

THE LEGAL FRAMEWORK ON THE APPLICATION OF IFRS IN ROMANIA

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Abstract: According OMPF 881/2012 and OMPF 1286/2012, approving the Accounting Regulations in accordance with International Financial Reporting Standards, from fiscal year 2012, companies whose securities are admitted to trading on a regulated market are required to apply International Financial Reporting standards (IFRS) in individual annual financial statements. These regulations made a shift from voluntary application of IFRS at the mandatory application and are the legal framework of financial reporting and the implementation of IFRS in Romania. This paper aims to present the provisions of these regulations and to identify key issues of transition to IFRSs.

Key words: financial statements, accounting regulations, IFRSs, mandatory

INTRODUCTION

The process of financial reporting activities realize, in the last years, an evolution and a revolution because of the adoption of the International Financial Reporting Standards (IFRS) and adaptation of local accounting practices and harmonizing with it. This process is started in 2002 when European Union made it mandatory for publicly traded companies to present consolidated financial statements in conformity with IFRSs.

In recent years, a large number of countries have made reporting under International Financial Reporting Standards (IFRS) mandatory and this switch to IFRS reporting is probably the largest change in reporting standards in history and, not surprisingly, has been examined extensively.

The legal framework for the application of IFRS in Romania is **Order 881/2012 of the Minister of Public Finance (as completed by Order 1286/2012)**, according to this regulations starting the 2012 financial year, the companies whose securities are accepted to be trade on a regulated market (i.e. the Bucharest Stock Exchange) must apply IFRS while preparing individual annual financial statements.

It has made a shift from voluntary application of IFRS to the mandatory application, required for all these companies and the expectation is that mandatory IFRS adoption to provide superior information to market participants compared to previous accounting regulation.

MATERIALS AND METHODS

This article is an overview of the legal framework for the application in Romania of the International Financial Reporting Standards (IFRSs) for the companies whose securities are admitted to trading on a regulated market which has since 2012 this obligation.

So, in the study we realize the retrospective analysis of the national legislative framework on the moment which has realized the shift to IAS-IFRS system, the normative acts adopted, which have direct implications in respect to the implementation of international accounting rules in Romania.

Listed companies, those falling within the scope of Order 881/2012 should restate, in compliance with IFRS, the data and information contained in the trial balance prepared for the year ended 31 December 2012 on the basis of the accounting regulations approved under Order 3055/2009 of the Minister of Public Finance. Banks already had the obligation to prepare financial statements in compliance with IFRS in the period spanning

2009-2011 in parallel with financial statements drawn up in accordance with the Romanian accounting regulations specific for credit institutions.

Also, earlier, some of the entities as result of their affiliation to an international group prepare a set of individual financial statements in compliance with IFRS for information purposes, in parallel with the application of accounting rules harmonized with European Directives. Such obligation has been imposed for a three year period which may be shortened to two years subject to the results of an analysis performed in 2014, i.e. by the end of the two-year application of IFRS.

In this manner, the Finance Ministry endeavors to provide a uniform financial accounting system applicable by all companies operating in Romania and to improve the quality of financial accounting information supplied by them. Practically, the purpose of applying IFRS is to offer quality assurance to business partners, facilitate access to funding and even minimize financing costs by mitigating the risk to which potential investors may be exposed.

Because of the opening of the national market to foreign markets in order to attract funding, a new framework of financial accounting regulations is required on the basis of which the information published by companies the shares of which are traded on the domestic market may be compared with the data referring to similar entities the shares of which are traded on other markets.

The main objectives for this study are:

- to realize the retrospective analysis of the national legislative framework regarding the shift from voluntary application of IFRS to the mandatory application;
- to present the legal framework for the application in Romania of the International Financial Reporting Standards (IFRSs).

RESEARCH RESULTS

Because of the necessity to conformity of national accounting provisions with the European and International norms, in Romania, starting with financial year 2006 (a year before Romania joined the EU), there has been a process of gradual implementation of IAS/IFRS, and, for a start, these have been used for setting up a second set of consolidated financial statements by a group of entities (of public interest) to suit the necessity of informing other users than the state institutions, this regulation have been carried out with the elaboration of Order of Public Finance Ministry no. 907/2005 concerning the approval of the juridical persons applying accounting regulations in conformity with the International Financial Reporting Standards (IFRS), as well as accounting regulations compliant with European Directives, it was established the obligation, respectively the permission, to use the IFRS, in 2006, by some entities, the credit institutions or; public interest entities.

