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IFRS adoption in developing countries: the case of Romania

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Abstract: The purpose of the paper is to discuss the introduction of IFRSs within the social history of the modernization of Romanian economy and society, and to investigate the extent to which the potential benefits expected from their adoption are starting materialize. Based on an extensive literature review, we find that, at this stage, the stream of research investigating the impact of IFRS adoption in Romania is in its incipient stage, mainly consisting of studies of perception (of preparers, regulators, auditors and users), rather than studies focusing on providing empirical evidence on the actual consequences of IFRS implementation. However, results obtained so far show that the Romanian economic environment is to a certain degree open to IFRS and optimistic about their potential, although there are compliance issues and institutional factors that can diminish their benefits. There are also preliminary empirical results documenting an increase in transparency and in value relevance of financial information and a decrease in the cost of capital.

Keywords: IFRS, Romania, developing countries, cost and benefits, level of compliance

JEL codes: M41

1. Introduction

Historians show that the current economic gaps between Romania and the Western countries have accumulated over time (Murgescu, 2010) and their recovery is one of the fundamental problems for the Romanian society. If until 1947, in Romania, the capitalist forms of economic organization and business accounting were taken from the West as part of the modernization and westernization of the Romanian

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society, the current introduction of the International Financial Reporting Standards (IFRS) has a double determination. The application of IFRS is the result of external constraints - globalization and EU membership of Romania – but also, it has an internal causation - IFRS being seen as a modern, globally applicable set of standards that could be transformed into a comparative advantage for some Romanian companies on the international capital markets.

However, the application of IFRS in itself is not a generator of economic development, as the disclosure of accounting information does not create value *per se*. Instead, the accounting information acquires value when used in economic decisions. Even if inappropriate for the local, undeveloped economic context ("a form without substance", Munteanu, 2003), IFRS is the globally applied accounting system contributing to the functioning of international capital markets and of the global financial capitalism (Capron, 2005), and IFRS adoption could allow Romanian companies to access the international financial markets, but it can also trigger benefits for the local economic environment (such as increasing corporate governance practices or reducing the cost of capital).

In this context, this paper tries to place the adoption of IFRS within the social history of the modernization of Romanian economy and society and to discuss the extent to which the presumed, direct and indirect, benefits are beginning to materialize in the hope that they can mitigate the disparities between Romania and other developed countries and eventually change its status of being an *economic periphery* of the Western civilization.

2. The evolution of Romanian accounting in the XIX-XXI century

2.1 Romania's delayed connection to modern capitalism and economic calculation in the XIX century

In the Romanian historical territory, located in the south-eastern and central Europe, north of the Balkans (an area which witnessed the overlap between the interests of the neighboring large empires: the Ottoman, Russian and Austrian ones), capitalism and the industrial revolution – as drivers of economic development - came (much) later than in Western European countries. However, assimilating forms of capitalist economy and industrial development were made evident with the formation of the modern Romanian state beginning with the Union of the Romanian principalities, Moldova and Walachia, in 1859. The other Romanian province - Transylvania - was incorporated into the Austro-Hungarian Empire until the early twentieth century, until united with Romania in 1918.

Historians recognize that the Romanian society entered rather late in a Western-style modernization phase, starting with the first half of the nineteenth century. However, most historians have assigned to Romania a certain peripheral role in the Western civilization. As Western-style modernization is directly linked to economic growth, Romania was considered a peripheral society, compared to the developed capitalist countries of Western Europe. For example, Chirot (2002) shows that in the second half of the nineteenth century, Romania ”has assumed the role of a peripheral segment of the western economy, as a producer of raw materials (mainly cereals)”. Also, Boia (2012) believes that, by adopting the Western cultural and political model, Romania has become “an extension of Western Europe”, continuing to be even nowadays an "edge space", as a country member of the European Union on the eastern border. Murgescu (2010) has also adopted the theory on the peripheral role of the Romanian territory, as its geopolitical repositioning out of the Oriental influence and into the Western one has not changed its status as regards the metropolis, but has only shifted it “from the periphery of the Ottoman Empire to the periphery of the Western World”.

Romania has integrated rather late in the European capitalism and the accumulation of gaps on economic development compared to the Western countries has multiple causes. These can also justify the delayed assimilation of the double-entry accounting and other modern techniques of business management in Romania. Therefore, in terms of business and accounting culture (practical innovations, theories, standardization, education, etc.) Romania produced only a *minor culture*, consisting mainly of takeovers and adaptations from the West.

So far, we cannot locate where and when double-entry bookkeeping was first used on the Romanian territory. However, there is evidence showing that from the fifteenth and sixteenth centuries, royal courts, manors, monasteries and cities in the area had an accounting *memorandum* system (*memoriale*, Italian) that has persisted and evolved until the nineteenth century. Also, it is known that in the first half of the nineteenth century, large retailers practiced double-entry accounting (Ioachim, 1944), and that, around the same date, the first books presenting the double-entry accounting technique were translated from other languages and published (Demetrescu, 1972).

The first Romanian legal regulations on accounting for business were also all copied from western countries regulations. The Organic Regulations of Wallachia (1831) and Moldavia (1832) - the first form of a constitution for Romanian principalities – required that all commercial disputes should be judged by reference to the French Code of Commerce, which was translated into Romanian. Thus, in the Romanian Principalities, accounting regulations were adopted in the first half of the nineteenth century as a part of the establishment of the Romanian commercial law by adopting the French model in the context of the Westernization of Romanian society under the influence of the French culture.

After the union of the Romanian principalities in 1859, the reforms initiated under Cuza Voda implemented a number of regulations to ensure the modernization of public finance and accounting, all being French-inspired (Murgescu, 2005). In 1887 the Romanian Commercial Code was adopted after the Italian Commercial Code (1882) – introducing the mandatory ledgers and the term Commercial Accounting, and enforcing the requirement for mandatory inventory and annual accounts.

Thus, the emergence of the Romanian accounting regulations in the first half of the nineteenth century was a consequence of the adoption of constitutional and commercial regulations. However, the crystallization of the Romanian accounting law implied the adoption of foreign legal norms, first French and then Italian regulations, the national contribution being marginal. Also, the Romanian accounting literature has emerged during the same period in the form of translations of Western literature (German or French).

2.2 The non-linear evolution of the Romanian economy and accounting theory in the XXth century: from the peripheral capitalism to the soviet model, and into the global economy

At the end of the nineteenth century and early twentieth century, the Romanian economy witnessed an increase in industrialization, based on the industries that involved processing of the local raw materials (Georgescu, 1992), but was still accumulating lags to the industrialized Western economy (Murgescu, 2010). For all that, Romania had in the early twentieth century, an agrarian economy, featuring exports mainly consisting in agricultural products and remaining positioned at the "economic periphery of Europe" (Murgescu, 2010). Thus, for the Romanian elites, boosting commercial and industrial activities remained a priority.

The need to create a class of local professionals for new economic activities resulted in the emergence and development of economic and business universities (in 1913 in Bucharest, and in 1920 in Cluj), inspired by similar Western institutions, and accounting has become an academic discipline.

As a result, a literature has been developed in an attempt to shape the identity of the Romanian accounting thought, the most notable contributions being authored by Spiridon Iacobescu (a follower of the traditional, legalistic approach) and Ion N. Evian (who embraced an economic perspective on accounting). However, their contributions merely consisted of adopting and/or adjusting theories put forward and developed in Western literature, in particular the theories developed in the German school of business administration, and, overall, lacking an international impact. However, this period can be characterized as the most fruitful in terms of intellectualizing Romanian accounting as an academic discipline.

During the same period, the accounting profession was regulated (in 1921 the Body of Chartered Accountants was created) and the first attempts to standardize Romanian accounting were made. These attempts focused on standardizing the content of financial statements, by introducing a standard balance-sheet for state-owned enterprises (in 1927) and standardized financial statements (balance sheet and income statement) for banks (in 1934). Later on, in the early 1940s, when Romanian economy was under the pressure of the Second World War, a new regulatory process, under the authority of the state institutions, was initiated, which aimed at introducing a national chart of accounts of German inspiration, but which was never applied in practice; some authors have also proposed different chart of accounts that should have been applied at a national level (Ionascu, 1997).

After World War II, as Romania fell under the Soviet influence, the statist and centralized planned economy model was adopted. The new political elite wanted to continue modernizing the country, but not by reference to Western countries, but after the Soviet model, focusing the economic development on industrialization, particularly on the heavy industry sector. Adjusting the Soviet economy was made through a centralized plan, and accounting was considered a tool used for controlling the plan. As a result, since January 1, 1949, Romania started to have a planned economy, and a Soviet accounting system was introduced, by means of enforcing the first chart accounts in Romania, designed for economic sectors (industry, agriculture, commerce, postage and telecommunication administration, public utility companies etc.). The Ministry of Finance has become the main regulator of accounting in Romania, and kept this role throughout the communist regime.

