RULES (OR LAWS) VS. STANDARDS. RESEARCH REGARDING THE ACCOUNTING REGULATION TRENDS IN EASTERN AND CENTRAL EUROPEAN COUNTRIES

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ABSTRACT

The fall of the communist regime, the transition from a planned and centralized economy to a new market economy, have generated profound changes, not only in the organizational, socio-cultural and educational environments, but also in the business administration in the Central and Eastern European (CEE) countries. Consequently, these changes have influenced the general bookkeeping system, the main accounting principles and valuation methods. Thus, the transition from a totalitarian system to a democratic one had implied at that time actual revolutions of the accounting systems of the countries in the region. The purpose of the present paper is to emphasize the evolution of accounting regulations in the CEE countries after the collapse of the Soviet system. Since the starting point of the accounting reform in these countries is known, our objectives include addressing some of the various controversial aspects of the regulation of accounting in the period subsequent to 1989. This is the reason why we have elaborated three hypotheses in our qualitative research and attempted to validate them. By using a sample of 16 CEE countries, our study refers also to the presence or the absence of Domestic Accounting Standards (DASs) in the process of national accounting regulation. We outline that absence is mainly determined by the significant involvement of the government accounting regulation and by the weak development of the stock-market, whereas the presence of DASs is positively associated with a higher level of economic development and the importance of the accounting profession.

CEE countries, accounting regulation, standards, IAS/IFRS, financial reporting

INTRODUCTION

Our study represents a comparative approach of the determinant factors of the accounting regulatory process in the region: such as the implementation of the European Directives in the legislation of the candidate/Member States and the harmonization/convergence process with the international accounting standards. Although, at a first glance, the accounting regulatory process in the respective countries follows a similar pattern, after a more advanced research, a large range of national features may be observed. Thus, countries such as Estonia, Slovenia, Poland, Czech Republic, Hungary differ from others like Romania, Macedonia and Montenegro, according to the main components of the regulatory device: the legislation on the one hand, and the DASs on the other hand. By starting from clarifying the terminology, which is not always correctly used by the accounting literature, the paper aims to „shed more light" on the process of accounting regulatory process and on the way it is accomplished in the CEE countries. Since this work critically examines the evolution of the accounting regulations in the region, it brings a significant contribution to the development of the autochthonous specialty literature, which does not abound in such transversal comparative studies.

Some regulations, such those of Estonia and Slovenia, are successful compilations of provisions from Anglo-Saxon and the European-continental systems, while others are based only on the continental one. In essence, each and every model is unique in its own way. However, there can be noticed certain elements of originality and innovation in several countries. Thus, the Estonian model successfully combines the rules based on UE's legislation with the domestic standards conceived and inspired by the IASs. This type of „*double regulation*" is opposable to the „*unique type of regulation*" met in some countries. Our research is focused on the comparative approach.

1. LITERATURE REVIEW

There is an increasing amount of literature on CEE countries' accounting systems but hardly any of these studies focus on examining the type of regulations according the presence or absence of domestic accounting standards. Many studies about accounting in CEE countries concentrate on the reform after the fall of the communist regime and the implementation of EU Directives and IAS/IFRS at the national level (De la Rosa & Merino, 1997; MacLullich, 2001; Sucher & Alexander, 2002; Haller & Eierle 2003; Sucher & Jindrichovska 2004; MacLullich & Gurau, 2004; Legenzova, 2007).

Some prior studies exploring accounting system in the CEE have focused on a general presentation of the accounting principles, rules and institutions (Bailey, 1995; Dutia, 1995; Jaruga & Bailey, 1998; Jaruga & Szychta, 1997; Krzywda *et al.,* 1995; Swann & Lisowska, 1996), or have attempted a general comparative analysis of the transformations that took place in the accounting systems (King *et. al.*, 2001; Parker & Nobes, 2002; Richard, 1995). However, all these studies failed to incorporate a wider socio-economic and cultural dimension into the analysis, and made no attempt to investigate the effects of the accounting reforms on the success of economic transition. As we reckon from previous research, *de facto* harmonization is one of the two "faces" of an accounting harmonization process (Bogdan, 2004; Cristea, 2007). The national accounting legislation has seldom preferred the international approach, and by that influencing the respective accounting culture. There are some critical studies about the link between IAS/IFRS and culture. Chand (2005), Rodrigues and Craig (2006), Doupnik and Riccio (2006) have brought up especially the cultural resistance to IAS/IFRS. Also, Chand (2005) pointed out the critical consideration whether all the IAS/IFRS are relevant in all the countries who want to follow these standards.

Even if the accounting regulatory process in the CEE countries has been studied before, most of the studies focused on one country or on different periods of time, on a rather restrained sample. Worth mentioning the qualitative studies of Roberts (2001), Haldma (2004), Strouhal (2007) and Jindrichovska (2007), which thoroughly consider both the positive and negative aspects of the issuance of DASs.

