

## The True and Fair View Requirement in National Accounting Regulations of EU Member States

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**Abstract:** The acceptance of true and fair view, a concept of Anglo-Saxon origin, in European countries took place after the accession of Great Britain and Ireland into the European Union, in 1973, when the concept was introduced in the Fourth Directive. The Fourth Council Directive, adopted in 1978, presented the procedures for accounting valuation, the requirements for the quality of financial information, the generally accepted accounting principles and the format of the financial statements, *true and fair view* being among the requirements that affected the financial statements presentation. Through this paper we aim to identify whether true and fair view existed before it was presented in the Fourth Directive, the way it was presented therein and the way it was implemented into the national regulations of Cyprus, Latvia, Lithuania, Malta, Slovakia, Slovenia, Romania and Croatia. The study is built as a follow-up of three studies (Nobes, 1993; Aisbitt & Nobes, 2001; Dragneva & Millan, 2002), that traced the implementation of the concept in the national accounting regulations of the other twenty European states. This paper considers the situation for the remaining eight countries and puts them in the context of the earlier twenty. Through content analysis and literature review, this paper looks first at signifiers used in the Fourth Directive, afterwards at the signifiers in national regulations, finishing with the implementation of the “*true and fair view override*” in national accounting laws. Taking into account the replacement of the Fourth and Seventh Council Directives with Directive 34/2013, we follow the national regulation after the implementation of the latter, in order to summarize the overall perception regarding the role of true and fair view in financial reporting.

**Keywords:** true and fair view; accounting harmonization; financial statements; Fourth Directive; national accounting regulations.

**JEL Classification:** M41

### 1. Introduction

Accounting, like other professions, is dependent on specialized terminology and concepts, which are used to conduct businesses efficiently and to communicate information to stakeholders. It has also become increasingly international, through harmonization and convergence, requiring translation of accounting terminology, in order to ensure the efficient functioning of international capital markets (Evans,

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Baskerville & Nara, 2015, p. 1). However, in accounting theory and practice there are strange notions, curious inconsistencies, and unlikely ways of addressing issues, which cause confusion among accountants and users of financial information alike. Definitely the most „bizarre” notion, as presented by Walton (1993), is *true and fair view*. This concept, considered the statutory objective of financial reporting, has achieved a genuine symbolic status both in the UK accounting framework and outside it (in particular within the European Community). Walton (1993, p. 49) states that the European accountants admit that they do not understand *true and fair view*, but they consider it an important notion, being seen as the main distinguishing concept between the „Anglo-Saxon” and the „Continental” approaches.

## 2. Interpretations of True and Fair View – Literature Review

Walton (1993, p. 50) categorizes the meanings attributed to true and fair view, by associating them with three basic ideas:

- 1) *true and fair view can be characterized as a legal residual clause, which means it can be considered the sort of clause which often is added to statutes, contracts and other legal documents, to cover circumstances other than those specifically foreseen in other clauses in the document ... in effect, this kind of clause operates as a safety net put in by the creator of the contract to catch any eventuality not specifically foreseen in the other clauses and is not generally expected to be invoked except in unusual circumstances;*
- 2) *true and fair view can be considered an independent concept, meaning that it constitutes a supreme objective. . . as such, it can be defined independently by the accounting rules;*
- 3) *true and fair view can be used as a code for the representation of generally accepted accounting principles, in which case it is based on the notion that accounting principles do not represent a coherent, rationally consistent set of principles but rather a set of pragmatic responses to measurement problems.*

A first interpretation may be considered that of Kettle (1948), cited in (Vladu, Matis & Salas, 2012, p. 105). The author states that „true and fair view” implies that all legal and other essential information is not only available but also presented in a form in which it can be appreciated properly and easily. Chastney (1975) states that „true and fair view, a concept of British origin, emphasizes that, in order to achieve a correct image, financial reports are bound to present impartial information in a manner that allows the reader to understand them”. The closest form to a complete and comprehensive definition of this concept belongs to Lee (1981) which describes it as a „*term of art*”. He asserts that the true and fair view requires the presentation of accounts drawn up in accordance with the Generally Accepted Accounting Principles, using figures as accurate as possible, estimates as close to reality as