The Soviet accounting model has been developed in the USSR between 1924 and 1940 and was characterized by the use of mandatory charts of accounts designed for economy sectors, allowing the practice of a "formal monism" in which cost accounting and financial accounting form one flow of information (Richard, 1998). Implementing the Soviet accounting model meant, on the one hand, abandoning the old accounting system, construed as a tool of capitalism, and, on the other, the creation of a new accounting theory based on Marxist ideology, which justified the new role of accounting in the new economy, that is of a tool for controlling the planned economy, which was now replacing the market. A nationalist phase of the communist regime (early 1970s) allowed the redemption of the legal/patrimony-based perspective on accounting that was developed before 1945.

After 1990, the Romanian economy and society entered into a process of transition from the communist model to the western society, and to a market economy. Accordingly, accounting has also suffered profound mutations both in its theoretical core, but also in its regulations in order to reposition itself as an instrument for reflecting the reality of economic and social phenomena.

Thus, in the period immediately following the abandonment of the communist regime (December 1989) the same communist accounting system has been operational, with small technical adjustments, until a new accounting system, shaped for the market economy, was implemented. Thus, in a first stage, a French-inspired accounting system was adopted starting in January, 1994. The adoption of the French-inspired accounting system was not preceded by a public debate, but can be justified by several arguments. First, there was a need for an accounting system that was compatible with the Romanian economy and culture at that time, and that could also correspond to the future expected evolution of the Romanian economic environment (Feleaga, 1992).

Both France and Romania had, in essence, the same system of law - the Roman/civil law, and the same legalistic, patrimony-based accounting tradition and, also, in both countries, accounting was regulated under public authority by means of a national accounting plan (*plan comptable*, French). In addition, by adopting the French accounting system, a certain compatibility with EU accounting directives was ensured, as France was an EU member state that already adopted the Accounting Directives (Ionascu *et al.*, 2007)

At the same time, the adoption of the French accounting system came as a natural need to exploit opportunities such as a greater availability of French institutions in disseminating their own accounting model, a significant accessibility to French language by people involved in the standard-setting process and in the training of accounting professionals, or, an important French contribution to the Romanian academia as regards management and accounting training.

As a second stage in the process of adapting to the market economy, Romanian accounting witnessed a reorientation towards the IFRS. Thus, the IFRSs[1] were mandatorily gradually implemented starting in 2000 as a measure to increase the quality of financial reporting, to ensure transparency of the business environment and attract investors, particularly foreign ones (Ionascu *et al.*, 2006), while being a requirement of the EU on financial reporting.

2.3 The history of IFRS adoption in Romania

The history of IFRS application in Romania has several stages of development (as explained in Table 1). Thus, on the one hand, there is a phase of *voluntary adoption*, involving entities needing IFRS financial reporting, which runs over the period 1990-2012. The voluntary option of applying IFRS was also mentioned in the legal accounting regulations starting in 2006 (MFP, 2006), but only as an opportunity to apply IFRS in a separate set of financial statements.

Table 1. The history of IFRS adoption in Romania

Period	Before 1990	1990-1998	1999-2005	2006-2011	2012-2014
IFRS adoption in Romania *(entities/individual or consolidated accounts)*	n/a	**Voluntary** full IFRS adoption. *Subsidiaries of multinational companies or companies with foreign financing in a second set of individual and/or consolidated financial statements.*		**Voluntary** full IFRS adoption. (the option for voluntary IFRS adoption is explicitly mentioned in the national accounting regulations) *Subsidiaries of multinational companies or companies with foreign financing in a second set of individual and/or consolidated financial statements.*	
		n/a	**Mandatory harmonization** with IFRS. ***Individual financial statements*** *Large non-financial entities - over 1,700 entities targeted until 2003 (Ionascu et al., 2007)* *Banks and insurance companies starting in 2001.* *Brokerage companies starting in 2002.*	**Mandatory conformity** with IFRS. ***Individual financial statements*** *Banks in a second set of financial statements.*	*Listed companies* *Banks* *Brokerage companies in a second set of financial statements for the years 2011-2013.* *Insurance companies only as a limited experiment for 11 entities in a second set of financial statements for the years 2012-2013.*

Period	Before 1990	1990-1998	1999-2005	2006-2011	2012-2014
			Consolidated financial statements n/a	***Consolidated financial statements*** *Listed companies starting in 2007* *Banks starting in 2006*	
Features of IFRS adoption in Romania	n/a	No IFRS compliant financial statements are valid in relation with state institutions.	Partial IFRS application. Harmonization regulations based on a national chart of accounts and on a (formal) interlocking accounting system (*cost accounts separated from financial accounts*). Financial statements compliant with the regulations harmonized with IFRS are valid in relation with state institutions.	Full EU-IFRS adoption in consolidated accounts of listed companies and banks. IFRS compliant individual financial statements are not valid in relation with state institutions. IFRS financial statements are drafted by restating those in compliance with national regulations.	Full EU-IFRS compliant accounting system for listed companies and banks for both consolidated and individual accounts. IFRS accounting regulations based on a national chart of accounts and on a (formal) interlocking accounting system (*cost accounts separated from financial accounts*). IFRSs are applied as the only bases of accounting in individual financial statements which are valid in relation with state institutions. IFRS compliant individual financial statements drafted as a second set remain non-valid in relation with state institutions.

On the other hand, there is a phase of *mandatory application* of IFRS, as some entities are bound by legal regulations to apply IFRS in drafting consolidated financial statements (since 2006) and individual financial statements (since 2012).

Romania's gradual transition to IFRS involved also a phase aimed at drawing the local accounting system nearer to IFRS provisions (*a harmonization phase*), followed by the full implementation of international accounting standards according to EU requirements (*a conformity phase*). Accordingly, a feature of the mandatory application of IFRS in Romania is the fact that for a period of time (1999-2005), some entities have implemented mandatory accounting regulations harmonized both with the European Directives and IFRS, which evidently meant only a partial implementation of IFRS.

Thus, in the early 1990s, IFRSs have been applied to a very limited scale and only voluntarily by some companies resorting to external financing for the information needs of foreign investors. However, towards the late 1990s and early 2000s due to certain requirements of the international funding organizations (World Bank: WB and International Monetary Fund: IMF), which conditioned funds granting on creating an economic environment conducive to foreign investments in Romania, there was a reorientation of the Romanian accounting regulators towards IFRS adoption, by issuing regulations in 2001 that aimed at *harmonizing* Romanian accounting with the Fourth Directive of the EEC and IFRS (Ionascu *et al.*, 2007).

These regulations seeking harmonization with two accounting systems - European Directives and IFRS, only provided partial implementation of international standards. Thus, significant carve-outs were practiced (IAS 27, IAS 29), partial conformity was reported by the World Bank in respect to IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 17, IAS 18, IAS 21, IAS 39 (WB, 2003), and the auditors also denounced the lack of full compliance with IFRS (Ionascu *et al.*, 2007). A ”tax application” of these standards was also advocated due to the still strong link between accounting and taxation and the lack of experience of accounting practitioners in exercising professional judgement (Ionascu *et al.*, 2007).

However, in the context of Romania's EU integration, these regulations seeking harmonization with both the European Directives and IFRS did not comply with EU requirements as regards IFRS. Thus, in the EU, the IFRS influence increased, notably through the adoption of the regulation (EC) 1606/2002, under which, in the European Union (EU), the IFRSs are mandatorily applied since 2005 for consolidated financial statements of listed companies, including for banks, other financial institutions and insurance companies. Adopting a "regulation" on the application of IFRS by the EU, and not a “directive” aimed at avoiding transposition measures by the Member States, as Community law regulation requires an immediate application.