Our paper refers to the work of Ball et. al. (2003), Haldma (2004) and Strouhal and Jindrichovska (2007) in order to review the interaction between accounting standards and economic development in the CEE countries. In particular, we focus on the development of accounting regulations in the sample countries, highlighting various specific aspects of this process. We consider that our research outdistances itself from other similar works done in Romania, firstly because of the large sample of CEE countries used in the paper, secondly because of the hypothesizes stated in our work aiming to prove the way accounting is regulated and finally due to the lessons we learned from other countries experience.

2. RESEARCH METHODOLOGY AND RESULTS

This paper attempts to provide insights on the regulatory process, exploring the accounting changes in the complex local environments of sixteen CEE countries. Our research objectives include: firstly, the presentation for these countries the accounting regulations' evolution in the context of harmonization; second, the valuation of the presence/absence of the DASs in order to explain the type of the regulatory approach of each country in the region. The analysis includes as informational sources: data gathered from ROSC studies conducted by the World Bank teams in the period 2002-2007; information provided by the Federation of International Trade Associations (FITA) website and by PWC business guides for several CEE countries, as well as other secondary data. Literature regarding the evolution of accounting regulations in CEE countries was accessed in both English and national languages (Hungarian and Romanian). Statistical data concerning economic development (GDP index, globalization index, domestic market capitalization, FDI inflows) have been used for these countries as of 2006.

Our research is based on a qualitative comparative approach. In order to identify the results of our scientific research about the evolution of the accounting regulation in the CEE countries we have elaborated the following hypotheses:

H1: There is a direct link between the harmonization process and DASs issuance.
H2: The presence of DASs leads to harmonization, thus, maintaining some trace of national identity.
H3: The absence of DASs leads to conformity, which eliminates any trace of national identity.

As an outcome of our research, we found out that eleven CEE countries have developed DASs mostly based on the IAS/IFRS model, but with national particularities; thus, some DASs do not have equivalent in IAS/IFRS set and five countries have not elaborated DASs, consequently nowadays these are using DARs and IFRSs. We have also reflected in our research on the lessons that some CEE countries could teach in regard to achieving convergence to their neighbors, by taking into account the tradition and local particularities. Another important outcome is that of drawing a proposal of a new model of accounting regulation for Romania, starting from the preliminary conclusions of our research. The above mentioned result is to be found in the last section of our paper.

3. ACCOUNTING REGULATION IN THE CONTEXT OF GLOBALIZATION AND HARMONIZATION

During the years as the businesses turned international and the transactions among them more complex, it became obvious that it is necessary to study the connections between the concepts involved in the process. In this context, we consider that „the internationalization would suppose the addition of an alternative language to the national one which even if it may modify positively or negatively the national conditions and requirements, will not determine the definitive replacement of the national context" (Cristea, 2007). In the last years, the term *internationalization* was rarely used in favor of *globalization.* The last concept represents an economic interdependence expanding among the world's countries due to the high and diverse volume of transnational transactions, international flows of capital and the fast spread of technology (Streeten, 2001).

Generally, it is thought that globalization uses three sources of development (Shariff, 2003: 163-178): international trade; fast flow of capitals and development of financial markets; workforce migration. In addition, the *Foreign Policy Magazine* publishes every year a study which measures a globalization index by taking into account 12 variables classified in 4 categories: political engagement, technological connectivity, economic integration and personal contact. Thus, one of the components of the globalization index is represented by the economic globalization (economic integration) that includes two variables which are strongly tied to the field of international accounting: international trade and foreign direct investments. Also, the economic globalization can be seen as „the stage reached by the real and long time process of economy's internationalization" (Tobă, 2006: 94). For example, Table 1 shows that seven of the CEE countries subject to our study can be found among the 50 most globalized countries in the world, both from a general index of globalization perspective and an economic one.

Table 1. **The Globalization index and the CEE countries in the first 50 places**

	2006 IG Ranking	*Economic globalization 2006 Ranking*
Czech Republic	16	5
Slovenia	17	13
Hungary	20	7
Croatia	22	14
Slovakia	26	6
Romania	30	11
Poland	33	20

(*Source*: FOREIGN POLICY & A.T. Kearney, 2006)

In our opinion, the XXth century had "unleashed" internationalization without precedent of the social and economic lives as well as a spectacular expansion of the multinational entities (MNEs), making globalization a relatively recent trend.

Nonetheless, reaching the topic of the present paragraph we will need to address the relation existing between globalization and international accounting harmonization. First, it must be mentioned the interdependence between financial globalization and the need for financial information provided by the financial reporting, starting from the premise that this type of globalization consists in the development of the financial markets and in a easier access to financing for those who need capital at sub-national, national and corporate levels[i].

