

SUMMARY

The credit institutions are the basic component of the financial system and contribute directly to the dimensional configuration, structural and qualitative of the economy financing.

In the financial, the credit institutions are regarded as key players because they do the games, leading to the creation and development of the financial markets, guide and dimension the cash flows.

The purpose of the thesis, entitled "Comparative approaches of the financial statements elaborated by the credit institutions" is in the depth of the theoretical basis, development of the existed methodology in the field of the credit institutions, the basis of directions of improvement in this area in accordance with national and international norms.

To achieve the goal it had the following objectives:

- Presentation of issues regarding general organization and management of the credit institutions;
- Highlight the impact of globalization of the banking regulations on the accounting system of the credit institutions;
- Establishing the financial statements role in expressing the accounting truth in the credit institutions;
- Assessing the relevance of the accounting principles in expressing the accounting truth;
- The comparative approach of the financial statements models issued by the credit institutions;
- Indicating the information limits of the financial statements elaborated by the credit institutions;
- The comparative analysis of the financial performance indicators determined on the basis of financial statements at the various credit institutions;
- Highlighting the theoretical issues relating to the banking risks and their management by the credit institutions;
- Playback the general issues of the presentation and audit of the consolidated financial statements for the financial groups.

In the thesis I tried to do a comparative approach of the financial statements of the credit institutions from three perspectives:

- A comparative approach between the financial statements of the credit institutions with the same profile;
- A comparative approach between the financial statements and the non-bank financial institutions and entities with economic activity;
- A comparative approach between the financial statements elaborated on the individual entities and the groups of the companies of the credit institutions system.

Informational support of this thesis is the legislative and normative acts on accounting of the credit institutions in our country and the European

Union, and other data submitted by the National Bank of Romania and the commercial banks.

In order to meet the objectives proposed, the thesis is structured into five chapters which are addressed both theoretical issues of literature, different opinions of experts, and the practical aspects observed in the research, has an introduction, conclusions, bibliography and annexes.

The activity of financial intermediation is one of the most dynamic and flexible professional services, with a high capacity of adaptation in real time to changes in the market. On the international financial markets, the most resources are mobilized through the indirect financing. The main intermediation institutions which operate on the international financial markets are: the international financial institutions, the government institutions and the storage and non-storage institutions.

The complexity of international financial operations, the high risk and the financial market imperfections have caused the appearance and the development of a large number of the specialized financial intermediaries who have always enriched the tools and services they provide.

In our country the banking system has undergone extensive changes, which led to the rapid growth in the number of the local credit institutions and the branches of the foreign institutions which operate on the Romanian financial market. The credit institutions were allowed to operate as universal type of commercial banks, having the capacity to perform a wide range of banking operations across the country, in terms of compliance with prudential standards issued by the NBR, as the banking supervisory authority.

Currently the Romanian banking system was closed to a major proportion of a full privatization. According to the NBR register at the end of 2008 there were a number of 42 credit institutions, grouped as follows: 6 specialized credit institutions, a credit institution is a central house of credit cooperatives and 35 credit institutions which carry out the commercial banking operations: corporate and retail.

We appreciate that along with increasing the market, the concentration level will change, the increasing the competition requiring changes in strategy of small and middle banks, possible mergers or acquisitions, so as to increase their capital reasonably without major shocks. A solution to maintain viability of these banks could focus on the specialized products or segments of customers.

We can say that the priority of the business of the credit institutions is the continuous improvement and diversification of products and services so that quality and diversity to be one that makes the difference. Starting from this premise, the credit institutions have expanded the services into related areas of banking such as insurance, leasing, factoring, transactions with the property values. We assist at the organization of the banks as financial groups, which through its subsidiaries carries out the specialized professional services.

The group structure of the banks presents a number of advantages, but also a number of implications of a financial – accounting nature, particularly in developing of the financial statements, to be consolidated at this level.

Currently, in the worldwide, we can speak of a process that precedes globalization like the internationalization of the banking business, which

presents a number of risks that could have negative effects not only on a bank or banks within a country, but the whole international banking system.

The banking crises have demonstrated the need to create a framework that will establish the international banking supervision. This is the moment when appeared the Basel Committee on the banking supervision.

