DEVELOPMENT OF ACCOUNTING THEORY FROM THE PERSPECTIVE OF COMPLEXITY OF FINANCIAL INSTRUMENTS

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ABSTRACT*: As a consequence of the quantitative and qualitative development of fictitious capital, was the emergence of the current problems in the accounting of financial instruments that have demonstrated an inability traditional conceptual framework, the development was based on specific real capital, to adapt to the sophistication of capital fictitious. Fictitious capital is the economic foundation of financial instruments is characterized by having a market price. Accounting implications are complex and occur on both sides of the balance sheet as equity accounting or financial liabilities and financial assets. The main controversy in the field of accounting financial instruments can be attributed to aspects of their assessment, because the contrast between historical cost and fair value - as an expression of current value accounting. The establishment of accounting standards on accounting for financial instruments is a challenge for regulators in this area for a long period of time in order as a faithful reflection of the risks and rewards of ownership of the instruments.*

KEY WORDS*: financial instruments, financial reporting, accounting standards, convergence*

1. INTRODUCTION

Accounting as a science model and perfected over time to meet business requirements. The impact of globalization was felt by the profound changes that have taken place in the economic field but also in accounting. As for a strong financial market development requires a high level of transparency, the idea of adopting a common language for financial reporting by applying general rules on information to be provided by market participants. It became a reality developing international comparability.

The establishment of accounting standards on accounting for financial instruments is a challenge for regulators in this area for a long period of time, a number of developments being undertaken in the USA, where there was a significant demand for their fair value accounting in order a true reflection as to the risks and rewards of ownership of the instruments.

Moreover, the USA is the first country that issued in 1930, accounting standards with the establishment of the Financial Accounting Standards Board (Financial Accounting Standards Board - FASB) accounting regulatory body, independent of the accounting profession and political pressures. Normalization American book began to take shape after the 1930s by research and explanation of general accounting principles and relevant financial statements by listed companies.

Creating the American conceptual accounting influenced accounting theory approaches the Anglo-Saxon countries (Canada, UK, Australia) where institutions have sought and achieved normalization, to varying degrees, developing a theoretical framework of accounting, which underpin the process accounting normalization. Such influence is also felt in the international regulatory body carrying IASB (International Accounting Standards Board - International Accounting Standards Board) which aims to improve accounting normalization.

Due to the internationalization of financial markets and the prominent position of the American financial market (it concentrates approximately 40% of the financial resources available in the world for companies), the Securities Commission and the United States stock exchanges (SEC) wanted the American accounting principles (U.S. GAAP - U.S. Generally Accepted accounting Principles - accounting Principles Generally Accepted in the United States) to become a reference in the development of international accounting standards.

Unleashing the late 1990s stock market bubble, followed by another resounding failures in 2001-2002 (eg Enron bankruptcy) have questioned the American accounting referential, bringing them to a number of criticisms. In February 2002, the IASB chairman David Tweedie critical explicitly rule-based approach which prevails in the U.S. GAAP-sized in contrast presenting a vision based on principles adopted by the IASB. It became such the idea more and more accepted that international accounting referential adopted in the EU is an alternative to the American. In 2003, the Securities and Exchanges Commission US consider introducing a system based on principles such as IFRS.

Given this context, since 2000, FASB and IASB have sought to eliminate differences between U.S. GAAP and IFRSs sites, a process called 'convergence' of IFRS with U.S. GAAPs.

2. ACCOUNTING VIEW ON THE MARKET ON FINANCIAL INSTRUMENTS MARKET

In financial instruments, international accounting referential currently using three standards:

- IAS 32 Financial instruments: Presentation;
- IAS 39 Financial Instruments: Recognition and Measurement;
- IFRS 7 Financial instruments: Disclosures.

American accounting referential contain a greater number of standards relating to financial instruments, because over time, when they wanted to amend a standard existing FASB standard reissue making a significant number of different standards, although there are situations where several standards addressing the same issues.

Consider useful to look further comparative accounting regulations in financial instruments of the two referential. American accounting referential is often a step ahead of international accounting referential, representing a valuable source of inspiration for him.

The three standards contained in international accounting referential, aimed directly accounting for financial instruments have complex dynamics, which led to the current standards extremely complicated, difficult to implement and at the same time controversial. Some believe that the time has made a departure from the principles-based approach towards one based mainly on rules [1].

In the regulation of financial instruments, IASC (restructured in 2001 as IASB) issued for the first time in September 1991 Exposure Draft "E40: Financial Instruments" and then modified form of the "E48: Financial instruments" which later (in June 1995) has resulted in the first version of "IAS 32: Financial instruments: Disclosure and Presentation". Research continued following IAS 32 was revised in 2003 and 2005, eliminating all the provisions relating to presentation of information (which is transferred to the new standard IFRS 7) with the "IAS 32: Financial Instruments: Presentation".