Hence, we may state that the internationalization of businesses along with the development of financial markets determined the economic and financial globalization leading to the international accounting harmonization which may be considered as equivalent to an internationalization of accounting (Volker, 2000; Cooke, 2001); in other words, it means a promotion of accounting standards in which the global interest has priority to the national one. Actually, the creation of a common accounting language supports indirectly the privatization of the economy. On the other hand, authors like Cooper *et al.* (2003) remark that „globalization suggests an inclination towards homogeneity and standardization. Globalization affects our understanding of accounting with connected effects over the territory, environment and social context in which accounting operates". Besides, these authors believe that the relation between true and fair view and the globalized world refers to „the ability of the accounting data to capture the economic reality in a more and more complex and globalized world".

In what extend does the accounting regulation facilitate globalization?
The answer to this question is more complex than believed. The largest part of the accounting literature has preferred (Volcker, 2000; Ashbaug & Pincus, 2001; Cooke, 2001) to analyze globalization by focusing on the liberalization and development of financial markets and on the role played by the accounting harmonization in the encouragement and spread of similar accounting practices. Other researchers integrated the financial reporting among the globalization processes based on the importance that this has for the supranational organizations and institutions which facilitate the spread of common practices (as IFAC).

However, irrespective of the position that one researcher may prefer, the sure thing that remains is that financial information provided by accounting is making possible for the players on the financial markets to reach pertinent investment decisions. Thus, in the globalization context, the essential attributes of the financial information are represented by transparency and comparability. The favored modality to fulfill the objective of ensuring these attributes has been seen for a long time as being the international accounting harmonization (Benoit Lebrun cited by Bogdan, 2004: 34).

Table 2. **Sample of CEE countries**

Albania	Czech Republic	Lithuania	Romania
Bosnia and Herzegovina	Estonia	Macedonia	Serbia
Bulgaria	Hungary	Montenegro	Slovakia
Croatia	Latvia	Poland	Slovenia

In regard to the evolution of accounting harmonization in the CEE countries presented in Table 2, we need to make the following observations. The new Member States which are located in the CEE perimeter are bound to follow the overall European Union's policies - those regarding the financial reporting and auditing - since they have announced their intention to join the Union. Out of the sixteen countries in our sample: ten are Member States of the European Union and six are not. Some of the non-Members have decided to join the Union in the future – candidate countries – such as Croatia and Macedonia or are potential candidate countries (Albania, Bosnia and Herzegovina, Montenegro and Serbia). This situation represented an important incentive for starting and developing the harmonization process within the CEE countries through the elaboration of revised accounting regulations.

Nevertheless, the *de jure* accounting harmonization does not necessarily lead to the *de facto* harmonization, and a series of factors influence the evolution of this process: management strategies, national cultural characteristics, the development of financial markets and their significance in the national economies, disclosure traditions. Additionally, the new EU Member States as well as their neighbors have entered into the accounting harmonization process with different political, social and economic backgrounds: therefore, the outcomes of this process as presented in the following pages may vary.

4. DEVELOPMENT OF ACCOUNTING REGULATIONS AND MARKET INSTITUTIONS

The accounting standardization process which began after the Second World War in the majority of the European states including the present CEE countries (Austria, Czechoslovakia, France, Italia, Yugoslavia, Poland, Romania, Sweden, UK, Norway and Hungary) was a consequence of the state's need to obtain homogenous financial information that to allow it to exercise the tax and economic control. In the CEE countries before 1989, there were a centralized economy and a planned accounting system which didn't allow transparency and comparability and relevance for other users than the state. After 1989 the state continued to coordinate the accounting reforms even if these reforms took different shapes from one country to another.

In this context, for the CEE countries, in order to test **H1:** *There is a direct link between the harmonization process and DASs issuance,* we need to further make a series of observations related to the respective hypothesis.

Concerning the *role played by the governments* in determining the contents and nature of financial reporting, it always depended by the national characteristics: more significant in countries such as France and Germany and the countries these have influenced and less significant in Anglo-Saxon world.

Another issue relevant to the evolution of accounting regulations in the CEE countries is that of the *external influences on the national financial reporting systems*. There can be noticed several external influences. If the impact of the European Directives and Regulations is quite understandable for the Member States, the European trend influences in certain aspects (audit requirements and criteria) Albania for example. Alternatively, there are still reminiscences of the past influences on accounting: Czech Republic and Hungary had been strongly inclined to the Austrian and German commercial code, the last one acting on Poland as well. A French influence is obvious in Romania's case; respectively a dual French and German influence is detected in Slovakia (PWC, 2004). One interesting situation is that of Latvian accounting which is influenced by Danish regulations that meet in general the EU's Directives. However, the IAS/IFRS influence is perceptible all around the CEE countries, the size of its significance differs from one country to another: Lithuania makes reference to IAS version before 2001 and Croatia requires IAS version as before 31 March 2004, with no consideration of the further amendments to the standards and IFRS 6, IFRS 7 and IFRS 8.