The main objectives of the Committee were related to banking crisis prevention with the international resonance, and studying and determining the techniques and tools of supervision to be adopted for this purpose. The established rules by the Basel Committee are simple recommendations but in practice, they have exerted a strong influence in setting the rules of banking supervision both nationally and internationally.

Also, the recommendations of the Basel Committee have a permanent character and are continuously reviewed, considering the risks and threats that arise in the international banking world.

Analyzing the Basel Agreement, we see that there is an interaction between IFRS and existing rules on the regulation concerning the definition of the regulatory capital and prudential filters (the common appearance of data and methodologies for assessing the credit risk, accounting and the purposes for enough capital).

It can be appreciated that, for the New Capital Agreement, the mechanisms developed both at the Basel Committee and the Community have the financial information obtained through the application of IFRS, which are applied to a series of prudential filters in the light of specific objectives followed by the supervisors.

After our opinion, though may have different areas of application, the Pillar 3 of Basel II and IFRS are complementary. Although the IFRS and the Basel II have the common methodology and criteria for assessing credit risk, the accounting and the purposes adequacy to the capital, between the accounting concepts and the Basel II are differences of perception of risk data, its measurement and differences of the presentation.

The credit institutions, the desire to increase profits have launched products on the financial market which are increasingly sophisticated; they have generated new risks which have not entered into the rules of banking and prudential supervision.

The viability of a banking system largely depends on the macroeconomic stabilization and the existence of healthy and sustainable policies. The National Bank of Romania, under the rules developed to help maintain a healthy banking system that can cope with financial crisis.

Following the research, we noted that the management of the credit institutions puts its footprint over the accounting rules. We refer to the fact that in Order no.13/2008 of NBR in art.164 (b) it is mentioned that the need to provide clearly that the elaborated financial statements are of the legal entity and not of the group.

In a next step it will be to develop our own standards and norms, relevant to the needs, but and the specificity of the Romanian economy. Elaborating the national standards based on the principles contained in IFRS appears to be the most interesting, but not at all easy.

Applying this solution implies, but a very good knowledge of the IFRS and a legislative activity prior to preparation of the required field of application

opening and unimpeded manifestation of these principles. Such national standards should be developed to ensure full convergence with IFRS. This way for accessing to the IFRS ensure a better consistency between principles and rules and may include some rules on the accounting of the year for financial reporting.

Regardless of the name under which they find in the accounting, the financial statements mean the necessary source of information in economic decision making by different categories of users.

Whatever it is the name under which are found in the literature, the financial statements have a main objective to provide information on the financial position, performance and cash flows of an entity, necessary to the users of the accounting information, in order to take the economic decisions.

The aspect which must emphasize it is that the comparability is a certain specific reports for the credit institutions in the sense that the legislature (the National Bank of Romania) leaves no discretion units to choose the presentation of the financial statements, but they are expressly imposed.

So, whatever are the users, the financial statements must give the possibility to assess the health of the entity based on certain criteria such as ability to auto finance, to create wealth and the extent of guarantees provided to the third parties.

The request for information comes from the different groups of users but only a part of the information needs of these groups is common. Regardless, however, the nature of those decisions and the degree of accuracy, the users want information to enable them to assess the two dimensions of the entity: the vulnerability and the beneficiary capacity.

The need to harmonize international accounting relates particularly by the credibility of accounting. To be credible, the accounting results should be measured and evaluated on the unitary bases. Application of the different accounting rules leads to the different results, with implications for the comparability and credibility of financial information.

The interest for international harmonization of accounting is due especially to investors and regulators of financial markets, given the rising phenomenon of globalization of economies, which is a pre-movement of the information flows at higher rates.

Although the Directive IV has managed to achieve a mix between two cultures, we talk about the Anglo-Saxon culture and the continental one. Introduction of the Directive IV of the legislation of EU member states has not led to a profound revision of legislation in accounting. Many of the European Union member states have limited at the implementation of the new expressions of existing rules.

The accounting principles, which underlie the accounting records of transactions, should be regarded as a set of theoretical statements that apply into accounting, to be presented an economic reality of a whole entity and not just certain segments of information accounting, given by a component of financial statements, in isolation.

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Although the European directives have helped to some extent to achieve to the concordance of the accounting, in the European Union can not be passed unnoticed a number of shortcomings as a large number of options regarding the publication and control of the accounts and rules of evaluation.