possible and arranging them so that the resulting image is the most objective possible, without errors, omissions, distortions or manipulations. Hoffman and Arden state that true and fair view does not have a definition because it was understandable by itself, as a simple English term, but whose application could indeed cause some difficulties (McGee, 1991). Later, Arden (1997) presents it as a dynamic concept, subjected to a continuous rebirth. The author does not believe that a definition or a synonym can be found for this concept, but it can be described by a number of its features. This view is supported by Chambers (2001) which states that the meaning of true and fair view remains the same over time, but its content may be altered. Klee (2009), cited in (Tabără & Rusu, 2010, p. 327) considers that the objective of true and fair view of financial reporting has the role of a final test, designed to ensure that the users of the financial statements compile the information in accordance with the economic reality. Alexander and Jermakowicz (2006, pp. 132, 161) state that the purpose of financial reporting is to give an understanding, which is not misleading, of the underlying economics of an enterprise and that rules, by themselves, are inadequate. In their view whether or not they are based on principles, some sort of Type A criterion, such as *true and fair*, or not misleading, is essential. Cunningham (2003) presents a statement from the Annual Accounts of the United Kingdom stating that “a term such *true and fair view* could end up meaning many more things than the different things it represents to different groups of the same or different societies”. Kosmala-MacLulich (2003) considers that the construct of the *true and fair view* constitutes a locus of reflection for the establishment of a mutually intelligible foundation for financial reporting in the New Europe including applicant states for EU membership. The author concludes that *true and fair view* is a contingent construct which resides in a particular socio-economic, historic and cultural context and is understood differently outside it. As for *the true and fair view override* Van Hulle (1997) asserts that its introduction in regulation means an admission of modesty on behalf of the regulator. No regulator is perfect and the accounting rules and standards which have been designed for the majority of cases can never take account of all cases which may arise in practice.

### 3. Research Methodology

This study was built as a follow-up of three other studies (Aisbitt & Nobes, 2001; Dragneva & Millan, 2002; Nobes, 1993) which together pursued the implementation of the *true and fair view* concept in the national accounting regulations of twenty European countries (France, Germany, Belgium, Italy, Luxemburg, Netherlands, Denmark, Ireland, United Kingdom, Greece, Portugal, Spain, Austria, Finland, Sweden, Estonia, Poland, Czech Republic, Hungary and Bulgaria). This paper investigates the situation of true and fair view in the eight remaining countries (Cyprus, Latvia, Lithuania, Malta, Slovakia, Slovenia, Romania and Croatia) and

puts them in the context of the other twenty. Through a content analysis applied over the Fourth Directive and the national accounting regulations in accordance with its provisions, for the analyzed countries, we followed: the signifiers used in the Fourth Directive, the signifiers used in national accounting regulations; and the implementation of the „true and fair view override” in national accounting laws.

#### **4. The Concept of *True and Fair View* in the Fourth Directive and its Implementation into National Accounting Regulations**

The implementation of the true and fair view concept into the accounting regulations of the countries under continental influence took place after 1973, precisely after the adherence of Great Britain and Ireland to the European Union, when it was introduced in the Fourth European Directive *based on Article 54(3) (g) of the Treaty on the annual accounts of certain types of companies*. A Directive is a decision of the European Commission, which aims to harmonize all legislative system of the member states of the European Union (Feleagă, 2006). The Fourth Council Directive, which was issued in 1978, imposed the procedures for accounting valuation, the format of the financial statements and the generally accepted accounting principles. At the time of the accession of the United Kingdom to the Anglo-Saxon system, there was a draft of the Fourth Directive (developed in 1971 under the leadership of dr. Elmendorff, German expert), with strong German and French influences (Blake et al., 1998). At the request of Great Britain and Ireland, in the following draft (developed in 1974), the *true and fair view* concept was introduced, being retained in its final version, issued in 1978. Since then, the concept has been developed and reached a much higher degree of use in the countries which adopted the continental accounting system (Nobes & Parker, 2004). The accounting harmonization under the Fourth Directive imposed *true and fair view* as a main element of the group of accounting principles, considering that the other principles are under its subordination (Tureac, 2008).

An interesting fact related to the existence of this concept can be identified in its own adoption, interpretation and translation, from a linguistic point of view, in the accounting regulations of the member countries of the European Union. The implementation of the Fourth Directive in national regulations took place in different periods, usually involving a period of at least two years from the time of the accession of that state to the European Union. To begin with, the Directive has been translated into the four languages existing at that time (German, French, Dutch, and Italian). As other states have become members, the Directive has been translated to help the standard setters in each state. As it can be seen from the extracts from the Fourth Directive, in the various languages recognized at EU level, presented in Table 1 - Appendix 1, the signifiers for *true and fair view* in European countries are relatively diverse. Table 1 in Appendix 1 adds seven new language versions to the

20 others in terms of their approximate literal meanings in English, given that Cyprus is covered by the earlier Greek version.