Also, all of the CEE countries have elaborated in the early '90 *national laws on accounting and auditing*. Some of these countries have separated the accounting laws by the company laws (Poland, Romania, Slovakia, Albania, etc.), while others have introduced accounting particularities into the company law (Macedonia, Slovenia). Most of these regulations have been subject of a series of modifications in order to align them to the political, social and economic objectives of each country. In the majority of the states the essential changes intervened in 2004 - 2005 as a reflection of the IAS Regulation adopted by the European Union and were performed by the state through its main representative, the Ministry of Finance. Thus, we deal with a *de jure* harmonization consisting in accounting regulations issued by the State.

Actually, nowadays, the *Ministry of Finance* may take several positions such as:

- to continue to establish the domestic accounting regulations (like in Romania);
- to decide to issue domestic accounting standards. For example, Czech Accounting Standards are prepared and published by the Ministry. In this case, the role of the National Accounting Board is to comment on exposure drafts, provide interpretations and lobby the relevant parties;
- to delegate some if its responsibilities including that of issuing accounting standards to independent bodies. For example, Hungarian Accounting Standards Board has recently been established to take over the responsibility for setting Hungarian Accounting Standards from the Ministry of Finance. The Board was established by Government Decree 202/2003 under the authority of the Accounting Act.

Many of the countries in our sample have established an apparently *independent body to issue domestic accounting standards* (Albania, Croatia, Estonia, Poland, Slovenia, and Lithuania). For example, the Lithuanian Institute of Accountants which is similar to IASB elaborates Business Accounting Standards and since 1993 "Slovenski Institut za revizijo" is in charge of the establishment of accounting procedures and audit, issuing Slovene Accounting Standards (SIEVES). The Polish Accounting Standards Committee set in 2002 issued until January 1, 2007 three standards and two standpoints: one on accounting for emission rights and the second on conversion costs for balance sheet valuation.

But why would the State support accounting standards which are usually based on IFRSs?
This happens mainly because the situation provides a wider range of information, even if it implies a diminishment of the state's authority. The access to correlated financial information of national and multinational groups is usually restricted for the host country; hence, the consolidated financial statements would provide a perspective, though limited, on the performance and latest transactions of a subsidiary at the national level; many times the tax reports are considered too detailed and complicated for other state's departments and a more comprehensible set of accounting regulations would serve in the best interest of all users involved.

Almost all CEE countries in our sample require the *use of IFRS* for both separate and consolidated financial statements of the listed entities. The exceptions are represented by Albania which because it doesn't have a stock exchange requires IFRSs for all public interest entities and by Bosnia and Herzegovina that requires IFRSs for all large and medium sized entities. A large variety of situations appears when discussing the use of IFRSs by the domestic unlisted entities in general[ii]:

- IFRSs are not permitted (Albania, Macedonia);
- IFRSs are permitted (Hungary);
- IFRSs permitted for unlisted non-financial institutions (Croatia, Estonia, Slovenia);
- IFRSs permitted for companies that have applied for stock exchange listing or whose parent uses IFRSs (Poland, Romania);
- IFRSs not permitted for unlisted non-financial institutions (Latvia, Lithuania);
- IFRSs required for all unlisted entities (Slovakia, Serbia, Montenegro);
- IFRSs required for unlisted financial institutions (Estonia, Latvia, Lithuania, Slovenia);
- IFRSs required for unlisted financial institutions and all large unlisted entities (Croatia).