Table 2. The evolution of the Romanian accounting environment

Period	Before 1949	1949-1989	1990-1998	1999-2005	2006-2011	2012-2014
Romanian accounting system:	**Western-inspired** (French, Italian and German) accounting system	**Soviet-type** accounting system.	**French-inspired** accounting system (starting in 1994).	**Hybrid** accounting system (continental/French-inspired and Anglo-Saxon accounting characteristics via IFRS partial application).	**Dual** accounting system: in compliance with the IV[th] European directive for all individual accounts, and EU-IFRS compliant for consolidated accounts of listed companies and banks.	**Full EU-IFRS compliant** accounting system for listed companies and banks for both consolidated and individual accounts.
Characteristics of the accounting system	No national chart of accounts.	Accounting regulations based on a national chart of accounts. Integrated accounting system (*cost accounts not-separated from financial accounts*). Legalistic/patrimony-based perspective on accounting (reintroduced in 1970s).	Accounting regulations based on a national chart of accounts. (Formal) interlocking accounting system (*cost accounts separated from financial accounts*). Legalistic/patrimony-based perspective on accounting. Certain conformity with European accounting directives ensured.	Accounting regulations based on a national chart of accounts. (Formal) interlocking accounting system (*cost accounts separated from financial accounts*). Legalistic/patrimony-based perspective on accounting abandoned. Romanian accounting regulations not-compliant with EU requirements as regards IFRS.	Accounting regulations based on a national chart of accounts. (Formal) interlocking accounting system (*cost accounts separated from financial accounts*). Romanian accounting regulations in line with EU requirements as regards IFRS.	IFRS accounting regulations based on a national chart of accounts. (Formal) interlocking accounting system (*cost accounts separated from financial accounts*). Romanian accounting regulations in line with EU requirements as regards IFRS.

Period	Before 1949	1949-1989	1990-1998	1999-2005	2006-2011	2012-2014
Main users of accounting information	Traders, creditors and the state.	The state.	The state and credit institutions.	The state and credit institutions.	The state and credit institutions	The state and credit institutions
Corporate governance	n/a	n/a	n/a	Corporate Governance Code of BSE in 2001, voluntarily adopted by listed companies. Entities subjected to the harmonization regulations disclose information on corporate governance in the notes. Statutory audit introduced.	New version of the Corporate Governance Code of BSE issued in 2008. Mandatory adoption of corporate governance principles starting in 2006 required by Company Law. Declaration on corporate governance required for banks and other entities with securities traded on a regulated market.	Declaration on corporate governance required for banks and other entities with securities traded on a regulated market.
Stock exchange *(market efficiency)*	BSE inaugurated in 1882 (reaches its peak in 1939).	BSE closed by the communist regime in 1948.	BSE reopened in 1995. *Inefficient market.*	*Weak form of efficiency.* (Harrison & Paton, 2003; Pele & Voineag, 2008; Dragota, 2009)	*Weak form of efficiency.* (Pele & Voineag, 2008; Dragota, 2009)	*An increase in market efficiency expected.*

Consequently, in 2005, accounting regulations were adopted to meet the conditions of Romania's accession to the EU expected on January 1, 2007. According to them, since the year 2006 Romanian entities have had to apply accounting regulations compliant with European directives for individual financial statements, IFRS standards being mandatory only for consolidated financial statements of listed companies and banks. Applying IFRS in individual financial statements was possible only on a voluntary base for "public interest" companies and only in a second set of financial statements beside the one prepared based on the local regulations compliant with European directives. However, the individual financial statements in accordance with IFRS are obtained by restating the financial statements prepared according to the local accounting regulations, compliant with European directives and served only "to the information needs of the users, other than state institutions" (MFP, 2005).

Subsequently, from 2012 occurred another phase of the extension of IFRS adoption in Romanian, which aimed at introducing IFRS in individual financial statements of entities listed on a regulated market and at eliminating double reporting for these companies (that is both in accordance with IFRS, and with local accounting standards compliant to European directives). Among the motivations offered by the Romanian accounting regulators on extending mandatory application of IFRS were "the need for an alignment with international practice to promote transparency and comparability of financial statements", creating and maintaining an attractive investment environment, given the "interest of the state to protect itself from possible foreign capital outflows by means of exploiting inconsistencies in accounting treatments applied by companies belonging to multinational groups" and the "recommendations of international organizations, namely the World Bank and the International Monetary Fund to implement the International Financial Reporting Standards" (MFP, 2012).

Therefore, since the year 2012, companies whose securities are admitted to trading on a regulated market are required to apply IFRS in individual annual financial statements. However, the Romanian accounting regulators provided for a transitional period to "full IFRS implementation", so that for the year 2012, individual annual financial statements are prepared in accordance with IFRS by means of restating those prepared in compliance with Romanian accounting standards.

Also, Romanian entities listed on a regulated market which first apply IFRS in individual financial statements must provide comparable information for previous years, as required by IFRS 1 "First-time adoption of IFRS". Thus, in the statement of financial position as of December 31, 2012 comparative information is included for the two financial years preceding the end of the reporting period (2011 and 2010). The statement of comprehensive income also includes two columns for information corresponding to the current financial year (2012) and the preceding reporting year (2011).

These entities are required to apply IFRS in individual financial statements even in the event of delisting from trading on a regulated market. Individual annual financial statements prepared in accordance with IFRS are subject to statutory audit.

Currently, the influence of IFRS in Romanian is increasing, if we consider their application by entities in the banking and insurance industry, and by those under the supervision of CNVM (National Securities and Exchange Commission) - brokerage companies.

Thus, the application of IFRS by entities in the banking sector was a measure imposed as a result of the agreement signed in 2010 with the IMF, EC and WB (BNR, 2011) in order to strengthen financial stability in the Romanian environment. Extending the application of IFRS in Romania was due to the "conditionalities" imposed to the Romanian authorities by international lenders - the IMF (BNR, 2012), as a measure to increase financial stability and investors confidence in the Romanian economic environment. In this regard, in 2010 the National Bank of Romania and the Ministry of Public Finance reaffirmed their commitment to adopt the necessary legal framework for the comprehensive implementation of IFRS in the beginning of 2012 (section 25 of the Letter of Intent signed by the Romanian authorities in Bucharest on June 16, 2010, Law no. 257/2010).

As a result, from 2012, all banking entities apply IFRS after a transitional period of three years (2009-2011) during which they were forced to prepare two sets of financial statements: one in accordance with EU directives, and considered the official one, and one under IFRS, resulting from restating the financial statements compliant with the EU directives and intended to inform those interested in such financial reporting.

Moreover, entities authorized, regulated and supervised by CNVM have to apply IFRS after a transitional stage during which financial reporting is prepared both under local and international accounting standards. These entities have the obligation to draw up for the financial years 2011, 2012 and 2013 a second set of financial statements in accordance with IFRS obtained by restating those prepared under local accounting regulations compliant with the forth Directive of the EEC (ASF, 2013). Annual financial statements prepared in accordance with IFRS have to be audited and published on the entities' websites, but "are designed exclusively for the use of those entities, their shareholders and CNVM, and cannot be relied on as the basis for investment decision" (CNVM, 2011).

At the same time, the insurance industry is also in view for IFRS adoption as "the basis of accounting for annual financial statements." In this respect, the regulators provided for a "pilot" implementation phase involving 11 insurance companies that prepare a second set of annual financial statements in accordance with IFRS by means of restating those in compliance with local regulations. The pilot phase is designed to run for three years, with the possibility of reducing it to two years, depending on the results achieved. Thus, these companies restate the opening balances for 2012 in compliance with IFRS and will prepare individual financial statements compliant with IFRS for the years 2012 and 2013, waiting for the evaluation occurring in the year 2014 to apply IFRS as the basis for accounting and to prepare a single set of financial statements in accordance with IFRS along with the other insurance entities (Florescu, 2012).

3. The evolution of the Romanian accounting environment

3.1 The users of accounting information and the privileged role of taxation

Before 1949, accounting mainly served to traders for managing their businesses, to creditors and to the state for taxation purposes. During the communist regime, accounting served only to the state as a tool for controlling the national plan. After the fall of the communist regime, the state continued to be a privileged user of accounting information, and the adoption of a French-inspired accounting system contributed to a strong connection between accounting and taxation. However, from 1990 until now, the relationship has gone through several stages.

In the first stage of the accounting reforms (1990-1998), the relationship between accounting and taxation was very strong. This situation can be explained by the role plaid by accounting during the communist regime, and the implementation of a French-inspired accounting system, starting in 1994, whose main objective was to meet the needs of the state as the privileged user of accounting information. Thus, the Accounting Law no. 82/1991 (art. 2) explicitly stated that, in addition to being a management tool, accounting had the role of supervising the company's operations and providing the necessary information for government statistics. At the same time, the recognition of the elements of financial statements was subordinated to tax regulations. For example, there were strict rules as regards the amount of depreciation and amortization on tangible and intangible assets that could have been recognized (Law 15/1994).