**Cyprus** was placed under British administration in 1878 and officially annexed to United Kingdom in 1914. In 1948, Cyprus adopted the UK Accounting Regulations (The Companies Act 1951) (Walton, 1986, p. 356), true and fair view being included within it. Being annexed to Greece since 1974, in 2004, when it joined the EU, Cyprus developed a new set of accounting regulations, in accordance with the Fourth Directive provisions, which were actually the Greek ones. In the new regulations, the Cypriot standard setters maintain “the real image”, presented in Greek national regulations.

**Latvia, Malta and Lithuania** joined the European Union in the same year, more precisely in 2004. Malta was the first to introduce the true and fair view concept. Being a former British colony, Malta took the UK’s Companies Act as a model, which led to the establishment of the concept in the national regulations (Alexander & Micallef, 2011). As far as the terminology itself is concerned, all three countries maintain the concept presented in the translated versions of the Directive.

**Slovakia and Slovenia** concluded in 2004 the adoption of the Fourth Directive and introduced it into national regulations as *true and fair view*, maintaining the terminology presented in the translated versions of the Directive.

In **Romania**, *true and fair view* was introduced into the accounting regulations on January 1<sup>st</sup>, 1994, alongside with the implementation of the accounting system according to the French model. At that time, six accounting principles were also assimilated: the going-concern principle, the consistency principle, the prudence principle, the accrual principle, the intangibility of the opening balance sheet, and the separate valuation principle (Brabete & Drăgan, 2008). As for the terminology, the Romanian version of the Fourth Directive and the accounting regulations introduce “*faithful image*”.

**Croatia** implemented the requirements of Directive 34/2013, which replaced the Fourth and the Seventh Directives, in 2015, two years after its accession to the European Union. Although not implemented, Croatian accession has also made available the Croatian version of the Fourth Directive, which proposed a “true and honest presentation”. At the time of adopting European requirements, the specifications of the new Directive 34/2013, which proposed the “true and fair view” concept, were taken into account. The option retained in national regulations was the „true and fair presentation”, which could be considered a compromise of the two existing choices in the European directives.

As it can be seen from Table 1 (Appendix 1), translations of the concept are not, as a rule, literal translations of the original English expression “true and fair view” (Nobes, 1993; Aisbitt & Nobes, 2001). The prescriptive nature of the texts of the

European Directives allowed each country to adopt and adapt the concept to their needs. Its translations, as well as its implementation under national accounting regulations, demonstrate that countries have managed to impose their own culture on a foreign concept (Nobes, 1993). Thus, we can agree with Canibano (2007) which claims that the interpretation of the true and fair view concept in the EU Member States oscillated between two orientations, a legalistic one and an economic one. According to the first orientation, the financial statements represent true and fair view when drawn up in accordance with current legal regulations (such as the case of France, Spain and Germany), while according to the economic orientation, the financial statements must report the economic reality of the company, although it does not comply with certain legal provisions (eg UK, the Netherlands, Denmark). Also, from the literary translation of the adjectives involved in the presentation of the concept, we can observe that some regulations use a unitary formula (eg “*faithful image*”, “*real image*”) and others, a dual expression (eg „true and fair view”) as presented in figure 1 – Appendix 2.

Further variations can be observed regarding the transposition of the *true and fair view override* in national laws. Once it became an EU member UK has favored both the introduction of true and fair view and its overriding status over all other provisions. When they introduced the concept into national regulations, each country had the opportunity to reconsider the position given to true and fair view concept. Thus, *true and fair view override* was implemented in *France, Italy, the Netherlands, Ireland, the United Kingdom, Portugal, Spain, Finland, Lithuania, Malta, Czech Republic, Slovakia, Slovenia, Hungary, Bulgaria and Romania*. The other countries do not recognize its overriding status.

One aspect of the study is related to the question: is there a single *true and fair view* or are there several? Following Table 1 - Appendix 1 we can observe that the concept was transposed in an articulated form in some countries (as in the case of Spain, Greece and Cyprus): “the faithful picture” or “the real image” (strictly taking into account the grammatical form of the term), which seems to inspire the view that there is only one *true and fair view*. In the case of the other states, the form introduced by the Directive has preserved “a true and fair view” (with the other linguistic correspondents). As can be noticed from the requirements of the Directive and, implicitly, from national regulations, usually the references are to “*a true and fair view*” rather than “*the true and fair view*”. As McGee (1991, p. 885), claims, the choice of an indeterminate article in this case is a matter of considerable importance. From a semantic point of view, it reinforces the argument that there is not always a single, correct answer, and this view is supported by the fact that there is often more than a valid way to do the same thing or to present the same information. Chambers (2001) also argues that there may be more fair views of the same financial position and that sometimes there may be differences in the method used to achieve it.

