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THE FINANCIAL ASSETS ACCEPTED WITH THE PURPOSE OF BEING FINANCED BY THE NATIONAL BANK OF ROMANIA. APPROACHES REGARDING THE APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS BY ROMANIAN BANKING INSTITUTIONS

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Abstract. Since 1991, the reform initiated by the Romanian banking accounting hasn’t stopped. It’s a corollary of harmonization, convergence and normalization processes, being present by the taking over of normative acts, which have as purpose the compliance of the Romanian accounting system to the International Accounting Standards. The year 2012 is supposed to generate great changes in the accounting policies adopted by Romanian banks, in such a way that the last will have to apply the IAS.This work aims at approaching, by a case study, the issues related to those financial assets accepted to be financed by the National Bank of Romania, once that the Romanian banks will be applying the IAS.

Keywords: financial assets, amortized cost, the effective interest method, fair value, international accounting standard, national regulations.

Jel classification: G21, M41, M48

1. Introduction

The expansion of both the international economic relations and the cross-border capital requires comparable pieces of information among the worldwide accounting documents (balance sheet, profit and loss account, cash flow’s statement, explanatory notes to the financial statements).

In the actual context of globalisation, only by applying the IAS can financial statements’ accuracy and comparability be reached. The necessity to adopt the International Financial Reporting Standards is striking as supporting and promoting a global language in financial communication has as main purpose to increase the transparency and credibility of financial reporting. As a consequence of the financial crisis, during the past years, there has been an increased pressure internationally in the homogenisation process regarding the accounting rules, rules which represent the background of the published financial information.

The interest in harmonizing the accounting system at both the international and the European levels has evolved starting from the EU’s compatibility program for accounting guidelines and international accounting standards. International accounting harmonization was a two-speed process: faster for the large listed companies and more slowly for others (Colasse 2009).When the distinction between standardization and harmonization was discussed, Professor Bernard Colasse (2009) stated that the accounting harmonization process is less restrictive than the normalization one, it establishes equivalences among a variety of accounting practices and thus it is a modified form of normalization and a first step towards this. Other authors define the harmonization as the process by which the components of conceptual accounting framework are related, compatible and standardized (Nobes, Parker 2008). As Perochon (1981), Feleagă and Ionaşcu (1998) have previously noticed, normalization’s main goal refers to: establishing a common terminology as well as generally acknowledged norms for the annual financial statements while taking into consideration the format of the financial statements and the elaboration of the chart of accounts, fact which is specific to the continental accounting system.

The goal of this standards is to accomplish high transparency and decision usefulness for participants within the capital markets (Meyer 2005).

The harmonization of international accounting should evolve into a conciliation of different points of view (Wilson 1969), without being necessary to present the pieces of information uniformly, but to offer a common meaning even for the ones who use diverse standards.

The National Bank of Romania, as the main regulatory and surveillance authority of the Romanian Banking System supervised permanently the harmonisation of regulations and its practices together with the best ones in the field having as purpose to increase transparency and to insure information comparability within the banking sector. The implementation of IFRS is subscribed to the Central Bank's priority list as the relevant assessments of assets, debts and equity ownership of the credit institutions and it represents an essential starting point for determining real prudential indicators. The reform of the banking accounting system in Romania was a consequence of the community –acquis' takeover. As the European standards didn't impose strict rules, the National Bank of Romania promoted the filling in of the European regulatory framework with solutions in accordance to the IFRS principles. In Romania, the credit institutions applied IFRS sequently. At a consolidated level (among banking groups), the IFRS takeover process was a direct one, as the National Bank of Romania exercised the national options set out by acquis, including in the applicability aria, all the credit instutution s, not only the ones posted at the Stock Exchange.

In 2010, the National Bank of Romania adopted the IFRS's implementation Strategy by credit institutions, starting with the financial year of 2012. Hence, while applying it, the regulatory framework's updating process reached its completion. Also, a series of measures has been taken with the purpose of insuring the transition towards the new standards.

2. Setting up the main issue

By 2012, the IFRS's implementation process is supposed to lead to the accounting standards' completion, within the framework of the Romanian banking system. In the context of this legislative changes, we'll try to summarize the main differences between the accounting treatments applied in the present time by the Romanian credit institutions, including the National Bank of Romania - in accordance with the national accounting reglulations available at the time when this paper was written - and the requirements set out by the IFRS application regarding the securities portofolio presented in the balance sheet of the banking institutions, within the section no. 020 „The public effects and other securities accepted for refinance by Central banks".