In the second part of the accounting reform, the *harmonization with IFRS phase*, accounting should have become disconnected from taxation rules. However, during 1999-2005 professional accounting judgement was limited to the application of tax regulations (Ionascu *et al.*, 2007, Filip & Raffournier, 2010). Also, impairments and provisions were recognized only if they were tax deductible. With the enactment of the Tax Code (Law 571/2003), depreciation on tangible assets was no longer subjected to tax rules. However, many companies have performed revaluations of fixed assets for tax purposes, and depreciation methods and economic useful lives of fixed assets were based on tax rules (Istrate, 2006). In addition, IFRSs provisions were applied only if consistent with tax regulations. In these circumstances, Ionascu *et al.* (2007) stated that, in that period, a "tax application" of IFRS has been achieved.

Even though compliance with IFRSs was later required for consolidated accounts and individual accounts of some companies (see Table 1), and suggested for voluntarily adoption if implementation capacity exists, until 2012, they were only accepted for a second set of financial statements, drafted by means of restating the one in compliance with national regulations, and which was never valid in relation with state institutions, nor it could be used as a bases for dividends distribution.

Starting in 2012, IFRSs are applied as the bases for accounting, but companies did not escape double reporting, as, in addition to financial statements prepared under IFRS, there are other reports to be filled for the Ministry of Finance, which are used in government macroeconomic statistics.

In a recent study, Istrate (2012) focus on the influence of IFRS on accounting and tax regulations concerning fixed tangible assets showing that, since 1990, there has been a gradual *de jure* disconnection of accounting from taxation, going from a relationship of identity, to a very clear separation. However, Istrate (2012) argues that, in practice, the connection is still persistent.

Along the same lines, as by 2012 financial statements prepared under IFRS were not used in relation to the state institutions, there were assumptions that they are not influenced by tax regulations. However, users still express some doubts about the usefulness of IFRS financial statements in making decisions because the professional judgment of accounting professionals has not changed (Albu *et al.*, 2013, forthcoming).

3.2 The evolution of corporate governance

In Romania, the application of IFRS and the introduction of corporate governance practices are two distinct processes that have been developed in parallel, although they have influenced one another. However, we noticed that both the implementation of IFRS and of the regulations concerning corporate governance practices started around the same time, in the late 1990s-early 2000s.

In Romania, corporate governance was covered by voluntary and mandatory standards. Thus, BSE has developed a Corporate Governance Code (BSE, 2001, 2008) addressed to listed entities for voluntarily application, and in 2006 the Company Law (Law no. 31/1990, republished) introduced provisions to ensure quality corporate governance practices (Olimid *et al.*, 2009).

On the other hand, the IFRS adoption has strengthened mandatory requirements as regards corporate governance. Thus, during the *harmonization with IFRS* phase, entities involved in this process were required to increase *financial transparency* by means of disclosing in the notes and in the management report information concerning corporate governance (such as benefits granted to directors and managers in the form of salaries, pensions, loans, etc), although a separate statement on corporate governance practices was not required. During the same phase, statutory audit of financial statements was for the first time required; external auditing being one of the mechanisms of corporate governance.

However, during the *conformity with IFRS* phase, the accounting regulations (BNR, 2010; MFP, 2012) imposing IFRS adoption, required entities (credit institutions and companies) whose securities are admitted to trading on a regulated market to provide a minimum level of information on corporate governance practices adopted by those entities in the management report, as a separate section: a declaration on corporate governance.

With global accounting convergence, there is a body of research showing that there is a relationship between financial reporting under IFRS and corporate governance quality, as compliance with IFRS provides higher transparency and better corporate governance. However, the adoption of IFRS does not automatically trigger an increase in the quality of financial reporting, unless relevant corporate governance mechanisms are introduced, such as global convergence of corporate governance standards and internal audit (Ionascu, 2013). For the Romanian environment, research on the topic is in its incipient phase, and there is only limited evidence showing that, although corporate governance mechanisms are rather low compared to other European countries, better corporate governance can lead to higher transparency. Thus, Dobroteanu *et al.* (2010) showed that disclosure related to corporate governance for a sample of listed companies was poor due the lack of interest of those companies in transparency. Feleaga *et al.* (2011), based on a sample of 15 companies listed on the first tier of BSE, shows that most of these companies do not meet the recommendations of the Corporate Governance Code of BSE on the independence of directors and audit committee members and that the degree of transparency is much lower than in other European companies.

However, Ionascu and Olimid (2012) showed that, during the period 2008-2012, listed Romanian companies with better corporate governance practices, tend to have greater transparency, which drives an increase in analysts' forecast accuracy.

3.3 The Bucharest Stock Exchange

The stock exchange was another institution that was established in Romania with a considerable lag compared to western countries and that had its evolution hindered by the communist regime. Thus, the Bucharest Stock Exchange was inaugurated in 1882, and reached its peak in 1939, when there were 56 securities traded belonging to banking, transportation and insurance companies.

Reopened after its dissolution in 1948, the Bucharest Stock Exchange (BSE) had its first trading session on November 20, 1995. By 2001, there were only shares traded at the BSE, the number of securities traded on the capital market peaking 127 in 1997 (BSE, 2001).

In 1996, to allow the trading of securities of over 6,000 companies subject to mass privatization, which did not meet the requirements to be listed on the BSE, an electronic securities exchange in Bucharest (RASDAQ Romanian Association of Securities Dealers-Automated Quotation) was established. At the end of 2002, 4,823 companies were traded at RASDAQ and their market capitalization reached $ 1.8 billion (WB, 2003).

In November 2005, to create the institutional prerequisites of the restructuring of the capital market in Romania, RASDAQ was absorbed by BSE. The RASDAQ becomes part of BSE, although the reporting for this market segment is separated from the regulated market (BSE).

In late 2008, due to the financial crisis, the market capitalization of companies listed on the regulated market (BSE) fell to € 6.47 billion (Table 3), while the share of market capitalization to GDP was 4.63%, the lowest in the region (Table 4). Although the market capitalization of BSE subsequently increased from year to year, it remained among the lowest in the area. In turn, due to the companies' delisting or quotation on BSE, the market capitalization of RASDAQ has declined every year since 2008 to 2013, its value at the end of 2013, being € 1.77 billion.

Table 3. Market capitalisation of BSE and neighbouring stock exchanges

Stock Exchanges (billion €)	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Athens Exchange	157,34	181,23	65,27	78,90	50,38	26,02	34,04
Bratislava Stock Exchange	4,21	4,55	3,91	3,61	3,38	4,18	4,09
Bucharest Stock Exchange	**18,86**	**21,52**	**6,47**	**8,4**	**9,78**	**10.82**	**12.09**
Bulgarian Stock Exchange –Sofia	7,83	14,82	6,37	6,03	5,50	6,30	5,03
CEESEG Budapest Stock Exchange	31,37	31,48	13,31	20,71	20,71	14,63	15,74
CEESEG Ljubljiana Stock Exchange	11,51	19,70	8,47	8,46	6,99	4,87	4,91
CEESEG Prague Stock Exchange	34,69	47,99	29,62	31,27	31,92	29,20	28,19
CEESEG Vienna Stock Exchange	146,2	161,73	54,75	77,24	93,94	65,68	80,43
Warsaw Stock Exchange	112,83	144,73	67,91	105,16	141,92	107,48	134,76

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

Table 4. Market capitalisation of BSE and neighbouring stock exchanges as percentage of GDP

Year	2006	2007	2008	2009	2010	2011	2012
Austria	56,44	59,02	19,36	27,98	32,8	21,84	25,95
Bulgaria	29,97	48,16	17,98	17,26	15,25	16,51	12,67
Czech Republic	29,33	36,38	19,2	21,99	21,24	18,69	18,45
Poland	41,47	46,41	18,7	33,85	40,02	28,98	35,35
Romania	**19,29**	**17,26**	**4,63**	**7,11**	**7,86**	**8,24**	**9,18**
Slovakia	9,47	8,31	6,07	5,76	5,13	6,05	5,73
Slovenia	37,08	56,93	22,74	23,8	19,64	13,47	13,85
Hungary	35,01	31,66	12,61	22,65	21,33	14,66	16,1

Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

In 2013, on BSE, several categories of financial instruments (shares of listed companies, shares of unlisted companies, bonds, preference rights, fund units, structured products, futures, etc.) were traded, but shares of listed companies had the largest weight in the volume of transactions, 74.51% respectively.

In late January 2014, there were 82 companies listed at BSE, out of which one in the international tier, twenty eight in tier I, and fifty two in tier II, their market capitalization being € 30.254 billion (BSE, 2014). Whereas, at the same date, there were 706 companies listed at RASDAQ, with a market capitalization of 1.81 billion € (BSE, 2014b), out of which only 276 companies had been actually traded.

