accountancy principles (IAS) as it consents to reveal the accountancy options IAS applicable by the companies, that maintain the accountancy directives as the basic legislation. Except this, the directive mentioned classifies the treatment of the financing outside the balance sheet (debits and loans) and it extends outside the financial aspects the analyse of the risks in the financial administration relations of the company. It states also the mandatory content of the relations of the accounts revisors.

Regulation (CE) nr.108/2006 of the European Commission from 11.01.2006 that modifies the Regulation (CE) 1725/2003, that adopts the principles of international accountancy according to Reg.(CE) 1606/2002 of the European Parliament and Council with regard to IFRS1, 4, 6 and 7; principles of international accountancy IAS1, 14, 17, 32, 33 and 39 and interpretation IFRIC 6.

Regulation (CE) nr.708/2006 of the European Commission from 08.05.2006 that modifies the Regulation (CE) 1725/2003, that adopts the principles of international accountancy according to Reg.(CE) 1606/2002 of the European Parliament and Council with regard to the international accountancy principles IAS21 and interpretation IFRIC.

IASB: „International Accounting Standard Board” – is the international organism that decides the international accountancy principles IAS/IFRS. It has its headquarter in London but it is represented by the European Commission. It was created on the 01.04.2001.

IASC: „International Accounting Committee” – international organism that has decided the international accountancy principles IAS. Starting 2005 it is called IASB.

IFRS: „International Financial Reporting Standards” – represents common standards, this defines the principles set by IASB.

„International Financial Reporting Interpretation Committee” represents the committee IASB, that decides the official interpretations of the main international accountancy principles.

IAS: „International Accounting Standards” – defines the principles set at first by IASC.

SIC: „Standards Interpretation Committee” – represent illustrative documents of interpretation of IAS principles.

EFrag: „European Financial Reporting Advisory Group” – is an international organism having the following functions:

- a) It contributes actively and in a pro-positive manner to the activity of the IASB
- b) It offers consultancy to the European Commission for the modification of the directives
- c) It offers the technical support in order to confirm or not the application of the IFRS, as well as the interpretation of accountancy principles of EU.

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