A Study on Accounting Standards with Regards to Financial Instruments

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ABSTRACT

The need to establish international accounting standards with regards to financial instruments is due to their spectacular evolution on global financial markets, which took place over the last couple of decades. Thus, the accounting practices used for financial instruments have been revolutionized themselves, and the standards established with regards to such practices attempt to keep the pace with the latest evolutions of the global financial markets. The main aim of this paper is to identify aspects that are specific to the accounting treatment of financial instruments, starting from the provisions of international accounting norms, considering the field of financial instruments as one of the most controversial areas of financial reporting.

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1. Introduction

We are currently witnessing a rapid expansion phenomenon of the use of the financial instruments in the international financial market. These fluctuate from the traditional instruments like interests or bonds, to the various forms of derivative instruments, such as futures contracts, forward contracts, options, interest rate swap etc. Keeping in mind the importance of financial assets and liabilities in the balance sheets of not only banks and other financial institutions, but also those of industrial enterprises, it is clear that it’s necessary to establish standards with regards to the valuation of financial instruments and associated accounting practices. The need for establishing standards with regards to financial instruments was also due to the numerous scandals that rocked the USA and Europe over the last decade following the inappropriate use of derivatives and the failure to disclose information with regards to such derivatives. The objective of these Standards is to support the users of financial situations in understanding the significance of the financial instruments of balance and extra balance and their signification, connected to the financial situation, the results and fluxes of cash of a company [1]. The incumbency of recording derivatives in the balance sheet as assets or financial liabilities and the obligation of disclosing detailed information with regards to their valuation, the financial risks and management policies associated to such derivatives are all essential contributions of the accounting standards established to this aim.

Our paper is based on analyzing accounting standards being issued by significant accounting standard setting bodies in the accounting arena regarding financial instruments. After we presented the main aspects related to the accounting regulation process, we stop upon the historical evolution of the two main accounting referential that currently collaborate through the convergence process. Our analysis focuses both on standards first issuance and on their amendment process.

In what concerns the research methodology, the method that was used predominant in this paper was document analysis, since by analyzing the bibliographic sources and the interpretations provided by various specialists, we were able to gain insight into the contents of the theme discussed and follow its progress in time and space. We believed it necessary to present the progress of the norms regarding financial instruments given that over the last decade the accounting regulations concerning financial instruments have gone through a genuine revolution in the attempt to bring accounting practices in line with the latest evolutions occurring on global financial markets.

Another method used for this paper was comparison, aimed at discovering the similarities and differences that occur between the main accounting systems involved in the international harmonization of accounting procedures, so as to obtain an analysis of both their content and their progress in time.

At the moment the best known accounting standards with regards to financial instruments are the international ones, issued by the IASB, and the American ones, issued by the FASB, which differ in that which concerns the derecognition and fair value valuation of financial instruments. It was these differences that
determined the most important regulators of the world to conclude that, in that which concerns financial instruments, the best solution is to establish, based on a shared effort, a new Standard, which is a project that requires many years of deliberation and debates.

2. International accounting regulations with regards to financial instruments

Within the international accounting referential we, now, find three distinctive standards whose objective is directly represented by financial instruments. These are IAS 32 *Financial instruments: Presentation*, IAS 39 *Financial instruments: Recognition and Measurement* and IFRS 7 *Financial instruments: Disclosures* (we only considered the three standards currently being effective. Furthermore, within its project of replacing IAS 39, IASB has already issued in 2009 a new standard, IFRS 9 having January 1, 2013 as effective date).

The IASC standard (the predecessor of the IASB standard) was the first to deal with the issue of financial instruments, back in 1988, given a true explosion in their use on capital markets. In the following 8 years it published two Exposure Drafts (E 40 and E 48), which culminated in the issuance of the IAS 32 „Financial Instruments: Disclosure and Presentation” in 1995. This Standard was made of provisions on recording financial instruments in the balance sheets and established the information that had to be disclosed with regards to financial instruments not recognized in the balance sheet.

The stated objective of IAS 32 is to establish principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and liabilities.

IAS 32 addresses this in a number of ways:

- clarifying the classification of a financial instrument issued by an entity as a liability or as equity
- prescribing the accounting for treasury shares (an entity’s own repurchased shares)
- prescribing strict conditions under which assets and liabilities may be offset in the balance sheet

IAS 32 is a companion to IAS 39 *Financial Instruments: Recognition and Measurement*. IAS 39 deals with, among other things, initial recognition of financial assets and liabilities, measurement subsequent to initial recognition, impairment, derecognition, and hedge accounting.