According to Tabără and Rusu (2010), the values of financial indicators obtained by a company will vary according to the reporting system used (e.g. financial reporting according to the national accounting regulations of each European country and reporting according to International Financial Reporting Standards). The pertinent question in this situation: Is the economic reality reflected? If we were to take the situation of a Romanian company preparing two sets of financial statements for one financial year, one according to national regulations and one according to IFRS, which one reflects the reality? How many *true and fair views* do we get, and which one is the most *faithful*? The authors argue that the accounting rules do not have a universal power of action, but they present a specific reality of the local economic and social environment, and they have become true because the social actors have accepted and recognized them.

Currently, the Fourth Directive is no longer in force, being replaced by Directive 34/2013, and the provisions of the latter are included in national regulations of the UE member states and other states that do not have this status (Norway, Switzerland, etc.). The Directive 34/2013 requires for the financial statements to be prepared on a prudential basis and to provide a true and fair view of the assets, liabilities, financial position and profit or loss of the enterprise. With the implementation of European Directive 34/2013, no changes have been identified in the national regulations regarding the transposition of *true and fair view* and the signifiers attributed to it.

## 5. Conclusion

Even though four decades have passed since the proposal through the Fourth Directive for a *true and fair view* as the objective of financial reporting, there is no universally accepted definition of the concept. The numerous interpretations and opinions identified over the years maintain it in the position of a mysterious notion as described by Walton (1993). The true and fair view was considered, in the Romanian accounting regulations, from the very beginning as the objective of financial reporting, and it still maintains this status.

Considering the study on Cyprus, Latvia, Lithuania, Malta, Slovakia, Slovenia, Romania and Croatia, and analyzing the conclusions of the three aforementioned studies, we can assert that the translations attributed to the concept are not, usually, literary translations of the English original "*true and fair view*" nor were they applied equally. Moreover, relying on the prescriptive nature of the Directives, each country has managed to adopt and adapt the concept into national accounting regulations according to their needs, thus succeeding in imposing their own culture on a foreign concept. With the transpositions of *true and fair view* concept in national accounting regulations, France, Italy, the Netherlands, Ireland, the United Kingdom, Portugal, Spain, Finland, Lithuania, Malta, Czech Republic, Slovakia, Slovenia, Hungary,

Bulgaria and Romania introduced also the *true and fair view override*, recognizing the supremacy of *true and fair view* over other legal provisions. It can also be noticed that, when transposing the concept into national regulations, some countries have concluded that there may be more than one way to reflect the financial position and performance of an entity, and that they can be obtained especially if we relate to the differences between national and international accounting systems. In this case, the fact that there may be more than one *fair view* does not mean that the economic reality is not represented, but that there is at least another angle from which it could be viewed, without the results being distorted in a negative sense.

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## Appendix 1

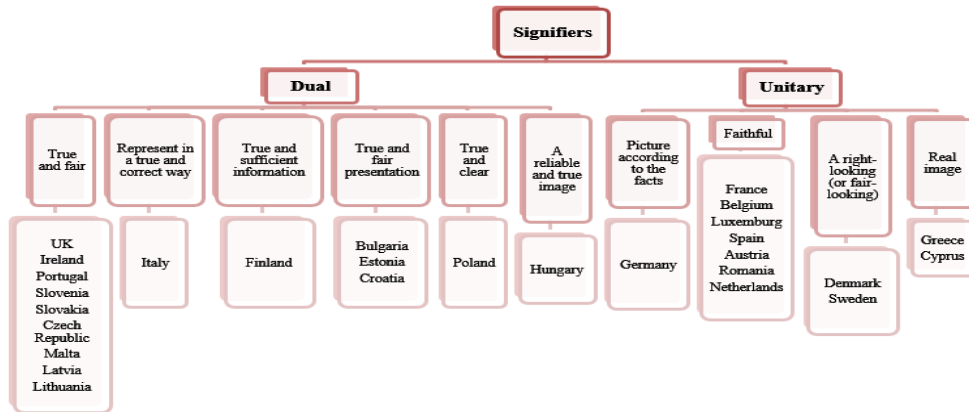
**Table 1. Signifiers for true and fair view and their literal translations**