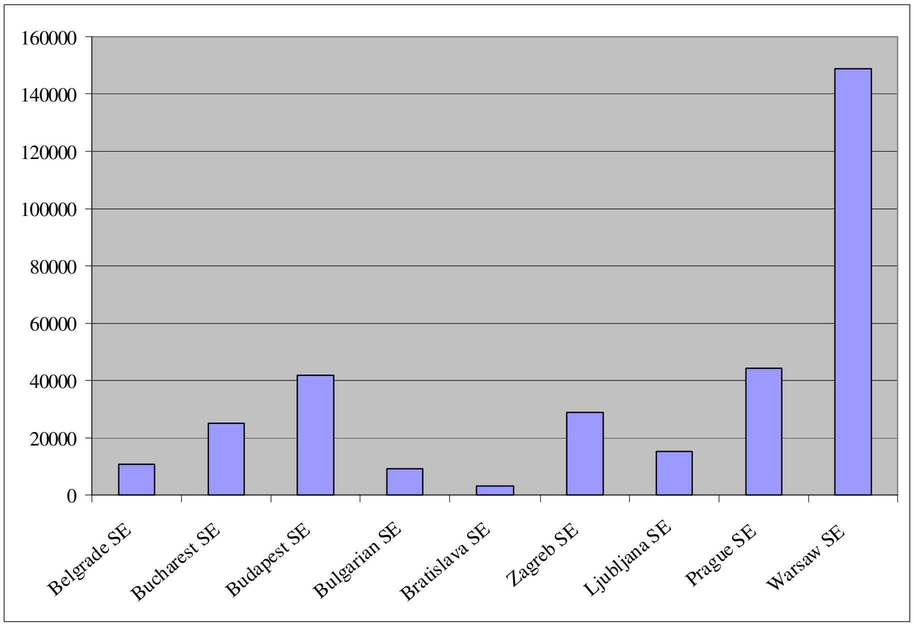
With regard to the implication and the *organization of the accounting profession* in the process of accounting harmonization, the website of **FITA** states that in countries such as Bulgaria, Czech Republic, Hungary, Poland and Romania the *"accountants associations have some difficulties to get organized, because of the importance of the State in the accounting system"*. However, in these countries accounting organizations are registered, but the size of the impact these have on the elaboration of accounting regulations is not quantifiable yet. For example, Poland has a National Board of Chartered Accountants Association in Poland (professional body) and a Polish Accounting Standards Committee (the DASs regulatory body) and it is supposed at first glace to have one of the most developed accounting systems in the region.

At this point we may state that the **H1** is valid due to the fact that there is surely link between the harmonization process (mainly promoted by the State in the CEE countries) and DASs issuance; however the issuance of DASs involves more a local adaptation of the international standards to national grounds, than a full implementation of IAS/IFRS. The DASs are still supported by the State and their application may be mandatory for certain categories of entities according to national law. On the other hand, there is also a connection between the evolution of the accounting regulations in CEE countries and other issues as well, such as the ones mentioned below.

For example, in regard to the *disclosure of financial information* we notice a large variety of situations in our sample. Albania does not have a law to force the audited company to make public its financial statements, whereas the *Slovenian Republic Agency for Payment, Surveillance and Information* is obliged to give anyone interested, on simple request, the annual report data of any company. While in Romania the companies are not eager to disclose to the public their financial reports – with the exception of MNEs and financial institutions (not even the Bucharest SE listed companies), in Serbia all the companies must file their financial reports with the National Bank of Serbia that handles these and publishes the financial standing of the companies (PWC, 2006c). Even in Estonia, which has a stock exchange –Tallinn SE - that is part of OMX platform, publication is rarely used with the exception of some companies which began to disclose information starting with 1997.

The disclosure of financial information is closely linked to domestic/international standards' application because this will lead to an increase in the liquidity and market capitalization. Thus, the following idea will refer to the *significance of the financial market in the context of national accounting regulation*. Whereas at the end of 2006 there were 347 listed entities at Bulgarian SE with a total domestic market capitalization of 9 364,2 USD millions, Warsaw SE succeeds in having an almost 16 times bigger market capitalization with only 265 listed entities. One of the more modest exchanges in the area is Bratislava Stock Exchange which at the end of 2006 had a domestic market capitalization of 3 272,9 USD millions with a reduced number of companies (6). An interesting case is that of Albania which doesn't have any stock exchange. Furthermore, a new cooperation in the field is taking place as Montenegro Stock Exchange has signed access to the 2007 Memorandum of partnership between Belgrade SE, Zagreb SE, Macedonian SE and Ljubljana SE. The obvious purpose of such a Memorandum is to provide a higher liquidity of financial markets in the region as well as a closer cooperation in the promotion of the regional market and international promotion of regional and national issuers and products.

Figure 1. **Domestic market capitalization of main CEE stock exchanges at end 2006 (USD millions)**



(*Source*: 2006 WFE Annual Report and Statistics)

On the topic of the stock market's significance in the national economy - calculated as the ratio of the domestic market capitalization and gross domestic product -, the *2006 WFE Annual Report and Statistics* reveals that Hungary and Poland have a similar ratio around 31%, Slovenia around 24%. Of course these figures refer to EU Member States which have made significant efforts during the years to develop a competitive financial market. In the rest of the CEE countries, the significance of the stock market in the national economy is not quite as relevant. On the other hand, the OMX SE which includes from our sample OMX Tallinn, OMX Riga and OMX Vilnius (the Group which started its consolidation process in 2004, includes also the Copenhagen, Helsinki, Iceland and Stockholm Stock Exchanges) reaches per total a ratio of 96,5% and a significant total market capitalization of 1 122 705 USD millions.