IAS 39 was originally issued in March 1998, and was subject to revision in 2000. The original version of IAS 39 was published by the Board’s predecessor body, the International Accounting Standards Committee (IASC), and became effective for financial statements covering financial years beginning on or after 1 January 2001.

IAS 39 was by far the most difficult standard the International Accounting Standards Board (IASB) had produced, and it was subject to extended debates and improvements, in particular in that which concerns the requirements of European Union listed companies with regards to the preparation of financial statements in keeping with the provisions of the IFRS. IAS 39 establishes the principles for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IAS 39 includes provisions about the classification of financial instruments, their ongoing measurement (including when impairment is required), when financial instruments should be recognized and derecognized and hedge accounting requirements.

In 2002, as part of its ‘improvements project’, the IASB published an Exposure Draft of amendments to both IAS 32 and IAS 39 and revised standards were issued in December 2003, together with application and implementation guidance. Although at the time the new versions of the IAS 32 and IAS 39 were published the IASB stated these standards provided more guidelines and contained less inconsistencies, which made them easier to understand and implement, the issue of their complexity was still not solved. Thus, the IAS 32 and IAS 39 were very massive, they still maintained the mixed valuation system (fair value, updated cost and historical cost), the rules concerning derecognition remained hard to understand, etc. Also, the exceptions to the basic principles allowed by the Standards were so numerous that, until their numbers were lowered, there was no question of completely solving the complexity issue [4].

The improvements to the provisions of the IAS 32 and IAS 39 were continued through the issuance of a new series of amendments, established over several years, which are presented in table no. 1; the list of amendments that these standards were subject to seems endless.

As a result of the amendments to IAS 32 in August 2005, all disclosures relating to financial instruments were relocated to IFRS 7 *Financial Instruments: Disclosures*. This standard deals with aspects such as describing the information related to financial instruments in the entity’s summary documents, thus becoming the third set of international standards with regards to financial instruments.

The objective of IFRS 7 is focused on financial instrument disclosures, and is based on the notion that entities should provide disclosures in their financial statements that enable users to evaluate the significance of financial instruments for the entity’s financial position and performance. Prepared following a bold exposure draft (ED 7, published in July 2004), the IFRS 7, which will become compulsory as of January 1st, 2007, places emphasis on disclosures about risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

IAS 32 is amended in February 2008 for puttable instruments and obligations arising on liquidation, adding to IFRS 7 paragraph 3(f) scope exemption for such instruments classified as equity. The amendment requires the classification in equity of some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation if certain criteria are met.

On 5 March 2009, the International Accounting Standards Board (IASB) issued Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures). The amendments are in response to calls from constituents for enhanced disclosures about fair value measurements and liquidity risk in the wake of the recent financial crisis. The amendments expand the disclosures required in respect of fair value measurements recognised in the statement of financial position. For the purpose of these expanded disclosures, a three-level hierarchy has been introduced which is similar to the hierarchy set out in the US Accounting Standard SFAS 157 Fair Value Measurements (Deloitte - IAS plus update: IFRS 7 amended to improve disclosures about financial instruments, 2009).

In November 2009 IAS 32 is amended to change the accounting for rights issues (rights, options, or warrants). This amendment is partly a political response to the global financial crisis, which has created a widespread need for capital. The amendment applies on a retrospective basis and is effective for annual periods beginning on or after 1 February 2010, with earlier application permitted.

IFRS 9 Financial Instruments, which will replace the IAS 39, was published in November 2009 and contained requirements for financial assets. Due to the controversies related to the fair value valuation of financial liabilities and the recognition of a profit when the credit risk of the entity is deteriorating, the IFRS 9 only dealt, initially, with aspects concerning the accounting practices related to financial assets. In October 2010, the IASB issued a new IFRS 9 with requirements concerning the valuation of financial liabilities and the derecognition of financial assets and liabilities. The IFRS 9 maintained the option of fair value valuation provided in the IAS 39 in the case of financial liabilities, but value variations no longer affected the profit and loss account, as in the IAS 39, but other elements of the overall result (with certain exceptions). The aspects regarding the derecognition of financial assets and liabilities were taken from the IAS 39. On 4 August 2011, the Board issued an exposure draft proposing to change the mandatory effective date of IFRS 9 to annual periods beginning on or after 1 January 2015 rather than being required to apply them for annual periods beginning on or after 1 January 2013 as is currently the case. Early application of both would continue to be permitted. The comment period for the exposure draft closes on 21 October 2011.