In countries where the financial information is particularly for investors, the accurate image of the information is obtained through the performance characteristics of qualitative information contained in the financial statements: intelligibility, relevance, credibility, comparability. In a country where the accounting information is addressed to the state, the image is considered fair to the extent that the financial statements comply with tax regulations.

For the knowledge and the management of the patrimony, the accounting operating with specific category of study objects as: assets, liabilities, expenses, incomes and results. The assets and the liabilities are structures of the global heritage, specific to the relationships for investment and financing of the elements of patrimony, and categories of expenditures and incomes are specific to the relationships of transforming the patrimonial elements in the internal economic processes of the heritage holding entities.

To assess the evidence presented in the financial statements of the credit institutions are used the different bases in various combinations and degrees of use and may be added that no basis for the evaluation has no general validity and is not fully satisfactory. We can say that no basis for the evaluation has no general application and is not absolutely satisfactory.

The fair value remains in its essence a hypothesis, so an assumption based on probability and not a mathematical theory in the sense of the element on which to develop a demonstration. Accordingly, the fair value should be chosen as one of accounting estimates not only real and perfect, which may be retained in conjunction with other bases of evaluation.

The structure of the annual financial statements of an entity consists of five main documents: the balance sheet, the profit and loss account or the statement of incomes and expenditures, the situation of change the capitals, the cash flows and notes to the annual financial statements.

Because the balance sheet is a real image of the patrimony at a time, I found that the model of the balance sheet which the entity uses it is closely related to its work. Although the balance sheet provides information on the financial position of the entity, I found that it presents a number of shortcomings with regard to the requirements of investors in terms of financial reporting.

A first time failure is that in the time interval between the time of publication and timing closure of the financial year there is a possibility that the decision taken by a user to be obsolete. Also, another limit of the balance sheet information is given on the content items in the balance sheet, which could mask sustainable elements in the short-term category. Another limit on the balance sheet can be given that does not clarify the causes of variation Treasury entity.

The performance and the value is an ideal couple for a modern and efficient management of the entities. We can say that considering the correct value of an entity we can measure its performance.

The performance is defined by the users of accounting information in relation to their own interests. If in a balance-sheet approach and heritage the outcome

measure of the heritage growth enjoyed by the entity, in an Anglo-Saxon thinking, the prevalence of the side qualitative result is that profit is the main indicator of the performance.

Based on the research I found that the differences of the profit and loss account model are presented by entities in the delineation of the activities after their nature. Thus, at the insurance societies it is not done their demarcation, at the credit institutions we meet the operational (financial) activity, at the insurance brokers we see three types of the delineation of the activities: operating activities (brokerage), financial activities and extraordinary activities and at the entities covered by the CNVM types of activities are: current activity and extraordinary activity.

Starting from the idea that entities can opt for choice, within certain limits, the accounting policies, the results could be influenced by the objectives to the detriment of the objective reflections of the reality. In this case the problem appears: to what extent the result is credible? We can say that the result is not credible, because the entity has the possibility to modulate the result.

With the help of creative accounting techniques, the credit institutions are able to modulate the financial statements. These techniques are:

- The existing rules, giving the choice of accounting methods that may lead in different results and different images of the financial statements;
- In the financial statements are presented property items requiring estimates and forecasts (the constitution provisions, the useful life of fixed assets). Making these estimates may allow specialists optimistic or a pessimistic approach, which allows us to say that to obtain the different financial statements depending on how are the approach estimated;
- Time of transactions that can result in the desired image in the accounts.

As a result of applying these creative accounting techniques, the effects can be increase and decrease of expenses, of incomes, assets and funds belonging to owners.

The flexible result limits the information value of the profit and loss account that, sometimes, can be deceiving. A profitable entity is not necessarily an entity that provides liquidity. Behind the profitability it can hide serious problems for treasury.

Treasury is an important indicator for financial analysis, as an entity able to generate a constant cash-flow is a significant solvent entity, and the users can assess changes in the financial structure of the company and anticipate the ability to adapt to environmental changes.

Used together with other components of the financial statements, this report provides information that enables the users to evaluate the modification of the net assets of the entity, its financial structure (including its liquidity and solvency) and its ability to influence the amount and time of occurrence of cash flows for adoption to the circumstances and the changing opportunities.