This shows that the decisions made in the field of accounting regulation are surely influenced by the development degree of the national financial market and by the extend of transnational transactions that take place on that market.

5. NATIONAL ACCOUNTING RULES OR DOMESTIC ACCOUNTING STANDARDS. A REAL DILEMMA

In the present paragraph, we intend to test the following hypotheses:

H2: The presence of DASs leads to harmonization, thus, maintaining some trace of national identity;

H3: The absence of DASs leads to conformity, which eliminates any trace of national identity.

For achieving these objectives we will present for each hypothesis a series of considerations that will contribute at the testing process.

In regard to the differences existing about between domestic accounting regulations and domestic accounting standards, several specialized literature sources refer to the two concepts as part of a unique regulatory system. Thus, the terms used in order to describe the different aspects of the regulatory process and the way it is rendered into practice, very often interlink. Our conclusion on the matter is that there are CEE countries which have elaborated and have been using only DARs to complete the Accounting Law, whereas others have elaborated and have been using DASs together with the Accounting Law.

In order to test **H2** and **H3,** we aim to discuss about the CEE countries that have elaborated their own accounting standards in accordance with IAS/IFRS and whether the presence/ absence of these standards is associated with the preservation of national identity. In addition, this comparative approach highlights the most significant differences in elaborating, developing and implementing these domestic standards.

Consequently, for **H2** *The presence of DASs leads to harmonization, thus, maintaining some trace of national identity,* we will address some interesting case studies that present characteristics sustaining this hypothesis.

In *Poland*, Czech Republic and Hungary as a Code Law countries the majority of accounting requirements are contained in the Accounting Act rather than in Accounting Standards. Thus, the principal Polish accounting regulations consist of: the Accounting Act, Decrees from Ministry of Finance (MoF) concerning accounting for banks, insurance companies, investment funds and pension funds; consolidation and financial instruments and two PAS concerning cash flow statements and deferred taxation that have been issued by the Polish Accounting Standards Committee (Bogdan & Balaciu, 2007).

Czech Accounting Standards for accounting entities are introduced in 2003 enforced starting with 2004, enclosed to Accounting Act and Decree no. 500/2003) (Strouhal, 2007: 323; PWC, 2005). The amended Accounting Act mandates listed companies to prepare annual legal entity financial statements in accordance with CzAS and consolidated financial statements in accordance with either the CzAS, IAS, or other internationally recognized accounting standards. As the ROSC Report of February 2003 pointed out CzAS remain applicable to SMEs, and the accounting standards setting body should be composed of professional accountants, business representatives, regulators, and other stakeholders, such as the Ministry of Finance and tax authorities.

The case of *Hungary* is very interesting from a different perspective: the existing type of accounting regulation, the development of DAS, etc. (Bogdan & Cristea, 2008). In the past, HAS have been set up by the Ministry of Finance and incorporated in the Act on Accounting. Beginning January 1 2005, these standards were applied only to the legal entity financial statements of companies and to the consolidated financial statements of non-stock exchange listed companies that do not opt to present financial statements prepared in accordance with IFRS. The Hungarian Accounting Standards Board has been established to take over the responsibility for setting HASs. Its establishment reflects the desire of the MoF for DASs to be developed by the accounting and auditing professions rather than by government. The MoF envisages that the Board will work to ensure full convergence of HASs with IFRSs within six to eight years.

In regard to the accounting regulations in Estonia, Latvia and Lithuania, since 1990 all three countries have adopted new accounting legislation. This new legislation constitutes a significant departure from the former accounting system based on the Soviet chart of accounts. In opinion of Nigon (1993) this reform has been inspired by the accounting legislation of three Nordic countries: Denmark for the Latvian Law, Sweden and Finland for the Estonian Law, and the EEC Directives. It is then not surprising that the new laws of the three republics while different in scope and contents allow many common elements.

Analyzing comparatively the evolution of accounting regulation in the three countries we consider *Estonia* has outdistanced itself to the others. The Estonian financial accounting system is constituted by the Estonian Accounting Law and Estonian Accounting Standards, issued and improved by Estonian Accounting Standard Board, since 1995. In some sense, this is a unique compilation of Anglo-Saxon approach and Continental European approach. Such compilation had a number of advantages in the transition period and enabled a flexible approach. Our analysis of the accounting regulations in the CEE countries revealed that, besides Estonia, only Slovenia has introduced the mentioned double set accounting regulation, in the first half of the 1990's. Praulins (2006) identified 17 EASs adopted by the Board, which may be seen as a „*mini version*" of IAS/IFRS. The law allows applying IAS/IFRS instead of EASs, for individual and consolidated accounts. Estonia is one of the first European States, which gives companies such right of choice. As the practical experience shows big companies normally choose the complete version of IAS/IFRS, but SME remain loyal to the national regulations.