3. American accounting standards with regards to financial instruments

The American regulatory body (the FASB) dealt with the issue of financial instruments before the IASB, so that, at the moment, there are several American standards providing guidelines with regards to the recognition, measurement and valuation of various types of financial instruments, transactions and activities. Unlike IASB, the American accounting referential issues a new standard each time it wishes to amend an already existent standard, and for this reason, it is necessary that we enumerate a significant number of distinctive standards.

The US GAAP guidance for financial instruments is contained in several standards, including, among others: ASC 948 Financial Services — Mortgage Banking (formerly FAS 65); ASC 825-10-50 Financial Instruments — Disclosures (formerly FAS 107); ASC 310-10-35 Receivables — Subsequent Measurement (formerly FAS 114); ASC 320 Investments — Debt and Equity Securities (formerly FAS 115); ASC 470 Debt (formerly a variety of authoritative guidance); ASC 815 Derivatives and Hedging (formerly FAS 133); ASC 860 Transfers and Servicing (formerly FAS 140); ASC 480 Distinguishing Liabilities from Equity (formerly FAS 150); ASC 820 Fair Value Measurements and Disclosures (formerly FAS 157); ASC 825 -10-25 Financial Instruments — Recognition (formerly FAS 159); ASC 815-10-50 Derivatives Disclosure (formerly FAS 161); ASC 860-20 Sale of Financial Assets (formerly FAS 166).

In that which follows we will refer to the American standards using the old code (SFAS), as we believe that the new code, which was only recently introduced, is not very well known.

Issued in December 1991, SFAS 107 Disclosures about Fair Value of Financial Instruments, extends existing fair value disclosure practices for some instruments by requiring all entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized in the statement of financial position, for which it is practicable to estimate fair value.

SFAS 115 Accounting for Certain Investments in Debt and Equity Securities, issued in May 1993, addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities.

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, is an accounting standard issued in June 1998 by the Financial Accounting Standards Board (FASB) that requires companies to measure
all assets and liabilities on their balance sheet at “fair value”. This standard was created in response to significant hedging losses involving derivatives years ago and the attempt to control and manage corporate hedging as risk management not earnings management. All derivatives within the scope of FAS133 must be recorded at fair value as an asset or liability. Hedge accounting may be applied if there is hedge documentation and gains and losses in the value of the derivative with gains and losses in the value of the underlying transaction.

This Statement was amended in March 2008 by FAS 161, Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133 which requires enhanced disclosures about derivative (finance) contracts and hedging activities to enable investors to better understand their effects on an entity’s financial position, financial performance, and cash flows. Further, in September 2008, FASB Staff Position (FSP) FAS 133-1 and FASB Interpretation (FIN) 45-4 was issued, entitled Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161. Some provisions of the amendment to FAS 133 became effective sooner than the requirements of FAS 161.

SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125, issued in September 2000, amended by SFAS No. 155 and No. 156, replaces FASB Statement No. 125, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. It revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of Statement 125’s provisions without reconsideration. This Statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities.

SFAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity (issued in May 2003) establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. Some of the provisions of this Statement are consistent with the current definition of liabilities in FASB Concepts Statement No. 6, Elements of Financial Statements.

SFAS No. 157 Fair Value Measurements (also known as ASC 820 in the updated FASB Codification) provides the framework for determining the fair value of a financial asset or liability, including derivative financial instruments. SFAS 157 requires companies to incorporate the risk of nonperformance in determining fair value and to use an approach that reflects the assumptions used by market participants in performing valuations and pricing credit risk.

In February 2007, the FASB issued Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115. The Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Statement is expected to expand the use of fair value measurement, which is consistent with the Board’s long-term measurement objectives for accounting for financial instruments. Most of the provisions of this Statement apply only to entities that elect the fair value option. However, the amendment to FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities with available-for-sale and trading securities.

