Impact of IFRS on the Accounting Numbers of Romanian Listed Banks

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Abstract: The evolutions of the financial reporting for Europeans listed companies lead these companies to adopt International Financial Reporting Standards (IFRS) for their consolidated financial statement since 2005. There are three banks listed at the Bucharest Stock Exchange (BVB), all of them at the first tier of the BVB. Starting with 2012, these banks are required to apply IFRS also in their individual financial statements. This event allows us to try to measure the distance between Romanian accounting standards (RAS) and the IFRS, by comparing the accounting figures for the year 2011 reported in the 2011 financial statement (RAS) and in the 2012 (as comparative year). Our findings suggest that the impact of IFRS results in an improvement of on some key accounting numbers (equities, net income, leverage).

Keywords: impact of IFRS, Romanian listed banks, European accounting system

JEL Classification: M41, G20

1. Introduction

The manner in which Romanian banks organize the accounting system and present financial statements is strictly regulated by the National Bank of Romania (BNR) along with the Ministry of Public Finances (MFP). The accounting rules complement and complete the other banking activity regulations. Information provided by accounting, financial indicators calculated based on the accounting data represent essential starting points for the banking activity analysis, which evaluates the manner they respect certain rules. At the same time, investors and other users of the financial information make decisions depending on the numbers in the published financial statements (net profit, comprehensive income, equity ownership, cash flows, depreciations, provisions). When setting the Romanian accounting rules, the Romanian standards setter could not be original – they drew for a long time on the European directives, then, alongside with the EU accession, they therefore took these directives. The EU option regarding the accounting harmonization within aimed at the International Financial Reporting Standards (IFRS), which have been mandatory for the consolidated financial statements since 2005. Romania adopted these regulations, thus, after the EU accession, the listed banks which are also in the top of some groups issue consolidated financial statements according to the EU IFRS. The Romanian standard setter went further and, starting from 2012, through the BNR Order no. 27/2010 (issued in December 2010), has enforced the IFRS for the individual accounting, for all credit institutions in Romania (banks – Romanian legal entities, credit cooperatives, savings and lending banks in the housing sector, mortgage banks, Romanian branches of foreign credit institutions – Romanian legal entities). The grounding for the turning on to the IFRS enforcement by the credit institutions had been then made during the 2011 exercise, in contrast to the non-financial Romanian listed companies that were forced to implement the IFRS in 2012, based on one order of the MPF in June 2012.

In fact, these reporting obligations according to the IFRS do not represent something absolutely new for any bank in Romania (for an overview of the Romanian accounting evolution after 1990, see Lapteş & Popa, 2013). The first contact of the Romanian companies with the international standards can be traced down until 2000, when the MPF has established an international standards evolution

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calendar and the banks were included in the first category of eligible companies. This tapping of the international standards in the beginning of the 2000's facilitated the Romanian accountants' familiarization with accounting mechanisms that were completely unknown to the Romanian culture and facilitated the further adaptation to the EU standards. Another element that allowed Romanian banks to make contact with the international standards regards the fact that many of them are subsidiaries of European groups already using the IFRS and which have already forced the Romanian entities to restate when sending the necessary consolidated data. We thus centralize in table no.1 the events that made the familiarization of the Romanian banks with the international standards possible through gradual stages, so that the mandatory enforcement of the IFRS in 2012 would not seem such a difficult threshold.

Table 1.Events in the introduction of IFRS in Romania

No.	*Event*	*Principal consequences*
1.	Introduction of IAS în the early 2000	First contact of Romanian entities with a completely different philosophy of accounting and financial reporting regulations
2.	Modifications of RAS	Every modification of RAS introduce some more rules from IAS/IFRS – we found thus a certain anticipation of the IFRS (Săcărin, 2013)
3.	Adhesion of Romania to EU	Introduction of the mandatory application of IFRS in the consolidated financial statements of listed companies
4.	Changes in the shareholders structures of many Romanian banks	The principal shareholder of many Romanian banks is an European listed group – the Romanian subsidiary have to restate his statutory financial statement in order to contribute to the consolidated financial statements of the groups

In view of the elements displayed in table 1, we can assume that the mandatory implementation of the IFRS in the banks' individual accounting, starting from 2012, has not had spectacular effects on the main accounting and financial indicators.

2. Literature Review on the IFRS Impact in Romania

Albu *et al*. (2013) describe the IFRS implementation general process in Romania and find a relatively low level of compliance with these standards, with great differences amongst companies. Săcărin (2013) analyses the mandatory enforcement of the IFRS of Romanian listed companies and notices a quite limited effect on the result (an average of + 1,32%) and on the owners' equity (3,23%) for a sample of 38 companies and the data regarding the comparative exercise in 2011. Săcărin's study (2013) does not emphasize the fact that banks are included or not in the 38 companies sample. One of the problems emerging in the empirical researches regarding the accounting data provided by the listed companies is that companies in the financial field (including banks) are frequently eliminated from the samples due to the features of their activities and the resulting peculiarities in financial reporting. Păşcan & Ţurcaş (2012) analyse the effects of the voluntary implementation of the IFRS of certain companies on the consolidated financial statements and notice (for the consolidated financial statements of 14 entities) significant discrepancies of IFRS influence when comparing the companies. At European level, studies regarding the effects of the IFRS implementations are very numerous and cover a large field of quantitative, qualitative, critical, procedure aspects etc. We also find an incomplete list of such studies at Ahmed *et al*. (2013).