In *Lithuania*, after active discussions taking place in the end of 1990's, which concerned the need for accounting standardization, its feasibility and its possible consequences (elaboration on DASs or IASs implementation), a decision to elaborate two sets of accounting standards had been taken: MoF was responsible for budget institutions' accounting standards and Lithuanian Accounting Institute was authorized to elaborate the standards for profit-oriented entities. This process was especially active in the second half of 2002, when first eleven DASs were adopted. On December 20th 2003, nine more standards were added, and on November 10th 2004, another five. The process of DASs' elaboration continues.

Almost in the same time as Lithuania, *Latvia* has created Latvian Accounting Board which adopted DASs starting from 1999. Nowadays, there are eight standards in force and all the standards have an international corresponding standard. However, the unlisted entities, except the unlisted financial institutions, are not permitted to use IFRSs and prescribed formats of main financial statements are prescribed by the law (PWC, 2006a).

Going deeper in the analysis of the DASs in CEE countries we remark the extend of harmonization of accounting treatments. In order to provide a practical example, we will refer to the Slovenian DASs. Hence, *Slovenian Accounting Standards* (SASs) are prepared by the Slovenian Accounting Standards Committee of the Slovenian Institute of Auditors. While recent changes to SASs contributed to enhance transparency, remaining weaknesses still impede reliability and comparability. Even if SASs changed dramatically since 2002, in order to step forward harmonization with IAS/IFRS, some fundamental differences remain and SASs may not provide the general public with sufficient information about public interest enterprises. The Report of World Bank (2004) highlights the main differences between SAS and IAS including the following: capitalization of foreign exchange losses (SAS 9 Long-term Liabilities vs. IAS 21 The Effects of Changes in Foreign Exchange Rates), broader definition of extraordinary items (SAS 17 Expenses vs. IAS 37 Provisions, Contingent Liabilities and Contingent Assets), capitalization of start-up costs (SAS 2 Intangible Fixed Assets vs. IAS 38 Intangible Assets) and so on.

Bulgarian Accounting Standards were determined by the Council of Ministers „in compliance with IASs". A new version of DASs was published in 2002 and remained in force until the end of 2004 when IAS had replaced it. The 37 DASs have been approved by the Decree 37/2002 and have been applied in accordance with the Accounting Law and the National Chart of Accounts. PriceWaterhouse carried out a line-by-line comparison of DASs and IAS at the end of 1999 on behalf of the World Bank. The firm concluded that DASs were a „modified and significantly abbreviated version of IAS" and identified 13 substantial differences, as well as other less significant differences. In a later study, *GAAP 2001*, seven leading accounting firms identified approximately 25 differences between DASs and IASs[iii].

From our point of view an interesting case for accounting regulation, is constituted by those of Albania and Croatia. Under the new law (2004) in *Albania* the NAC (National Accounting Committee) is no longer an organ of the Government but „a public professional organization with the status of a legal person". The NAC effectively outsourced the setting of the DASs due to limited technical capacity, with funding provided under a donor financed project. An international consulting firm was hired to develop the first fourteen DASs „based on IFRS, but modified for the Albanian environment and the country's stage of development". A sustainable standard setting process is required to amend these standards and prepare new ones as circumstances warrant. Further, the NAC's limited resources could affect its status as an independent accounting standard setter. On the other hand, *Croatia* has replaced the requirement to use IFRS for the financial statements of all companies with a new requirement that only large, listed and financial sector companies are required to follow IFRS. All other companies have an option to use IFRS or DASs issued by Financial Reporting Council. The FRC has begun drafting accounting standards for SMEs based on a combination of IFRS and the EU Fourth Directive (PWC, 2006d).

Thus, these six new EU Member States have reached an acceptable degree of harmonization with European legislation and with IAS/IFRS mostly for listed companies and financial groups (as shown by the use of IAS/IFRS in the CEE countries, addressed in a previous paragraph). Alternatively, candidate and potential candidate EU countries struggle to reach a degree of harmonization that will ensure not only a privileged position in the future accession process but also a set of DASs and/or DARs viable for the national socio-economic environment. However, all these countries have maintained a certain degree of national identity that is mostly shown in the double regulatory system (MoF rules and DASs) and the different use of IAS/IFRS for unlisted entities. In consequence, **H2** is valid.

In regard to the opposite situation presented in the above hypothesis, **H3** *The absence of DASs leads to conformity, which eliminates any trace of national identity*, links the preference for DARs to the uniform and highly state-controlled regulations. Thus, as a result of our research, we conclude that there are several countries which have not elaborated and developed DASs so far: Romania, Macedonia (PWC, 2006b), Slovakia, Serbia and Montenegro. It is anyway debatable whether this fact could be an impediment or not for the accounting regulatory process, at least for European countries.