Also, the way the accounting treatment of the securities take place will be emphasized by a practical example from the perspective of the IAS Further on, we'll present differences within the accounting treatment of the securities looking at the content of the national regulations and at the one of the IAS, which means:

– National regulations: Govermental instruct-tion no. 13, valid since 19.12.2008, which was conceived for the approvement of those accounting regulations which are in accordance with the European Guidelines, applicable to credit institutions;

– IAS 39 Financial Instruments : Recognition and Measurement;

– IFRS 7 Financial Instruments: Disclosures.

3. Approaching methods and discussions

According to IAS 39, financial instruments are classified into four categories: financial assets measured by the fair value, the profit and loss account, held-to-maturity investments, loans and receivables, available for sale – financial assets.

Taking into consideration, the main purpose of credit institution's activity, a very important element of the balance sheet, is represented by the securities portofolio existent in the balance sheet of the banking institutions, within the section no. 020 „The public effects and other securities accepted for refinance by Central banks". This element comprises cash flow certificates and claim securities for public institutions issued in Romania as well as diverse tools from abroad, in case they are accepted for refinance by the Central Bank of the country or of the countries in which the institution is. In accordance with the national accounting regulations, the security portofolio holding an exact income, presented in this balance section is classified in: trading securities, available-for-sale securities and held-to-maturity securities.

Further on, we will approach the accounting treatments specific to the trading securities (asset-held-for-trading), available-for-sale securities (financial assets available for sale) as well as the ones specific to the held-to-maturity securities (assets held until maturity). This will be done from the perspective of both the national and the IFRS regulations, with the purpose of foregrounding the main differences.

3.1. Assets held for trading

3.1.1. The trading securities according to the national accounting regulations

The public effects which are held in order to be transacted are those securities which are purchased, mainly, in order to generate profit, as a

consequence of the short term fluctuations of the price or of the margin of the intermediary. The securities are classified as assets which are held for trading and which, regardless of the reason why they were purchased; they constitute a part of a portfolio for which there is a proof of an effective recent rhythm of obtaining short term incomes. The public effects which are contained in the category of financial assets which are held in order to be transacted are initially evaluated at the purchasing value, which is formed by the buying price, including the purchasing expenses.

Subsequently to the initial acknowledgement, the securities held with the purpose of being transacted are assessed at their fair value, and the differences which come from the assessments are entered in accounting, in accounts of incomes or of expenses, according to case. The cession accounting of the securities held with the purpose of being transacted takes place at the sale price, the differences between the selling price and the accounting value is submitted to the income or to the expenditure accounts, according to case.

3.1.2. Financial assets at the fair value in the P&L account according to IAS 39

A financial asset or a financial debt which is measured at its fair value through the profit and loss account is a financial asset or a financial debt that fulfils any of the following conditions:

– it is classified as being held for being transacted. A financial asset or a financial debt is classified as being held for trading if it is: obtained or generated mainly for selling it or buying it back in the near future;

– it is part of a portfolio of identified financial instruments that are managed together and for which there is proof of a real recent pattern of following the short term portfolio; or an instrument which is designated and which can efficiently cover risk guarantees;

– at the initial recognition it is classified as being measured at its fair value through the P&L account. Any financial asset or financial debt within the area of applicability of the IAS 39 can be classified when it is initially recognized as a financial asset or a financial debt at its fair value through the account of profit and loss, with the exception of the investments in personal capitals tools that do not have a price which is quoted on an active market and its fair value cannot be credibly assessed.

IAS 39 establishes 3 methods for the subsequent measurement of financial assets:

– measurement at the fair value and the differences from the assessment are subscribed in the P&L account.

– measurement at the fair value and the differences from the assessment are put either in the P&L account or in the equity ownership;

– measurement at the amortised cost which involves adjusting the historic cost of the tool by the distribution of the premium or of the discount.

3.1.3. Differences regarding the informational presentation

As far as the classification of the financial tools is concerned, there are no differences between it and the IAS 39, but there are significant differences in regards to the way the information is presented.

According to IFRS 7, all the entities must present pieces of information that allow the users of their financial statements to measure the importance of the financial tools within their financial performance and their position.