3. Sample and Methodology

Out of the 68 Romanian listed companies that had to implement the IFRS standards in 2012 in their individual financial statements, just three are banks. The sample is extremely limited and does not allow any generalization. We are though trying to emphasize the effects of the IFRS implementation by comparing the statements of the banks to the statements of the other 65 listed companies. BVB hosts three types of listed companies: the larger ones are listed on BVB I (which also includes the three banks we analyse). We will display the calculated results for the three banks, comparing them both to the mean of the indicators for all the BVB listed companies and the ones in the I-st tier. A simple and frequently used mean on comparing values based on different accounting standards is Gray index of comparability (Gray, 1980; Weetman & Gray, 1991; Street *et al*., 2000; Balsari *et al*., 2009; Gray *et al*., 2009; Liu, 2009; Liu *et al*., 2010; Fifield *et al*., 2011). Between the versions of this index, we choose the one presented in equation 1.

$$Indexofcomparability\ (IC) = 1 - \left(\frac{NumbersIFRS - Numbers\ RAS}{|NumersRAS|}\right) \qquad (1)$$

The interpretation is simple: an index higher than 1 emphasizes a reduction of the IFRS figures compared to RAS, while an index with a subunit value emphasizes the contrary – an increase the accounting figure due to the IFRS implementation.

The data is manually collected from the 2011 and 2012 financial statements of the Romanian listed companies – we have compared the numbers published in 2011 (RAS) to the comparative numbers of 2011 (IFRS) in the 2012 IFRS financial statements. In order to avoid collecting problems, we have also verified the RAS-IFRS reconciliation tables issued in the 2012 financial statements. The indicators we retain in our paper are: equity, net income and the return on assets (ROA).

4. Results and Discussions

Considering that there is an extremely low number of Romanian listed banks, we will individually mention them in the analysis we make in this text, by using the symbols they are listed on the BVB: BCC, BRD and TLV. We will also calculate the mean of the indicators of the tree cases and we will compare it to the mean of the indicators of the other 65 listed companies that have adopted the IFRS in 2012.

4.1 Impact on equities of the transition to IFRS

We have individually displayed, in table no. 2, comparability indexes for the three banks, their mean and the comparison to the average indexes of the non-financial generally BSE listed companies and the BSE I listed companies. We notice that, for all the three companies, the IFRS equity is significantly higher than the RAS one, a situation that is relatively corresponding to the mean indexes of all BSE listed companies.

Table 2. IFRS – RAS differences – impact on equities

Entities	BCC	BRD	TLV	Average for the banks listed on BVB	Average for the non-financial entities listed on BVB	Average non-financial entities listed on the first tier of BVB
IC - equities	0,5957	0,8466	0,9101	0,7841	0,8230	0,9164

Even though BCC display the most significant growth, where equity ownership nearly gets double just as an effect of the IFRS implementation, other banks also display significant growths. These results can partially confirm the hypothesis assuming that IFRS are less conservative that the previous continental European standards.

4.2 Impact of the transition to IFRS on net income

In the consideration of the manner of the equity change, we can also expect for the net result to grow as a result of the IFRS implementation. Data in table 3 display a nearly insignificant growth in the case of two of the banks, alongside with an extreme growth of the third one – it is certain that this situation seriously influences the mean. The comparison to the index mean of non-financial companies though displays a diverging evolution of the banks compared to the other companies – in the case of the other companies, the net result has an significant diminished average, even though the BSE I companies display a significantly lower decrease than the whole BVB.

Table 3. IFRS – RAS differences – impact on net income

Entities	BCC	BRD	TLV	Average for the banks listed on BVB	Average for the non-financial entities listed on BVB	Average non-financial entities listed on the first tier of BVB
IC – net income	0,9996	0,9912	0,2669	0,7526	1,3523	1,0759

From the point of view of the IFRS effect on the net result, the banks are located in a different area compared to the non-financial companies, probably due to the peculiarities of the specific activities and standards.

4.3 Impact of the transition to IFRS on ROA

In order to also take into account, to some extent, the changes of the total assets (although the changes are insignificant for all the three banks), we have calculated the comparability index of ROA (net income / total assets).

Table 4. IFRS – RAS differences – impact on ROA

Entities	BCC	BRD	TLV	Average for the banks listed on BVB	Average for the non-financial entities listed on BVB	Average non-financial entities listed on the first tier of BVB
IC – ROA	0,9781	1,0061	0,2718	0,7520	1,3558	1,0588

In the case of BCC and BRD, the comparability indexes confirm insignificant changes of the indicator. Yet, in the case of TLV, the significant increase of the net income also lead to an important increase of ROA. The situation of the banks cannot also be compared to the mean of the indicator of non-financial companies: in the case of non-financial companies there is a significant decrease of the ROA

5. Conclusions

The mandatory implementation of the IFRS of the listed European groups represented an extraordinary opportunity to analysing the differences between the national accounting standards and the international ones. Romania has chosen the implementation of the IFRS for the individual financial statements of the listed companies starting with the 2012. There are three listed banks on the BSE. The sample is not representative and we cannot generalize the results, but we think that an analysis is useful for the understanding of the accounting normalization sense. We have compared the 2011 data according to the Romanian standards with the data corresponding to the same year, but issued with a comparative title in the 2012 IFRS financial statements, in order to evaluate the differences between the two standards. We apply the Gray index of comparability. The results of the analysis emphasize a significant increase of the equity ownership of the banks, a moderate increase of the result, which takes the shape of an important increase of the ROA. These results are important as far as they somehow contradict the average situation of the other BSE listed companies. The manner of change is the same just in the case of the equity ownership – yet, the banks enjoy a more significant increase compared to the other companies. In the case of the net income and the ROA, banks are clearly different compared to the other companies. We can find the explanation in the specific of the financial activities and their effects on the accounting numbers. It is interesting to see, in a potential future research, which certain elements have led to the differences between the RAS and the IFRS in the case of the banks, but also in the case of the other listed companies.

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