In February 2008, the standard was amended for the purposes of delimitation of financial assets, financial liabilities and equity instruments respectively, and in October 2009 issued an amendment to IAS 32 Classification of rights. For rights issues offered for a fixed amount of foreign currency, current practice called for such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued to existing shareholders in proportion to all of an entity of a fixed amount, they should be classified as equity regardless of the currency in which the exercise price is denominated.

In December 2011 adopted the amendment to IAS 32 which provide for offsetting financial assets and financial liabilities, and in May 2012 have brought some clarification on the tax effect of the distribution to holders of equity instruments in the sense that it should be accounted for in accordance with IAS 12: income Taxes.

In Figure no. 1 is shown the dynamic changes of IAS 32.

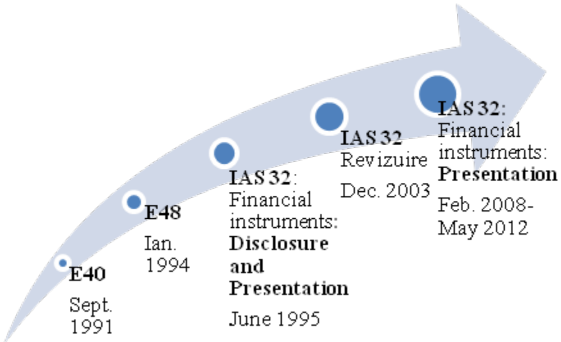

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Figure no. 1 Dynamics of IAS 32

In terms of IAS 39, the first efforts were materialized in 1998 in the exposure draft "E62: Financial Instruments: Recognition and Measurement", which has been transformed in a few months (June 1998-December 1998) to "IAS 39 Financial Instruments: Recognition and Measurement ". This standard has undergone several revisions over the years, almost every year. In March 2004, has been reviewing the hedge accounting fair value hedging, where hedges interest rate risk in the portfolio (hedging). In 2005, amendments were introduced on hedging of cash flows intra-group transactions, the fair value option extensively debated and financial guarantee contracts.

In the context of the event financial crisis in 2008, IAS 39 was amended in connection with the reclassification of financial assets, the pressure coming from the fact that the classification of an asset in a category dictates the attribute used in the evaluation. In 2009, IAS 39 was revised in relation to the impact of reclassifications for embedded derivatives.

A final amendment news on derivatives and hedge accounting continued, was adopted June 27, 2013 and will apply from 1 January 2014.

Evolution completion, improvement and use of IAS 39 is shown in Figure no. 2.

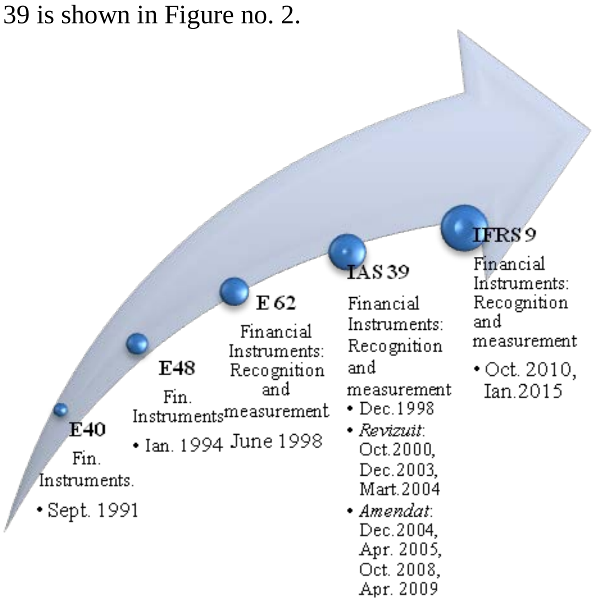

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Figure no. 2 Dynamics of IAS 39

IFRS 7 Financial Instruments: Information presented impose requirements on the presentation of financial instruments to an entity, and the nature and extent of risks arising from financial instruments, both in qualitative and quantitative.

History IFRS 7 starts on 22 July 2004 published a draft ED 7 Financial Instruments: Disclosures. In August 2005 the project became IFRS 7 Financial Instruments: Disclosures, with effective date 1 January 2007 implementation followed a series of amendments to IFRS 7 improve on: Reclassification of Financial Assets (October 2008), investments in debt instruments (December 2008), the transfer of financial assets (October 2010), offsetting financial assets and liabilities (December 2011).

Amendments are currently under review on derecognition of financial instruments and the development of a new standard on financial instruments, more comprehensible and easy to apply in comparison with complex IAS 39 reached in the process of change and improvement.

IASB has developed a project to replace IAS 39 with IFRS 9 project issued since November 2008, and located on its agenda.

The objective of this project is to improve the use of financial statements for users by simplifying the classification and measurement requirements for financial instruments.

"IFRS 9: Financial Instruments" was published in 2009 and contains requirements for financial assets. Requirements for financial liabilities were added to IFRS 9 in October 2010 Most requirements for financial liabilities were taken over unchanged from IAS 39 However, several changes were made to the fair value option for financial liabilities to address risk own credit.