Country	UE accession	Words in Law before Directive	Translation	Words in Directive	Translation	Fourth Directive	Words in Law if different of Directive	Translation
France	1958	-	-	une image fidèle	a faithful picture	1983	-	-
Germany	1958	-	-	ein den tatsächlichen Verhältnissen entsprechendes Bild	a picture in accordance with the facts	1985	Unter Beachtung der Grundsätze ordnungsmässiger Buchführung ein den tatsächlichen Verhältnissen entsprechendes Bild	in compliance with accepted accounting principles a picture in accordance with the facts
Belgium	1958	-	-	een getrouw beeld	a faithful picture	1985	-	-
Italy	1958	-	-	un quadro fedele	a faithful picture	1991	rappresentare in modo veritiero e corretto	represent in a true and correct way
Luxembourg	1958	-	-	een getrouw beeld	a faithful picture	1984	-	-
Netherlands	1958	„Geeft een zodanig inzicht dat een verantwoord oordeel kan worden gevormd” „geeft getrouw, duidelijk en stelselmatig”	presents an insight such that a well-founded opinion can be formed  presents faithfully, clearly and consistently (over time)	een getrouw beeld	a faithful picture	1983	geeft getrouw, duidelijk en stelselmatig	presents faithfully, clearly and consistently (over time)
Denmark	1973	-	-	et pålideligt billede	a reliable picture	1981	et retvisende billede	a right-looking (or fair-looking) picture
Ireland	1973	a true and fair view	a true and fair view	a true and fair view	a true and fair view	1986	-	-
UK	1973	a true and fair view	a true and fair view	a true and fair view	a true and fair view	1981	-	-
Greece	1981	-	-	tin pragmatiki ikona	the real picture	1986	-	-
Portugal	1986	-	-	uma imagem fiel	a faithful picture	1989	uma imagem verdadeira e apropriada	a true and appropriate view
Spain	1986	-	-	una imagen fiel	a faithful picture	1989	la imagen fiel ... de conformidad con las disposiciones legales	the faithful picture

Austria	1995	-	-	ein den tatsächlichen Verhältnissen entsprechendes Bild	a picture in accordance with the facts	1990	ein möglichst getreues Bild	a picture as faithful as possible
Finland	1995	-	-	oikea ja riittävä kuva	true and sufficient picture	1997	oikea ja riittävät tiedot	true and sufficient information
Sweden	1995	-	-	en rättvisande bild	a right-looking (or fair-looking) picture	1995	-	-
Cyprus	2004	a true and fair view	a true and fair view	tin pragmatiki ikona	the real picture	2005	-	-
Estonia	2004	-	-	erapooletu ülevaade	impartial overview	2002	oige ja õiglase ülevaate	correctly and fairly overview
Latvia	2004	-	-	paties skaidrs priekšstats	a true and fair view	2004	-	-
Lithuania	2004	-	-	tikrą ir teisingą	a true and fair view	2001	-	-
Malta	2004	vera u ġusta	a true and fair view	vera u ġusta	a true and fair view	1986	-	-
Poland	2004	Prawidłowy i rzetelnie	(correct): in accordance with the law (fair/true): "complete and in accordance with the truth"	prawdziwy i Rzetelny	true/correct and fair/honest	2000	rzetelnie i jasne	true and clear picture,
Czech Republic	2004	-	-	věrný a pravdivý obraz	a true and fair view	2004	-	-
Slovakia	2004	-	-	verný a pravdivý obraz	a true and fair view	2002	-	-
Slovenia	2004	-	-	resnično in poštenosliko	a true and fair view	2004	resničen in poštenprikaz	a true and fair view
Hungary	2004	valós adatokat	„true in view of the compliance with the law”	megbízható ésvalós kép	a reliable and true picture	2000	-	-
Bulgaria	2007	-	-	vyarna kartina	a faithful picture	2007	vyamo i chestno predstavvane	true and fair presentation
Romania	2007	a faithful picture	a faithful picture	imaginea fidelă	a faithful picture	2005	-	-
Croatia	2013	-	-	istinit i pošten	a true and fair view	2015	istinit i fer prikaz	a true and fair presentation

Source: own processing after (Aisbitt & Nobes, 2001, pp. 89–90; Dragneva & Millan, 2002, p. 196)

**Appendix 2**



**Figure 1. True and fair signifiers in national accounting regulations**

Source: Own processing after (Aisbitt & Nobes, 2001, p. 89; Dragneva & Millan, 2002, p. 196)