The functioning of a market economy, among other things, implies an efficient capital market. Also, the stock market, like any other market, can contribute to an appropriate allocation of resources within an economy. Over the years, the efficiency of BSE has been the subject of several studies and their conclusions are to a certain degree divergent. However, overall they show that BSE has slowly evolved from an inefficient market to one featuring a weak form of efficiency.

Thus, Harrison and Paton (2003) analyzed the evolution of BSE from mid 1997 to September 2002 and found that it was inefficient. However, the degree of inefficiency seemed to diminish since the year 2000, and they found evidence of efficiency, possibly explained by the increase in transparency, as the companies listed at BSE adopted the Code of corporate governance based on the principles of the Organisation for Economic Co-operation and Development (OECD) starting in 2001.

Dragota and Mitrica (2004) have used standard tests for analysing the capital market efficiency, and concluded that BSE is inefficient. Dragota *et al.* (2006) have also analyzed the difference between market capitalization and the intrinsic value (present value) of the portfolio of five investment companies listed on the BSE for the period 2002-2005. Due to the persistent difference between these values, the authors concluded that BSE is inefficient. In addition, Tudor (2009), after analyzing the evolution of the shares of 50 companies listed on BSE during January 2002 to March 2008, has concluded that the stock market in our country is inefficient.

Instead, Pele and Voineag (2008) tested the efficiency of BSE proposing a model for decomposing shares' returns. The model was tested on ten companies listed on BSE during the period September 1997 to January 2007, using daily returns of BET Index, the authors concluding that the hypothesis of a weak form of efficiency for BSE cannot be rejected. Dragota *et al.* (2009) also found that stock returns of companies listed on BSE are not predictable when using historical returns and, therefore, concluded that a weak form efficiency cannot be discarded.

4. The impact of IFRS adoption in Romania

IFRSs are aimed at being a high quality set of international financial standards, their adoption is expected to trigger three primary benefits: "to eliminate barriers to cross-border investing; to increase the «quality» of financial reports; and to decrease the cost of capital" (Brown, 2010).

With the increased spread of IFRS, a substantial body of literature focused on the benefits of their adoption with an emphasis on the potential increase in the quality of financial information and its effects on capital providers, and on the way in which the market and the economy operate as a whole.

The benefit of eliminating barriers to cross-border investing could be easily achieved by the standalone IFRS implementation; however research results show that although comparability among companies and industries has improved (Brown, 2010), divergence among companies and jurisdictions still persist. Zeff (2007) quotes business and financial, as well as accounting, auditing and regulatory culture as factors affecting worldwide comparability of financial information, and interpretation, language, terminology or political factors preventing full international convergence.

IFRSs are focused on relevance and faithful representation, with an emphasis on fair value and with extensive disclosure requirements, aiming at providing capital suppliers with *high quality financial information*. Thus, IFRSs are expected to increase the credibility of financial information in the adopting jurisdictions, which should become more relevant in the investing decision-making process, helping users to better predict companies' future performance. The increase quality of financial reporting is expected to reduce the information asymmetry, and risk, and thus *decrease the cost of capital*.

The research results obtained so far at an international level, although not non equivocal, show that, after IFRS adoption, the quality of financial information has increased, the share prices have become more correlated with accounting data, analysts' forecast accuracy has improved, and even the cost of capital has declined. However, the literature also shows that there are a series of institutional factors that affect primarily the level of compliance with IFRS and prevent the required benefits of IFRS from being substantiated (Larson and Street, 2004).

There are also collateral and less investigated benefits of IFRS worldwide implementation, such as the effects on the labour market, as the "wide spread of IFRS would improve carrier opportunities for professionally-qualified accountants and increase the flexibility of supply", but also the benefit of "sharing with other countries the costs of standard-setting and of securing compliance with accounting standards" (Brown, 2010).

At the same time, the IFRS adoption entails a series of costs both for the implementation phase but also for the ongoing application of these standards, as they are usually more complex and burdensome for the adopting companies than national accounting regulations. And there could be other, undesirable, effects of IFRS adoption, such as a potential increase in earnings managements, due to the standards' flexibility, or a decrease in auditors' independence, as the auditors often provide consultancy services for IFRS implementation.

In Romania, the research investigating the cost and benefits of IFRS adoption is yet in its incipient phase. As full IFRS compliance for individual financial statements of listed companies was only recently required, and due to the small number of companies applying full IFRS in consolidated financial statements or, voluntarily, in individual accounts, most of the literature focus on capturing the perception of preparers, regulators, auditors and users of accounting information on the cost and benefits, determinants and other consequences of IFRS adoption, and there are very few studies trying to evaluate the actual impact of IFRS on the financial statements, the market, or the economy as a whole.

4.1 Costs entailed by IFRS adoption

Ionascu *et al.* (2007) were the first to try to evaluate the costs of IFRS adoption and to identify its components. The research focused on the *harmonization with IFRS* phase, which involved only a partial implementation of the standards. By means of a questionnaire-based survey targeted at financial directors of listed Romanian companies (62 in 2005), Ionascu *et al.* (2007) estimated an average cost of IFRS adoption of around EUR30,000, representing only 0.035% of the average operating expenses of the entities under investigation in 2004. The rather low amount of costs incurred for implementing IFRS was explained both by the fact the IFRSs were not fully applied, and that most components of costs (personnel training – indicated by

94,7% of the companies, and considered the most onerous component, adjustment of information systems – 71,1%, and consultant fees – 65.8%) were services performed at a much lower cost than in Western Europe.

Unnecessary costs incurred by non-public interest companies which were forced to apply the harmonization regulation due to the size criteria were also put forward by Ionascu *et al.* (2006) and Ionascu *et al.* (2007). Thus, although representatives of the accounting profession (representatives of the Big 4, of important accounting firms, and high representatives of the accounting profession body) agree that harmonization with IFRS provided benefits for the Romanian environment, in the case of the size criteria employed, the IFRS implementation "might have been different" (Ionascu *et al.* 2006)

In a recent paper, Albu and Albu (2012) scrutinize the application of IFRS in Romania and conducted interviews with auditors, users, preparers and academics in order to perform an in-depth analysis, focusing more on the recent developments in the IFRS application. The interviewees confirmed the components of costs previously identified and emphasised others such as: the additional costs entailed by preparing up to three sets of reports (IFRS compliant, national regulations compliant, and for taxation purposes), increased auditing costs, higher cost for using IFRS as a sole basis of accounting instead of restating financial statements compliant with national regulations). Albu and Albu (2012) also identified costs at the regulatory level such as cost of issuing guidance and training inspectors.

Danescu *et al.* (2013) present the results of a survey organized by the Romanian Brokers' Association on the cost and benefits of IFRS adoption in a second set of individual financial statements of companies supervised by CNVM for the years 2011-2013 (32 entities were targeted with a rate of response of 46.87%). The respondents also acknowledged the components of costs indentified by the literature, that is, high costs necessary to train the personnel, adjusting the software and reporting systems, and auditing costs.

Girbina *et al.* (2012), investigating the benefits and costs of IFRS adoption in the banking sector in 2011 by means of a questionnaire-based survey, found out that prepares from banks are concerned about costs related to adjusting the information systems, satisfying multiple reporting requirements (accounting, prudential and fiscal) and even fiscal costs related to IFRS adoption.

Sacarin *et al.* (2013), investigated the perception of accounting professionals on the IFRS adoption in individual accounts of listed Romanian companies, and identified the following perception on the hierarchy of cost entailed by IFRS adoption: "1) adaptation of IT systems; 2) staff training; 3) fees to external consultants; 4) fiscal costs of the transition to IFRS; 5) additional fees to auditors; and 6) hiring additional staff."

4.2 Benefits of IFRS adoption

Ionascu *et al.* (2011) investigated the perception of financial directors of listed Romanian companies, out of which 51.4% already applying IFRS in consolidated financial statements and 32.4% in individual accounts, on the benefits of IFRS adoption. The paper distinguished between desirable effects of IFRS implementation on the quality of financial information, and other economic benefits. As regards to the impact of IFRS on the quality of financial information, most respondents indicated the benefit of international comparability (78.4%), the use of fair values (62.2%), and the requirement for extensive disclosure (45.9%). And as economic benefits, the financial directors indicated the increased relevance of IFRS compliant financial information for the market (86.5%), for the management team (56.8%), but also the possibility of accessing external financing.

