

# OECD 2<sup>nd</sup> South East Europe Corporate Governance Round Table

Main Issues Regarding Financial  
Disclosure in South Eastern Europe

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# OECD 2<sup>nd</sup> South East Europe Corporate Governance Round Table

- The Romanian experience
- Areas for improvement?
  - Related party transactions and disclosures
  - Consolidation
  - Undisclosed liabilities
  - Asset revaluation
- Recent changes in practice and the drivers behind them
- Obstacles to overcome in order to improve the quality of financial reporting

# The Romanian Experience

- Historically financial reporting was driven by State needs
- Program to roll out EU 4<sup>th</sup> Directive and IAS introduced
- 197 Companies required to apply for 2000
- 800+ Companies required to apply for 2001

# Areas for improvement

Common issues exist:

- Historical financial statements requirements did not require full disclosure
- Historical use of financial statements discouraged full disclosure
- Resulting mentality/understanding issues regarding purpose of financial statements

# Areas for improvement

- Related parties disclosure
  - Disclosure not required under existing frameworks
  - Lack of understanding of what a related party is
  - Purpose behind transaction may be designed to be hidden
  - Lack of available adequate information to conform related party relationships

# Areas for improvement

- Consolidation
  - Required or not?
  - When should an entity be consolidated?
  - Assessment of fair values may be difficult
  - Exclusion of offshore entities

# Areas for improvement

- Undisclosed liabilities
  - If not certain then typically
    - No accrual
    - No disclosure
  - Tax risks seldom but can be significant
  - Matters such as environmental contingencies, warranty provisions etc just not considered

# Areas for improvement

- Asset valuation
  - Prescriptive rules exist, provisions typically not recorded if not tax deductible
  - Distorting effects of hyperinflation
  - Governmental Decision – asset valuations
  - Impairment of assets
  - Accounting for leases as financial/operating
  - Inappropriate valuation of intangibles
  - Fair value not applied

# Recent Changes in Practices

Biggest single driver to change in legislation likely to be prospects of EU accession and consequent IAS financial statements requirements via:

- Direct impact on those countries in negotiation for EU membership
- Indirect impact on those other countries in the region

# Obstacles to be overcome in order to improve quality of financial reporting

## A From a country perspective

- Separation of financial reporting from profits tax calculation
- Step by step approach may be better than one leap
- Lack of understanding on the part of those in a quality control position

# Obstacles to be overcome in order to improve quality of financial reporting

## B From a Company perspective

- Costs seem as high
  - Systems costs
  - Fiscal risks
  - Training costs
  - Commercial risks
- But benefits seem as minimal
- Incentives for compliance and penalties for non compliance may be a solution