We consider that each and every country has to be analyzed separately, as some of them have not become EU Member States at the time of our approach. Therefore, as far as *Romania* is concerned it is very well known that the accounting regulations applicable to all entities stipulated in Order no.1752/2005, the further changes and amendments included, have eliminated the harmonization concept agreeing with the conformity concept, following the EU Directives. Nevertheless in *Montenegro*, the 2005 Accounting and Auditing Law, requires that all legal persons (approximately 14.400 entities) use IFRSs for the preparation of their annual financial statements.

This approach is of a considerable length and thus it will probably be the core of another research. The present study wants to underline the heterogeneous image of the CEE countries which have not elaborated DASs. However, even if the absence of DASs may lead to conformity at the national level there are not enough data to state that conformity eliminates any trace of national identity. Thus, **H3** is inconclusive.

6. DIFFICULTIES IN DEVELOPING DOMESTIC ACCOUNTING STANDARDS

Our study is yet conducted to at least one conclusion: that in all CEE countries, the accounting regulations are traditionally encompassed in the Accounting Law. Also, in most countries there is an accounting board. The activities of the Board are carried out by the national associations of accountants and auditors.

Starting from our research hypothesis (H2) that the presence of some DASs enables the harmonization process and diminishes the users' efforts to understand the information provided by the financial reporting, we intend to identify the main problems encountered in DASs' elaboration process. Thus, in the authors' opinion, the elaboration of DASs requires the existence of a Working Group as described below, in charge with exposure drafts' elaboration; the creation of a Methodological Council by the MoF similar to the Division of Accounting encountered in Moldova - needed for the exposure drafts' approval; the support of the Ministry of Finance that must approve the final version. After the elaboration of DASs, these will come into force after the publication in the official gazette.

Opposed to DARs' elaboration process - where the Ministry of Finance, or another public authority, holds the major role -, in DASs' elaboration the accounting profession is the one that initiates, actively participates in the creation, issuance and practical implementation.

We consider that the *first major problem in developing DASs* will be to establish the Working Group. In our opinion its structure might consist of: accounting association' members, academia, practitioners (accountants & auditors), Ministry of Finance' officials, independent consultants, State Tax Department' consultants and other interest parties. Nowadays, the role of the professional associations and academia should increase in order to achieve a real improvement of the regulatory system.

In order to accomplish this goal there is *a second impediment* that appears: the lack of important objectives such as developing and testing certification program for accountants and auditors; expanding the knowledge and awareness of financial information users; representing the views of accounting and auditing professionals on all relevant issues; creating and delivering training programs and seminars for the dissemination of accounting and auditing principles, including DASs, to self-governing associations of professional accountants and auditors.
Lastly, the third issue would be the reform of accounting education consisting of: designing and implementing new accounting and auditing curricula that would help prepare graduates that are familiar both with DASs and IFRSs.

CONCLUSIONS AND FUTURE RESEARCH

The first conclusion drawn up by our analysis is that eleven CEE countries have developed DASs mostly following the IAS/IFRS model, but with national particularities, thus some DASs do not have equivalent in IAS/IFRS and five countries have not elaborated DASs and nowadays are using DARs and IFRSs. We must outline here that the absence of DASs is mainly determined by the great importance of the governments in the accounting regulatory process and by the weak development of the stock exchange markets while presence of DASs is positively associated with a higher level of economic development and the importance of the accounting profession. As the role of professional associations' members, certified accountants, practitioners and academia increases in this regulatory process, we encounter DASs instead of DARs. There are different opinions among authors. Some of them consider that *"double regulation"* may totally confuse the investor. However, in our opinion, the investor does not have to be disoriented if the local standards setting process does not complicate convergence between domestic and international standards. In most countries, the DASs are developed and implemented as a shorter version of IAS/IFRS and in eleven CEE countries - analyzed in our study - DASs are destined mainly to the SMEs.

Starting from the current model of Romanian accounting regulations and taking into account the consideration made along this paper, a potential model may be the following:

Table 3. **Potential model of accounting regulations in Romania**

Type of entities	***Individual financial statements***	***Consolidated financial statements***
Non-listed companies	Accounting Law, DARs	Accounting Law, DARs
Listed companies	IAS/IFRS	IAS/IFRS
SMEs	Accounting Law, DASs	DASs, IAS/IFRS
Other PIEs	IAS/IFRS	IAS/IFRS

In conclusion, the authors of this paper consider that the discussion on the topic above is far from being completed. The present work represents only a small part of a much larger study concerning accounting evolution in the CEE countries after the fall of the communist regime. Further researches will be oriented towards analyzing the influences of accounting regulatory model on the de facto financial reporting, the differences between DASs and IAS/IFRS as well as determining some potential accounting innovations in these countries.

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