The general opinion of accounting professionals, as measured by Sacarin *et al.* (2013), ranked increased transparency and comparability, and attractiveness to investors as the first benefits of IFRS adoption in individual financial statements, followed by a greater relevance of IFRS financial information for managers. Both financial directors of listed Romanian companies (Ionascu *et al.*, 2011) and accounting professionals in general (Sacarin *et al.,* 2013) ranked last the benefit of a decreased cost of capital for companies applying IFRS.

In the banking sector, preparers also ranked comparability and transparency as first benefits of IFRS adoption, closely followed by increased relevance to investors and managers and harmonization of internal and external reporting (Girbina *et al.,* 2012). Lower cost of financing is again ranked last as an economic benefit.

Prepares of financial entities supervised by CNVM (as investigated by the Romanian Brokers' Association – in Danescu *et al., 2013),* perceive the potential of obtaining foreign equity financing, and increase comparability as benefits of IFRS adoption. They also acknowledge a benefic increase in the quality of accounting professionals involved in drafting of financial statements compliant with IFRS.

As regards the perception of users, Ionascu and Ionascu (2012) tried to capture the perception of Romanian financial analysts on the role plaid by IFRS in increasing forecasts accuracy. Overall, the majority of respondents (70%) consider that the application of IFRS will substantially decrease forecasts errors, and they indicated comparability at an international level (mean score 4.45), and the use of fair values together with extensive disclosure requirements (mean score 4.15) as the main IFRS characteristics that can increase forecasts accuracy.

Albu and Albu (2012), who also targeted the perceptions of users (two interviews with bankers and one with a business analyst and consultant for banks), indicated that, at least to some extent, the benefits of IFRS adoption are deemed to have been materialized "in the form of increased transparency and comparability, and 'better' information for investors and other users". Other benefits, such as an increased efficiency of the market or a decreased cost of capital, are perceived as potential benefits not yet substantiated.

Besides the body of research focusing on perceived benefits, there are a few studies investigating the actual impact of IFRS adoption in Romania. Thus, Mihai (2008) focused on the effect of accounting regulations harmonized with IFRS on the quality of financial information, construed in terms of the level of asymmetric timeliness of earnings. Running Basu (1997) regression model for a number of 235 firm-observations collected for the years 2000-2004, Mihai (2008) showed that harmonizing Romanian accounting with IFRS din not significantly increase the quality of accounting data.

Filip and Raffournier (2010) also focused on the harmonization with IFRS phase and investigated the value relevance of earnings on Bucharest Stock Exchange for the period 1998-2004. They found that after the application of the regulations harmonized with IFRS, the value relevance of earnings slightly increased from 0.212 to 0.233, although such a conclusion was regarded with caution as the value relevance of earnings was highly volatile throughout the period investigated.

Mihai *et al.* (2012) investigated the impact of the harmonized regulation on the cost of capital of listed Romanian companies and found that the cost of capital decreased from 0.33 to 0.132. These results should also be interpreted with caution, as the model used had no control variables for market inefficiency and forecasts accuracy.

Tiron-Tudor and Ratiu (2010) focused on the quality of financial information provided by listed Romanian groups that started to mandatorily apply IFRS in consolidated financial statements starting in 2007. Using the disclosure index as defined by Cook (1989), they showed that transparency increased in consolidated financial statements compliant with IFRS during the period 2006-2009.

4.3 Compliance with IFRS

Mustata (2008) analyzed the *formal harmonization* of Romanian accounting with IFRS, that is the extent to which national accounting regulations are in line with the international ones, and measured a degree of formal harmonization of 40.2% based on 43 regulatory items (following *Fontes et al.*, 2005) for the period 2000-2007.

Based on the model used, they determined that during 2012-2015, full formal harmonization/compliance with IFRS should be achieved. This forecast could be considered to a certain degree confirmed for public interest companies, as, starting with the year 2012, the IFRSs are applied within individual accounts, even if it is the version of the standards adopted by the EU, and the application of the international standards is performed based on a national chart of accounts.

However, even in the case of a formal full IFRS adoption, the issue of the *actual compliance* with the provisions of the standards remains. And the international literature documented *institutional factors* (such as enforcement, connection between accounting and taxation, the level of expertise of accounting practitioners, auditing quality etc.), that affect the level of compliance with IFRS, and prevent the benefits of their adoption to be materialized.

As regards the level of compliance with IFRS, there are also studies of perceptions and studies that focus on determining the actual level of compliance and the factors affecting it.

The *harmonization with IFRS phase* is characterized by a low level of compliance with IFRS, as significant carve outs were practiced (IAS 27 and IAS 29) and partial application of IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 17, IAS 18, IAS 21, IAS 36 and IAS 39 was reported (WB, 2003; Ionascu *et al.,* 2007). The main reasons advocated for the low degree of compliance during the harmonization phase were the link between accounting and taxation and the lack of training in IFRS of Romanian accounting professionals (Ionascu *et al.,* 2007). The link between accounting and taxation was also indicated in interviews with representatives of the accounting profession, who accused as well the accounting culture of the Romanian preparers, as “passing from a guided mentality to one specific to the liberal accounting profession will not happen over night” (Ionascu *et al.,* 2006).

For the harmonization phase, Mihai (2008) argues that two institutional factors - the link between accounting and taxation and the lack of auditors’ independence, hindered the increase in the quality of accounting information, measured in terms of asymmetric recognition of losses, as non-tax deductible losses were not recognised.

Albu *et al.* (2011) also argued that IFRS implementation was very limited in the harmonization phase due to the lack of incentives for change at the national level. However, it was more substantial in the compliance phase, even if the scope of IFRS was reduced to consolidated accounts of listed companies and banks.

Table 5. Research on IFRS adoption in Romania: costs, benefits and level of compliance

Period	**Before 1998** *(Voluntary IFRS adoption)*	**1999-2005** *(Harmonization with IFRS)*	**2006-2014** *(Mandatory IFRS adoption)*
Costs of IFRS adoption		Around €30,000. *Cost components*: ▪ Training of personnel (most onerous), adjustments of information systems, consultants' fees. *(Ionascu et al, 2007)* ▪ Unnecessary costs incurred by non-public interest companies. *(Ionascu et al., 2006)*	*Cost components*: ▪ Training of personnel, adjustments of information systems, consultants' fees, auditing costs. *(Albu & Albu, 2012; Danescu et al., 2013; Sacarin et al., 2013)* ▪ Multiple reporting requirements. (*Albu & Albu, 2012, Girbina et al., 2012)* ▪ Higher cost for using IFRS as a sole basis of accounting instead of restatements. ▪ Taxation costs. *(Girbina et al., 2012; Sacarin et al., 2013)* *Costs at the regulatory level*: cost of issuing guidance and training inspectors. (*Albu & Albu, 2012)*
Benefits of IFRS adoption	*Research results not available*		
Perceived benefits		*Most important benefits*: **Perceptions of preparers and standard setters**: ▪ Increased transparency and greater relevance for users; ▪ Change in the international perception towards Romanian economy; ▪ Boosting the capital market and the insurance industry sector. *(Ionascu et al., 2006)*	*Most important benefits*: **Perceptions of preparers:** ▪ Increased transparency and comparability, greater relevance for users. *(Albu & Albu, 2012; Girbina et al., 2012*; Ionascu *et al*., 2011; *Sacarin et al., 2013)* ▪ The possibility of accessing external financing. (*Danescu et al., 2013; Ionascu et al,* 2011; *Sacarin et al., 2013*) ▪ The use of fair values (Ionascu *et al*, 2011) **Perceptions of users (analysts):** ▪ Decrease in forecasts errors due mainly to comparability at an international level, the use of fair values, and extensive disclosure requirements. *(Ionascu et al, 2011)*
Empirically documented benefits ▪ Cost of capital		Decrease in the cost of capital. *(Mihai et al.,*	*Research results not available*