Both the accounting values of each of the following categories and the way they are defined in the IAS 39 will be presented either in the balance or in the notes:

– the financial assets at their fair value through profit or loss, separately indicating those which were deemed at their initial value and those which are classified as being prepared for trading, according to IAS 39:

– the held-to-maturity investments;

– the loans and debts;

– the financial assets which are available for sale.

The variations of the fair value are entered in the result of the period section existent within the balance post of profit or net loss from financial operations. The fair value is the sum at which an asset might be exchanged or a debt could be erased, between parties who are knowingly interested, in a transaction which takes place under objective conditions.For the financial tools which are assessed at the fair value through the P&L account, the fair value is firstly determined according to the price which is quoted on an active market. However, there is no active market for a very high number of financial tools which are held or issued by loan institutions. Consequently, the fair value is determined by assessment techniques (internal models of valorisation), by applying valorisation parameters which are based on the market conditions which exist at the end of the period, and which are influenced by the used hypothesis(the future estimated treasury fluxes, the rates of actu-

alization, the volatility). Even though there are no differences between the local norms and IFRS, regarding the accounting treatment (initial measurement, subsequent measurement or derecognition), referring to the securities classified as belonging to this category, one must emphasize that in the absence of an active market the assessment techniques can be different from one loan institution to another, thus the harmonization process of the measurement methods, respectively the validation of the models must be done by independent experts.

According to IAS 39, point 50, an entity shall not reclassify a financial instrument in or out of the "fair value" category or through the P&L account while it is held or issued. If by any chance, there are changes within the intention or the capacity and the classification of an investment which is supposed to be held until maturity is no longer appropriate, this will be reclassified as being available for sale and it will be remeasured at its fair value.

3.2. Held-to-maturity financial assets

3.2.1. The accounting treatments in accordance with the national regulations

These are un-derived financial assets, with accurate or determinable payments and with a previously established payment date, which the loan institution has the intention and the capacity of holding it until maturity. Their measurement as well as their submission into accounting are done at the acquision cost, without taking into account the expenditure value for the purchase accessories, the last being put in the expenditure accounts.

The decision regarding their classification as held-to-maturity securities (Muresan *et al.* 2008) doesn't take into consideration further on oportunities to make profit by relying on the respective portofolio and neither does it rely on the prices offered by other investors until the investment reaches its maturity, as there is no intention of selling it but one big interest for keeping the investment until maturity, regardless of the value fluctuations existent within the market.

In case the financial institution doesn't intend to keep any longer the securities until maturity, these ones will be reclassified to the category of the available-for-sale securities and they will be assessed acording to the new category they belong to.

3.2.2. Accounting treatments according to the IFRS

According to IAS 39, the financial assets held until maturity have to be measured at amortised cost by applying the effective interest method. In case of a decrease in value, provisions will be set up.

As it shows in the book entries, the use of the effective interest method generates an impact on both the balance sheet and the P&L account of the credit institution.

After their purchase, they are measured at the amortised cost and in case any decrease in value takes place, provisions will be set up. The amortized cost includes both the premiums and the purchasing expenses.The method of the real interest rate must be used for amortizing the premiums and the discounts.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability was measured at initial recognition minus main repayments, plus or minus the cumulative amortisation of any difference between the initial amount and the maturity amount, and minus any write- down.

The effective interest method is a method of calculating amortisation using the effective rate of a financial asset or financial liability.

The effective interest rate is the rate that discounts exactly the expected stream of future cash payments through maturity or the next market – based reprising date to the current net carrying amount of the financial asset or financial liability.

Further on, we'll exemplify the method of the subsequent measurement of the financial assets held until deadline, by using the method of the real interest rate. Hence, we'll take into consideration the case of securities purchased with premium. There are: securities- issued by government, with a 6 % coupon and having a 5 years maturity-which are bought at the value of 100 000 m u. We will use the effective interest method to determine the value of the securities for each of the five years.

The calculation of the updated value of the cash flows-which means the relevant updated rate for each of the left deadlines until the receipt of each future cash flow- can be calculated by using the following formula:

$$present\ \ value = \frac{cash\ \ flow_i}{(1 + effective\ \ interest\ \ rate)^i}, \ (1)$$

where:

i - the number of years left until the deadline of the cash flow i.