The entities are free to use different accounting treatments to the users desired company image, and the users are protected by recommendations of international accounting standard IAS 8. According to it, the changing accounting policies are carried out only if required by statute, by an organism for developing accounting rules or when this change has a result a more

COMPARATIVE APPROACHES OF THE FINANCIAL STATEMENTS ELABORATED BY THE CREDIT INSTITUTIONS

appropriate presentation of events and transactions in the financial statements.

However, in our view, they should consider of that user confidence in the financial statements and, in the entity it is inversely proportional to the prospective and retrospective changes of its performance. The user confidence decreases while the retrospective changes of the company performance increase.

The credit institutions accord a great importance to these performance indicators, due to ongoing monitoring of those indicators reflecting the efficiency or performance of these activities and their analysis in a closed interrelationship with its exposure to existing risks may affect its business.

In the international banking activity, to optimize the relationship profitability - risk is an essential objective, which is applied to each bank and product and it extends to the whole portfolio of the credit institution.

The management seeks to achieve excellence through the profit, so that to obtain a superior performance. One of the most effective tools for measuring the performance is the system of performance indicators.

The credit institutions activity is by nature an activity in which risk is a general feature. In their work, the bank risk is a phenomenon that can be quantified in the form of costs which may affect their activity by producing the damages.

The risk can have a considerable impact on the value of the assets of the credit institution, both directly (usually in the form of direct losses incurred), and induced impacts caused by the effects on customers, staff, partners and even on the entity. The banking risk management should be one of the components of overall bank management. A good manager of risk issues will note and use how to the banking risk management interacts with other components of the bank management.

Knowing that the risk can be identified, assessed, monitored and reduced but never eliminated, in order to protect, the credit institutions must develop a set of general policies, specific and sectoral. The main risks associated with the activities of the credit institutions are financial and operational nature, resulting from the conduct of banking activities both on the Romanian territory, and the credit institutions of foreign correspondents.

To increase the credibility of information provided by the financial statements, they must undergo to the audits. The audit is an activity undertaken by a person authorized to formulating an opinion on the financial statements in accordance with auditing standards that are harmonized with the international auditing standards.

By the opinion expressed in a financial audit, the auditor is a person who guarantees the financial statements to the users and the audit report presents findings on how the financial statements are or are not in accordance with generally accepted accounting principles. The audit collects and evaluates the information provided by accounting for the expression of an opinion from the auditor regarding the accuracy of financial statements.

To survive in the competition and to face the economic environment currently exist entities tend to merge and acquire other entities for the formation of the most powerful financial groups. The societies group is a direct

consequence of the concentration of the entities they represent, in turn, a result of the desire to have superior performance.

The consolidated financial statements present an interest to the shareholders who are concerned about the risks of their investment and the benefits to them. Because the information presented in the consolidated financial statements would be useful to users in the adoption of decisions should be subject to a process that is based on generally norms accepted national and international.

Consolidation is a technique that allows unique accounts to a group of independent entities and that depend, in financial terms, by a centre of common decision, aiming at playing a true image of the financial position and performance of all consolidated entities taken as a whole.

Determining the performance on data presented in the consolidated profit and loss account depends on the applied accounting policies, which allow transferring the results from one period to another and from one entity to another.

The risk associated to the business is a component that is given attention by an appropriate risk management and the organizational structure of governance of the group financial which ensure the extensive and complete controls to reduce the inherent major risks.

As a final conclusion, we can say that to be able to the credit institutions to develop effective processes, business continuity, they should not look only internally, but must understand the connections and interdependencies with the competitors.

For improving the reporting at the credit institutions we propose:

- Presenting of additional information about the assessment methods and assumptions that are the basis for determining the present value of the financial instruments in the financial statements;
- Strengthening accounting standards for the risk coverage, which is a feature of business credit;
- Promoting transparency of the economic result in the financial reports.
- In terms of appearance of the money conversion to be used the average method, which leads to the balancing of all data comparable over time.

Without claiming to be an exhaustive treatment of the issues addressed, we consider that the reports of the credit institutions must constitute a flexible and efficient system, able to respond to the European Central Bank, the beneficiaries of data from the central bank and, last but not least, to the reporting institutions, which will have direct access to the centralized and aggregated statements in the banking system.