Period	Before 1998 *(Voluntary IFRS adoption)*	1999-2005 *(Harmonization with IFRS)*	2006-2014 *(Mandatory IFRS adoption)*
		2010)	
▪ Value relevance		Increase in value relevance. *(Filip & Raffournier, 2010)*	*Research results not available*
▪ Forecasts accuracy		*Research results not available*	*Research results not available*
▪ Transparency		*Research results not available*	Increase in disclosure *(Tiron-Tudor & Ratiu, 2010)*
▪ Other quality related benefits		Timely loss recognition not improved. (*Mihai, 2008)*	*Research results not available*
Level of compliance with IFRS		*De jure* harmonization 40.2% based on 43 regulatory items for 2000-2007 (*Mustata, 2008)* *De facto* harmonization: carve outs (IAS 27 and IAS 29) and partial application of IAS 1, IAS 2, IAS 7, IAS 12, IAS 16, IAS 17, IAS 18, IAS 21, IAS 36 and IAS 39 (WB, 2003; Ionascu *et al.,* 2007)	**Empirically investigated:** Compliance with IFRS 7 (Girbina & Bunea, 2009) Compliance with IAS 1, IAS 7, and IAS 8 (Gorgan & Gorgan, 2013)
Factors affecting the level of compliance with IFRS			
▪ Taxation		**Perceived** *(Ionascu et al., 2007; Ionascu et al., 2006)*	**Perceived** *(Albu et al. 2013; Albu & Albu, 2012; Ionascu et al., 2011)*
▪ Preparers training in IFRS		**Perceived** *(Ionascu et al., 2007; Ionascu et al., 2006)*	**Perceived** *(Albu et al. 2013; Albu & Albu, 2012; Ionascu et al., 2011)*
▪ Audit quality		**Perceived** *(Albu et al. 2013; Albu & Albu, 2012)*	**Perceived** *(Albu et al. 2013; Albu & Albu, 2012)* **Empirically tested** *(Gorgan and Gorgan, 2013)*
▪ Lack of enforcement		**Perceived** (*Albu et al. 2013; Albu & Albu, 2012)*	**Perceived** (*Albu et al. 2013; Albu & Albu, 2012)*
▪ Size		*Research results not available*	**Empirically tested** *(Gorgan and Gorgan, 2013)*
▪ International visibility		*Research results not available*	**Empirically tested** *(Girbina and Bunea, 2009; Gorgan and Gorgan, 2013)*
▪ Industry		*Research results not available*	**Empirically tested** *(Girbina & Bunea, 2009)*

The chief financial officers of listed Romanian companies surveyed by Ionascu *et al.* (2011) indicated the link between accounting and taxation (83.3%), the lack of active markets for fair value measurements (61.1%), the managers' attitude towards risks and uncertainty affecting accounting valuations (44.4%), and the lack of expertise in IFRS (44.4%) as the main factors affecting the quality of IFRS based financial information. None of the respondents indicated the auditing quality as an institutional factor affecting the level of compliance. At the same time, they identified double reporting (both in compliance with IFRS and national accounting regulations which induce a certain degree of confusion) – 72.2%, market inefficiency (the market does not respond to quality financial information) – 36.1%, and other needs of investors (such as enforcement mechanisms for corporate governance) – 33.3% - as the main factors that limit the potential of IFRS to improve the decision-making process of investors.

From the perspective of the users of accounting information, financial analysts surveyed by Ionascu and Ionascu (2012) identified the lack of active markets (mean score 3.25) and lack of incentive for a full application (mean score 3.11) as the main factors that can prevent an appropriate IFRS implementation and limit its potential benefits, that could convert in more accurate forecasts.

Albu and Albu (2012) which interviewed auditors, users, preparers and academics discussed other institutional factors that can affect the level of compliance, such as the (public) nature of the national accounting regulator, which enjoys political power and is able to enforce a tax perspective on accounting, and its lack of technical legitimacy, as it rarely accepts third party input, and is not actively involved in IFRS implementation, other than issuing some guidance and organising some training sessions. Monitoring and enforcing are also considered as institutional factors and the three dimensions of enforcement as defined by Brown and Tarca (2005) are discussed (effective company control systems and management dedicated to quality reporting, oversight mechanism with expertise and power to achieve effective enforcement, and quality auditing). Albu and Albu (2012) argue that currently auditors' involvement in enforcement is the most important, as the other mechanism of enforcement are weak or non-existent. Furthermore, the Big 4 are allegedly more credited to support compliance, as they have superior expertise in IFRS and more legitimacy to impose accounting policies. Albu *et al.* (2013) provide a further in-depth analysis of the interplay of local factors that affect IFRS compliance.

Girbina and Bunea (2009) empirically investigated the level of compliance of Romanian listed companies applying IFRS in the year 2007 focusing on IFRS 7. Using Cook (1998) disclosure index, Girbina and Bunea (2009) found that the level of compliance is correlated with industry (financial – non-financial entities) and the financing structure (measured by leverage) which was explained by the international pressure supported by the Romanian banking sector, and the agency costs supported by indebted companies. The audit quality was not found to be a factor affecting the level of compliance, as all the companies investigated were audited by one of the Big 4.

Gorgan and Gorgan (2013) also investigated the level of compliance focusing on IAS 1, IAS 7, and IAS 8. They based their research on listed companies applying IFRS for the years 2009 and 2010, most of them in consolidated accounts, and used the partial compliance unweighted method following Tsalavoutas *et al.* (2010), showing that the level of compliance is positive correlated with company size, international visibility, and the quality of auditing (being audited by one of the Big 4 auditing companies), the last finding being consistent with the results reported by Albu and Albu (2012).

5. Conclusions and discussion

The modernization of Romanian society began in the early part of the nineteenth century, when there were obviously elements of capitalist economy and industrialization propagated into Romania with a large gap from Western Europe. In the same period, the first institutions and principles of organizing the modern Romanian state and society, taken after the Western model, were introduced. The first modern accounting regulations in the Romanian business environment were a consequence of the introduction of a Western-inspired commercial code in the process of adopting Western forms of modernization of the Romanian society and economy in the nineteenth century (which were all debated at the time as *forms without substance*). This process continued in the first half of the twentieth century and all local contributions to the improvement of the Romanian accounting were mainly based on Western countries' theory and practice. After World War II, during the communist regime, Romania adopted a Soviet-inspired accounting model, and by 1990, it was disconnected from the progresses achieved in Western countries and even from its historical accumulations and developments. Thus, any reference to an international accounting system – whether in theory or practice - was nonexistent.

On this background, after 1990, with the (re)introduction of the capitalist economy, Romanian accounting standard setters have not perceived IFRS as a factor of modernization, which could lead to the Westernization of Romanian economy by attracting foreign capital, with all its consequences. If IFRSs had been seen as an instrument for the spread of the global financial capitalism and of economic modernization, the IFRS adoption would have been regulated early on for public interest entities.

However, in Romania, after 1990, the transition to capitalism was made by adopting a “gradual economic reform” approach instead of a "shock therapy" as it was the case with former communist countries (e.g. Poland and the Czech Republic). Accordingly, the accounting reform was also gradual, as part of the reforms performed in the Romanian post-communist economy. However, once Romania plunged into the global economy, right after the communist regime, the IFRSs have been implemented as a result of conditions imposed by supranational bodies that operate globally - the World Bank and International Monetary Fund – which provided financial assistance needed for Romania's economic and social reforms. In this context, in the late 1990s-early 2000s, the application of IFRS in Romania was coupled with the EU policy as regards to IFRS, due to the status of Romania as a candidate state for EU membership. This prompted the shift from harmonization to mandatory compliance with IFRS, according to EU regulations.

Currently, the global economy pressure on the Romanian one, enhanced by the crisis that began in 2008, broadens the scope of IFRS adoption in Romania for individual accounts, which remains in line with the EU policy as regards to the extension of IFRS implementation (Regulation no. 1606/2002 of the EU). Extending compliance with IFRS in individual accounts of public interest companies starting in 2012 can be seen as a comparative advantage for Romania in the competition to attract foreign capital.

Besides the external pressures for IFRS adoption, only a limited number of companies oriented themselves towards the international standards on their own accord, especially subsidiaries of multinational companies and entities requiring foreign financing.

Given the context, it is difficult to assess the direct and indirect benefits of IFRSs in Romania, when their adoption was not driven by the needs of the users of accounting information, and quality accounting information can generate economic benefits only when supporting the decision-making process.

Based on an extensive literature review, the paper tried to investigate the existing preliminary empirical evidence as regards costs and benefits of IFRS adoption in Romania. Overall, the results show that the literature discussing this topic is in its incipient stages of formation and that it mainly consists of studies of perception (of preparers, regulators, and users), with a rather few studies focusing on providing empirical evidence on the actual consequences of IFRS implementation. As streams of data are limited, and IFRSs have only recently been introduced in individual accounts, most empirical papers that try to capture the effectual impact of IFRS refer to the harmonization period.

The results obtained so far show that, despite compliance issues, the Romanian economic environment is to a certain degree open to IFRS and optimistic about their potential, the most perceived benefits being related to the improvement of the quality of accounting information, that is: a greater degree of transparency and comparability, and more relevant information to users. Contrariwise, the decrease in the cost of capital – one of the major benefits targeted by the IASB through an enhanced quality of financial information, doses not receive too much attention from Romanian accounting constituents.