In 2007, the gradual implementation of the IFRS was continued and Public Finance Ministry issued Order no. 1121/2006 regarding the application of IFRS, which complies with European Regulation no. 1606/2002, and contains instructions for commercial companies whose securities at the balance date are admitted for transaction on a regulated market and which elaborate consolidated financial statements have to apply IFRS, also credit institutions continue to apply IFRS when elaborating consolidated financial statements and other entities of public interest can apply IFRS when elaborating individual or consolidated financial statements, for personal reporting to inform users.

Starting with January 1st, 2012, the credit institutions adopted the IFRS in their current accounting, according to the Romanian National Bank **Order no. 27/2010** for the approval of the accounting regulations compliant with the International Financial Reporting Standards, applicable to the all credit institutions, for their activity in Romania, including branches in Romania of foreign credit institutions and branches of foreign credit institutions, Romanian legal entities, with the subsequent amendments.

Further on, starting with 2012, according to **Order no. 881/2012**, the Ministry of Public Finance stipulated the obligation of the companies whose securities are admitted to trading on a regulated market, to apply the IFRS for elaborating the individual annual financial situations. Since 2013, the entities provided by the actual order organize the accounting based on the IFRS provisions, no longer being applicable the accounting regulations compliant with the European Directives, approved by Order no. 3055/2009.

Currently, there are 80 companies whose securities are traded on a regulated market, but into consideration the above mentioned, just for 68 listed companies are applicable the provisions of Order no. 881/2012.

The flexibility in the interpretation of the IFRS and the ability of each state to adapt the important parts of these standards lead to different accounting methods and results between countries. Thus, in 2012, the annual financial individual statements according to the IFRS were concluded by restating the information within the accounting organized according to the regulations compliant with the 4th Directive of the European Economic Community, approved by Order no. 3055/2009 by using the IFRS, including the provisions of IFRS 1 First-time adoption of IFRS. Exception from this request of restatement made the entities that explicitly and unconditionally declared that their annual financial statements are according to the IFRS referential and they are exempted according to IFRS1. For other entities, the statement of financial position, as a part of the annual financial statements at 31 December 2012, included information corresponding to the end of the reporting financial year, the end and the beginning of the previous financial reporting year. Moreover, the global result statement included two columns of information corresponding to the current financial year (of reporting) and to the financial exercise prior to that of reporting.

Member States of E.U. apply IFRSs in case of consolidated financial statements, according to Regulation (EC) no. 1606/2002, which states that all companies rated in the European markets have to utilize the international standards in order to elaborate consolidated financial statements.

Therefore, starting with the 1st of January 2013, the entities whose securities are admitted for transaction on a regulated market aren't applied anymore the accounting Regulations corresponding to the European directives, approved by OMFP no. 3055/2009.

Entities covered by the **Order 881/2012** shall prepare and publish separate financial statements under IFRS in Romanian language and currency. The annual financial statements prepared under IFRS for 2012 are subjects to statutory audit. Covered entities will need to ensure continuity of application of IFRS, even in the event that further their securities are no longer admitted to trading on a regulated market.

This order confirms the growth strategy of the scope of IFRS in Romanian environment. Since fiscal year 2012 credit institutions (banks, credit unions, savings banks and credit of the housing and mortgage branches of foreign banks in Romania and the Romanian foreign credit institutions) are required to apply IFRS as accounting basis.

Also, according to the Order C.N.V.M. No. 116 of 21 December 2011 entities authorized, regulated and supervised by CNVM (financial investment companies, investment management companies, collective investment schemes, central depositories,

clearing houses and market operators / system) are required to prepare for the years 2011 and 2012, for information, a second set of financial statements in accordance with International financial Reporting standards, situations are obtained by restating the information presented in the financial statements prepared in accordance with national regulations.