Plan IASB project to replace IAS 39 with IFRS 9 includes three main phases:

Phase 1: Classification and Measurement. In December 2011, the Committee amended by the need to apply IFRS 9 for annual periods beginning on or after January 1, 2011 and requires restatement of comparative financial statements periodic initial applications. On 15 November 2011, the Committee decided to consider limited changes to IFRS 9 and 28 November 2012, the IASB issued an exposure draft on classification and measurement: limited amendments to IFRS 9 (amendments that have been proposed since 2010).

Phase 2: Impairment of financial assets (in progress). Includes amortized cost and impairment of financial assets. Additional documents on financial instruments (depreciation) were submitted in January 2011 comment period closed on April 1, 2011 and deliberations are ongoing. The objectives of this phase are to improve the usefulness of the annual financial statements in making decisions for users by improving the amortized cost measurement, especially transparency provisions for losses or debts and the credit quality of financial assets.

Phase 3: Hedge accounting / speculation (hedging) and offsetting financial assets and liabilities. The objective of this phase is to improve the usefulness of financial statements for users by reconsidering fundamental to the current requirements of hedge accounting. On September 7, 2012, the IASB issued a draft accounting operations for speculation requirements will be added to IFRS 9.

It is already evident that IAS 39 is the revised and amended IASB standard regarding financial instruments, which is understandable if we consider that it is responsible for the assessment and recognition of financial instruments.

Objectives of IFRS 9 are:

• reduce and simplify the classification of assets;

• improving the amortized cost calculation;

• Improvement of assessing impairment and fair value option;

• introduction of a new project for hedge accounting.

IAS 39 has been designed with certain predefined asset classes and conditions under which they are used, namely:

a) assets / liabilities represent assets or liabilities trade defined as financial instruments that generate profits over a period of time;

b) assets available for sale is a category created to allow economic entity to register a change in fair value;

c) assets held to maturity is a category that is used if the entity intends to hold these instruments until their maturity date;

d) loans and receivables - any asset that cannot be defined by one of the above categories.

A company is able to transfer its assets from one category to another, through the observance of rules and exceptions permitted. The purpose of IFRS 9 is to simplify the classification and valuation of assets and liabilities. Consequently, the number of classes was reduced to only two:

- Assets / liabilities at fair value;
- Loans / receivables at amortized cost.

IFRS 9 uses a simplified approach of how to define when a financial asset should be measured at fair value or at amortized cost. All financial assets are subject to two tests to determine whether the rule is appropriate for their amortized cost. The main condition is based on the "business model", in other words, a decision is based on how the company manages its specific assets. The second step is to connect it to the characteristics of future cash-flows.

A financial asset is eligible for amortized cost only if the following two conditions:

• it is held within a business model whose objective is to preserve assets to collect contractual cash flows; and

• its contractual terms generate cash flows at specified times, which are only paid on principal and interest is paid only on the principal outstanding.

If the asset does not meet these conditions, it will be measured at fair value.

3. CONCLUSION

In conclusion, IAS 39 was developed in 2005 to provide greater transparency between companies and countries, but due to the large number of exemptions and exceptions, accounting standard became opaque and complicated. The 2008 financial crisis has corrupted the concept of fair value, the financial results of companies have been damaged as a result of asset impairment. Also, strengthening the amortized cost approach is a response to crises, allowing the use of amortized cost, more commonly, the depreciation.

In our opinion, in an economic, accounting department role is to provide a clear and accurate picture of the company, providing a snapshot of the health of the company, not just a calculation of risk affecting the company.

We naturally ask the question "If this standard (IFRS 9) may be amended in the near future as a result of joint efforts of the IASB and FASB to achieve convergence?".

In our opinion, the FASB has resulted in proposed changes to accounting for financial instruments included in the U.S. GAAP by issuing an exposure draft in the first half of 2010, but the introduction of IFRS 9, the IASB IASB and FASB reiterates that were made at the end of 2010 a comprehensive solution that turns international comparability in the accounting of financial instruments.

We also believe that the need for international accounting convergence is a consequence of rapid globalization of the capital market, the need for annual financial statements of businesses that operate in different markets of the world to be comparable to ensure rapid and equal access to capital internationally.

Convergence does not require the adoption of a single accounting system because the main role of accounting is to meet the needs of its users, requirements that differ from one economic system to another.

We believe that international accounting harmonization and compliance, establishing a common language globally entail significant benefits for the world economy. At EU level, the process of harmonization and compliance has to overcome at least three obstacles:

- Differences in the regulation of accounting in each Member State;
- Different interpretation each country gives the concept of true and fair view;
- Links between tax and accounting in each country.

Despite these difficulties and the particularities of each country, EU Member States have embarked on the harmonization and compliance accounting, realizing the advantages of this process.

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