The perception that IFRS adoption increases the quality of accounting information is not non-equivocally confirmed by the limited number of studies conducted so far. Thus, although there is empirical evidence showing that the level of transparency increased after the implementation of IFRS (Tiron-Tudor & Ratiu, 2010), other results reveal that in other respect (the asymmetric recognition of losses), the quality of accounting information did not increase after IFRS adoption (Mihai, 2008).

As regards the effect of the presumed higher quality of accounting information on the market and the economy as a whole, there is also preliminary evidence showing that the value relevance of earnings increased (Filip & Raffournier, 2010) and the cost of capital decreased (Mihai *et al.*, 2012) after the harmonization with IFRS. However, both studies caution on the interpretation of the results, due factors such as: the limited number of observations, a high volatility of value relevance from one year to the other, or methodological limitations (e.g. omission of control variables).

These initial results obtained so far for Romania are consistent with the international literature on the topic, as, at the international level, there is not yet a consensus reached concerning the consequences of IFRS adoption.

If we place the IFRS adoption within the social history of the modernization of Romanian economy and society, it is difficult to perceive the IFRSs as "a «passport» to economic development" (Albu & Albu, 2012). There is a pattern in the efforts Romania put forward in order to narrow the gap to Western countries which mainly consists of importing institutions and regulations from the West (accounting regulations included). The modernization of Romania and its connection to the global financial capitalism is a highly complex process that involves profound mutations and reforms, the IFRS adoption being just one of the many, and, unfortunately, probably not the most important.

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[1] By 2001, the IFRSs were called International Accounting Standards (IAS). For simplicity, in this paper we only use the actual name of IFRS.

Appendix: Main published research on IFRS adoption in Romania

Articles	Topic	Methodology	Period	Observations	Main findings
Albu *et al.* (2011)	IFRS implementation in Romania	Semi-structured interviews-based research	Data collection: November 2008 – August 2009. Period covered: 2000-2009	11 auditors, users, preparers, regulators and representatives of the professional bodies	The level of compliance with IFRS increased in the second step of IFRS adoption (compliance phase) compared to the first (harmonization) one.
Albu and Albu (2012)	Costs and benefits of IFRS adoption. Level of compliance with IFRS.	Semi-structured interviews-based research	Data collection: November 2008 – January 2012. Period covered: 2000-2012	21 auditors, users, preparers and academics	Factors affecting level of compliance: nature and legitimacy of the national regulator, monitoring and enforcement (emphasis on the auditing quality).
Albu *et al.* (2013)	Determinants of compliance with IFRS. (Institutional perspective on the interplay of the factors that can affect the level of compliance).	Field study - Semi-structured interviews-based research (theoretical framework derived from institutional theory)	Data collection: November 2008 – January 2012. Period covered: 2000-2012	21 auditors, users, preparers and academics	Providing an institutional perspective on the interplay of local Romanian factors that affect the IFRS implementation process.
Danescu *et al.* (2013) – research conducted by the Romanian Brokers' Association	Cost and benefits of IFRS adoption in a second set of individual financial statements of companies supervised by CNVM.	Questionnaire-based survey	Period covered: 2011-2013	32 entities supervised by CNVM (42.87% response rate)	Main costs: training of personnel, adjusting the software and reporting systems, and auditing costs. Main benefits: potential of obtaining foreign equity financing, increase comparability, increase in the quality of accounting services.
Filip and Raffournier (2010)	Benefits of IFRS adoption: value	Empirical research (based on a return	Period covered: 1998-2004	48 companies listed on BSE (280 year-observations)	Value relevance of earnings slightly increased from 0.212 to 0.233.

Articles	Topic	Methodology	Period	Observations	Main findings
	relevance of earnings.	model)	(harmonization phase)		
Girbina and Bunea (2009)	Level of compliance with IFRS 7	Empirical research based on Cook (1989) disclosure index	Period covered: Year 2007	Listed Romanian companies that published IFRS compliant annual reports on their website for the year 2007. (Sample size unknown).	The level of compliance is correlated with industry (financial – non-financial entities) and the financing structure (measured by leverage).
Girbina *et al.* (2012)	Costs and benefits of IFRS adoption for banks in individual accounts.	Questionnaire-based survey	Data collection: 2011	40 out of 42 banks operating in Romania targeted (response rate unknown)	Main costs: adjusting the information systems, multiple reporting requirements, fiscal costs. Main benefits: comparability and transparency, increased relevance to users and harmonization of internal and external reporting.
Gorgan and Gorgan (2013)	Level of compliance with IAS 1, IAS 7, and IAS 8	Empirical research based on the partial compliance unweighted method following Tsalavoutas *et al.* (2010)	Data collection: September 2010- March 2011 Period covered: 2009-2010	11 listed Romanian companies that published IFRS compliant annual reports on their website for the years 2008 and 2009.	Level of compliance is positive correlated with company size, international visibility, and the quality of auditing (being audited by one of the Big 4 auditing companies)
Inascu and Ionascu (2012)	Benefits of IFRS adoption: increasing forecasts accuracy (determinants).	Questionnaire-based survey	Period covered: 2011-2013	61 brokerage companies authorized to operate on BSE (response rate 33%)	Perceived increase in forecasts accuracy due mainly to increased comparability at an international level, the use of fair values, and extensive disclosure requirements. Forecasts accuracy potentially hindered by lack of active markets and lack of incentive for a full application of IFRS.

Articles	Topic	Methodology	Period	Observations	Main findings
Ionascu *et al.* (2006)	Determinants of IFRS adoption. Costs and benefits.	Semi-structured interviews-based research.	Data collection: May-August 2006 Period covered: 1999-2004 (harmonization phase)	Representatives of all Romanian accounting regulatory bodies. Representatives of the accounting profession (professional bodies and prominent accounting and auditing companies). 9 interviews conducted.	Harmonization with IFRS not part of the EU accession strategy, but imposed by the WB and IMF. Unnecessary implementation costs incurred by non-public interest companies. Overall positive impact on the business environment.
Ionascu *et al.* (2007)	Costs of IFRS adoption.	Questionnaire-based survey	Data collection: 2005-2006 Period covered: 1999-2004 (harmonization phase)	62 listed Romanian companies (61% response rate)	Average cost of IFRS adoption in the harmonization phase: around €30,000. Overall benefits not deemed to cover the costs.
Ionascu *et al.* (2011)	Benefits of IFRS adoption.	Questionnaire-based survey	Data collection: November 2010-April 2011	62 listed Romanian companies (56% response rate)	Major benefits: international comparability, the use of fair values, extensive disclosure (45.9%), increased relevance for user, the possibility of accessing external financing.
Istrate (2012)	Impact of IFRS adoption on the link between accounting and taxation	Normative research	Period covered: 1990-2012	Accounting and tax regulations concerning property, plant and equipment.	A gradual *de jure* disconnection of accounting from taxation observed, going from a relationship of identity, to a very clear separation.
Mihai (2008)	Benefits of IFRS adoption: increase in	Empirical research based on Basu	Period covered: 2000-2004	235 firm-observations	Harmonization with IFRS did not increase the quality of accounting

Articles	Topic	Methodology	Period	Observations	Main findings
	accounting quality (asymmetric recognition of losses).	(1997) model.	(harmonization phase)		information in terms of timely loss recognition.
Mihai *et al.* (2012)	Benefits of IFRS adoption: decrease in the cost of capital.	Empirical research (based on an original model)	Period covered: Years 1998 (before) and 2006 (after harmonization with IFRS)	27 listed Romanian companies with positive earnings	The cost of capital decreased from 0.33 to 0.132.
Mustata (2008)	Formal harmonization with IFRS	Empirical research based on *Fontes et al.* (2005)	Period covered: 2000-2007 (harmonization phase)	43 regulatory items	Degree of formal harmonization: 40.2%. Full formal harmonization/compliance with IFRS expected in 2012-2015.
Sacarin *et al.* (2013)	Cost and benefits of IFRS adoption in individual accounts of listed companies.	Questionnaire-based survey	Data collection: 2012-2013	142 accounting professionals attending training lectures organized by the Romanian body of the accounting profession (CECCAR)	Main costs: adjusting IT systems; staff training; consultants' fees; fiscal costs, auditing fees, hiring additional staff. Main benefits: increased transparency and comparability, attractiveness to investors greater relevance for managers.
Tiron-Tudor and Ratiu (2010)	Benefits of IFRS adoption: increased transparency in consolidated accounts	Empirical research based on Cook (1989) disclosure index	Period covered: 2006-2009	26 listed Romanian companies	Transparency increased in consolidated financial statements compliant with IFRS.