According to the Order No. 1.121/2006 companies whose securities at the balance sheet date are admitted to trading on a regulated market consolidated financial statements in accordance with IFRS. The consolidated financial statements of credit institutions are still prepared according to IFRS. Other public interest entities (as defined in the Accounting Act) may prepare consolidated financial statements are based on national regulations in accordance with the Seventh Directive or under IFRS.

Order 881/2012 due to the fact that from 01.01.2013 IFRS is used as basis of accounting, the Ministry of Public Finance issued - **Order 1286/2012**, for the approval of the accounting regulations compliant with the International Financial Reporting Standards, applicable to the companies whose securities are listed on a regulated market, which contains:

- The rules for drawing up, approving, auditing, filing and publication of financial statements
- Issues relating to Directors' Report,
- Rules of highlighting economic and financial operations,
- Plan IFRS accounts and content of accounts and balances implementing rules,
- Additional Disclosure IFRS requirements.

According to the Law no. 297/2004 regarding the financial market, with the subsequent amendments and completions, the regulated market is a trading system of the financial instruments, characterized by the following:

- It functions on a regular basis;
- It is characterized by the fact that the regulations issued and submitted to the approval of the National Committee of Real Values (CNMV), currently named the Financial Supervisory Authority (ASF), are defining the functioning, the access on the market and the approval for trading conditions for a financial instrument;
- It respects the reporting and transparency requirements in order to assure the investor's protection established by the current law, as well as the regulations issued by the CNMV, in accordance to the community law.

The provisions of the above mentioned order are incident to the issuers whose securities are traded in categories 1, 2 and 3 of the Bucharest Stock Exchange – the regulated market, as well as at the category outward regulated market from Sibex.

The Official Gazette of Romania, Part I, no. 857 of 18 December 2012 was published Ministry of Finance **Order no. 1690/2012** on amending and supplementing certain accounting regulations, including amendments to the provisions of Order no. 1286/2012.

This order introduces a number of accounts to reflect transactions and events in accordance with IFRS and contains a number of additional provisions relating to registration of restating the end of 2012 reporting requirements for entities that have opted for a financial year different from the calendar year, how to record income tax under IAS 12, capitalization of expenses and Recognition of revenues from services are recognized according to the stage of completion of the transaction at the end of the reporting period and the contractual revenues associated with contract construction, recognized by stage of completion of contract at the end of the reporting period have not been charged yet.

Entities that have opted for a financial year different from the calendar year prepare annual financial statements and the situation resulting from the restatement results

including, the date chosen for their preparation. Therefore, if these entities at 31 December 2012, reporting annual accounts referred to in art. 37 of Law no. 82/1991, republished, with subsequent amendments, shall be made on the basis of accounts held under accounting regulations compliant with Directive IV of the European Economic Communities, approved by Order no. 3.055/2009, as amended and supplemented.

The Official Gazette of Romania, Part I no. 100/2013 was published **Order** of the Ministry of Public Finance **no. 213/2013** regarding the completion of Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, approved by Order no. 1286/2012.

Provisions invoked by Order no. 213/2013 shall apply from the annual financial statements for financial year 2012. This Order clarifies that update monetary items is only required at the end of each reporting period, the submission of separate capital value (account 101) in statement of financial position and statement of changes in equity (relevant issue especially if it has been restated for inflation) states explicitly the possibility that the amounts reflected in the loan account 1028 "capital adjustments" can be used to cover accounting losses carried forward and introduces a number of accounts to reflect transactions and events in accordance with IFRS.

CONCLUSIONS

The adoption of International Financial Reporting Standards (IFRS) by the European Union (EU), effective in 2005, began a domino effect that led to IFRS now being used in more than 100 countries around the world.

IFRSs provide quality financial reports and other benefits like ability to significantly improve the comparability of entities, giving better access to global capital markets and reduced cost of capital, so the adoption of IFRSs is becoming a necessity among countries.

But, also, IFRS conversion has many challenges such as increased volatility of earnings, high cost of implementation, complex nature of IFRS and problems related to the implementation guidance.

IFRSs reduce accounting differences across countries and provide uniform worldwide accounting standards as a global language of financial information, and the worldwide comparability of financial statement is necessary for the globalization of capital markets.

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