Substituting this formula, the amortized cost of the securities for each of the 5 years is given as it follows:

Table 1. The value of the securities on the 1st year (Source: made by author)

Year	Cash Flow	The up-to-date Coeficient	Present value
	The actual	interest rate	= 0,05
1st	6.000	1.05	5.714
2nd	6.000	1.1025	5.442
3rd	6.000	1.157625	5.183
4th	6.000	1.21550625	4.936
5th	106.000	1.276281563	83.054
Amortized cost at the beginning of the 1st Year			104.329

The income from interest rates in the first year is 5. 216 m.u = 104.329X5 %. The difference between the value of the securities at deadline and their initial value is represented by the premium which is equal to 784 m.u= 6.000 m.u.- 5.216 m.u.This can be amortized linearly during the 1st year.

This values will produce changes within the accounting of the credit institutions. The accounting entries for the cash flow is the following:

The acquisition of the securities with premiums during the first year:

– % = Current account 104.329 m.u.

– Securities 100.000 m.u.

– Securities/Premiums 4.329 m.u

During the1st year , monthly:

– Attached claims = Incomes 500 m.u.

– Expenditure = Securities/ Premium 784/12 (with the value of the premium calculated for the 1st year distributed linearly during the 12 months of the year).

At the end of the 1st year (gating money from the cash flow):

Current = Attached 6.000 m.u account claims

Table 2. The value of the securities on the 2nd year (Source: made by author)

Year	Cash Flow	The up-to-date Coeficient	Present value
2nd	6.000	1.05	5.714
3rd	6.000	1.1025	5.442
4th	6.000	1.157625	5.183
5th	106.000	1.21550625	87.206
Amortized cost at the beginning of the 2nd Year			103.456

The income from interest rates during year 2 is 5. 177 m.u= 103.546 X 5 %. The premium corresponding to year 2 is 823 m.u= 600 m.u – 5.714 m.u. This will be amortized linearly during the 2nd year. The accounting records are the following:

During the 2nd year , monthly:

– Attached claims = Incomes 500 m.u.

–Expenditure = Securities/ Premium 823/12 (with the value of the premium calculated for the 2nd year distributed linearly during the 12 months of the year).

At the end of the 2nd year (gating money from the cash flow):

Current = Attached 6.000 m.u account claims

Table 3. The value of the securities on the 3rd year (Source: made by author)

Year	Cash Flow	The up-to-date coeficient	Present value
3rd	6.000	1.05	5.714
4th	6.000	1.1025	5.442
5th	106.000	1.157625	91.567
Amortized cost at the beginning of the 3rd Year			102.723

The income from interest rates during year II is 5.136 m.u.=102.723 X 5 %. The premium correspondent to the year III is 864 m.u. = 6.000 m.u- 5.136 m.u. This will be amortized during the 3rd year. The accounting records are the following:

During the 3rd year , monthly:

– Attached claims = Incomes 500 m.u.

– Expenditure = Securities/ Premium 864/12 (with the value of the premium calculated for the 3rd year distributed linearly during the 12 months of the year).

At the end of the 3rd year (gating money from the cash flow):

Current = Attached 6.000 m.u account claims

Table 4. The value of the securities on the 4th year (Source: made by author)

Year	Cash Flow	The up-to-date coeficient	Present value
4th	6.000	1.05	5.714
5th	106.000	1.1025	96.145
Amortized cost at the beginning of the 4thYear			101.859

The income resulted from interest rates during year IV is 5.093 m.u. = 101.859 X 5 % . The premium correspondent to the year IV is 907 m.u = 6.000 m.u - 5.093 m.u. This will be amortized linearly during the 4th year . The accounting records are the following:

During the 4th year , monthly:

– Attached claims = Incomes 500 m.u.

– Expenditure = Securities/ Premium 907/12 (with the value of the premium calculated for the

4th year distributed linearly during the 12 months of the year).

At the end of the 4th year (gating money from the cash flow):

Current = Attached 6.000 m.u account claims

Table 5. The value of the securities on the 5th year (Source: made by author)

Year	Cash Flow	The up-to-date coeficient	Present value
5th	106.000	1.05	100.952
Amortized cost at the beginning of the 5thYear			100.952

The income from interest rates during the 5th year is 5.048 m.u. (6.000 m.u. coupon - 952 m.u..).

The income from interest rates during 5th year is 5.048 m.u = 100.952 X 5 %. The premium correspondent to the 5th year is 952 m.u.= 6.000 m.u.-5.048 m.u. This will be amortized linearly during the 5th year. The accounting records are the following:

During the 5th year , monthly :

- Attached claims = Incomes 500 m.u.
- Expenditure = Securities/ Premium 952/12 (with the value of the premium calculated for the 5th year distributed linearly during the 12 months of the year).

At the end of the 5th year (gating money from the cash flow):

Current = Attached 6.000 m.u account claims

3.2.3. The differences between national regulations and IFRS

According to national regulations, the measuremet of the held-to-maturity securities has to be done at the acquision cost while in accordance with the IFRS regulations it has to be done by applyig the effective interest method. As it was empasized in the previous example, the use of this method has an influence on the P& L account because it affects the income and outcome accounts as well as the bank's financial statements.

So far, the emphasis of these securities is required by the local norms neither in the balance sheet, nor in the explanatory notes in comparision with the IAS 39 , which imposes the obligation to present the information in detail, in both the balance sheet and the explanatory notes.

3.3. The financial assets which are available for sale

3.3.1. The accounting treatment according to national regulations

First, the assets which are available for sale (available-for-sale securities) are recognised at their initial cost (including the transaction costs). After the initial recognition, these are measured at their fair value. The favourable differences are not registered in the accounting (but are presented within the notes of the financial statements).

When it comes about the unfavourable differences, provisions are set up.

All the purchases and sales of financial assets, which stipulate the delivery of the assets on a date which is generally established through the regulations or the practices which are on that respective market, are acknowledged on the settlement day.

3.3.2. The accounting treatment according to IFRS

According to IAS 39, the financial assets which are available for sale are those financial assets which are not derived and which are deemed as being available for sale. They are not classified as loans and debts, investments which are held until maturity or financial assets at their fair value through the profit and loss account.

3.3.3. The differences between national regulations and IFRS

The differences between the two regulations appear in case there's any decrease in value of those financial assets available for sale.

In accordance with the IAS 39's regulations, whenever there is a financial asset available for sale which suffers a decrease in its fair value and this decrease is acknowledged direcly in the equity category as there is clear proof for the value decrease, the cumulated loss which was acknowledged directly in the equity category will be removed from this category and it will be acknowledged in the P&L account regardless of financial asset's derecognition.

The value of the cumulated loss which is moved away from the equity category and it is put in the P&L account represents the difference between the acquisition cost (net of any payment of the main value and the amortisation) and the fair value minus any loss derived from a value decrease in that financial asset which was previoulsy acknowledged in the P&L account. According to the local accounting regulations, the accounting treatment for this category of securities

is different from the international standards' requirements.

The local regulations established that the favourable differences in fair value will not be submitted to accounting, as for the unfavorable ones, provisions will be set up. Moreover, credit institutions have to present in the explanatory notes, the favourable differences between the fair value and the value put in accounting. As far as the decrease in value of the securities classified in this category is concerned, there are important differences which have to be taken into account, as: the local accounting norms don't establish equity accounts available for the submission in accounting of those securities available for sale.

4. Conclusions

The application of the accounting policies established by the International Accounting Standards could cause divergences because of their several non-matching aspects with the Romanian accounting regulations.

In accordance with the purpose of this work, as far as the accounting treatments and the submission of the financial assets in the financial statements are concerned, I have considered several aspects worthy of improvement.

First of all, issuing norms in regards to the submission in accounting of those differences resulted from the reassessment of the assets available for sale in the equity category by taking into consideration the accounting treatments regarding the measurement process found in the IAS 39, IFRS 7.

Also, issuing new accounts to foreground the differences between the fair value and the accounting value, in the equity category.

-issuing new accounts to foreground the provisions identified at a financial- asset-group level.

It is worthy of consideration to mention the fact that, according to the local accounting regulations, the attached claims regarding the securities available for sale, the held-to-maturity securities as well as the claims attached to the credits given to customers and even the attached claims resulted from interbanking transactions are presented within one balance sheet position which is named "Expenditures entered in advanced and committed incomes", altogether with other expenses entered in advance, pending incomes as well as other expenses for allocation. As the information existent in this category is comprised by heterogeneous elements, it makes it irelevant.

Moreover, in order to have relevant pieces of information within the balance sheet, the attached claims have to be highlighted along with the category of the financial instrument which they refer to (securities, credits, interbanking transactions).

As a consequence, the institutions with attributions in the regulation field and in the banking surveillance area will have a role of great importance as they have to harmonize the whole local legislation according to the new requirements.

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