In March of 2008, the FASB issued Statement No. 161 (SFAS 161) Disclosures about Derivative Instruments and Hedging Activities (ASC 815-10-50), which amends and expands the disclosure requirements of SFAS 133 to provide enhanced information about an entity’s derivative activities. The primary objectives of SFAS 161 are to provide users of financial statements with an improved degree of transparency and understanding of how and why an entity uses derivative instruments, how derivative instruments are accounted for, and how derivative instruments affect an entity’s financial position, results of operations and its cash flows.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140, (“SFAS 166”) (ASC 860 10 65-2). SFAS 166 limits the circumstances in which a financial asset should be derecognized when the transferor has not transferred the entire financial asset by taking into consideration the transferor’s continuing involvement. The standard requires that a transferor recognize and initially measure at fair value all assets obtained (including a transferor’s beneficial interest) and liabilities incurred as a result of a transfer of financial assets accounted for as a sale. The concept of a qualifying special-purpose entity is removed from SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The standard is effective beginning with the first quarter in fiscal 2011.

It is now more than obvious that IAS 39 represents the most revised and amended standard being issued by IASB. It is also worth noting that there are a great number of standards issued by the FASB with regards to
financial instruments. This does not come as a surprise considering the controversial aspects this standards deals with.

The below table reflect the complexity of the approached area and also the difficulty of developing the accounting regulation process in this field.

Table 1. Evolutions of the international accounting referential in the field of financial instruments

<table>
<thead>
<tr>
<th>Date</th>
<th>History of IAS 39</th>
<th>History of IAS 32</th>
<th>History of FAS</th>
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<tr>
<td>September 1982</td>
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<td>FAS 65 Accounting for Certain Mortgage Banking Activities</td>
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<tr>
<td>October 1984</td>
<td>Exposure Draft E26, Accounting for Investments</td>
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<td>March 1985</td>
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<td>FAS 84 Induced Conversions of Convertible Debt</td>
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<td>March 1986</td>
<td>IAS 25, Accounting for Investments</td>
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<tr>
<td>December 1991</td>
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<td>FAS 107 Disclosures about Fair Value of Financial Instruments</td>
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<tr>
<td>May 1993</td>
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<td>FAS 115 Accounting for Certain Investments in Debt and Equity Securities</td>
</tr>
<tr>
<td>January 1994</td>
<td>E40 was modified and re-exposed as Exposure Draft E48, Financial Instruments</td>
<td>E40 was modified and re-exposed as Exposure Draft E48, Financial Instruments</td>
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<tr>
<td>June 1995</td>
<td>The disclosure and presentation portion of E48 was adopted as IAS 32, Financial Instruments: Disclosure and Presentation</td>
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<tr>
<td>December 1998</td>
<td>IAS 39, Financial Instruments: Recognition and Measurement</td>
<td>IAS 32 was revised by IAS 39, effective 1 January 2001</td>
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<tr>
<td>September - October 2000</td>
<td>Limited revisions to IAS 39, effective 1 January 2001</td>
<td></td>
<td>FAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities</td>
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<tr>
<td>May 2003</td>
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<td></td>
<td>FAS 150 Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity</td>
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<tr>
<td>21 August 2003</td>
<td>Exposure Draft Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk</td>
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<tr>
<td>17 December 2003</td>
<td>Revised version of IAS 39 issued by the IASB</td>
<td>Revised version of IAS 32</td>
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<tr>
<td>31 March - 17 December 2004</td>
<td>IAS 39 revised to reflect Macro Hedging Amendment issued to IAS 39 for transition and initial recognition of profit or loss</td>
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<tr>
<td>15 June 2005</td>
<td>Amendment to IAS 39 for fair value option</td>
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<tr>
<td>18 August 2005</td>
<td>Amendment to IAS 39 for financial guarantee contracts</td>
<td>Disclosure provisions of IAS 32 are replaced by IFRS 7, Financial Instruments:</td>
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<td>Date</td>
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<td>74</td>
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<tr>
<td>22 June – September 2006</td>
<td>Exposure Draft of proposed amendments relating to Puttable Instruments and Obligations Arising on Liquidation</td>
<td>FAS 157 Fair Value Measurements</td>
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<tr>
<td>February 2007</td>
<td></td>
<td>FAS 159 The Fair Value Option for Financial Assets and Financial Liabilities—including an amendment of FASB Statement No. 115</td>
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<td>14 February 2008</td>
<td>IAS 32 amended for Puttable Instruments and Obligations Arising on Liquidation</td>
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<td>22 May 2008</td>
<td>IAS 39 amended for Annual Improvements to IFRSs 2007</td>
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<tr>
<td>March - July 2008</td>
<td>Amendment to IAS 39 for eligible hedged items and for reclassifications of financial assets</td>
<td>FAS 161 Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133</td>
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<tr>
<td>16 April 2009</td>
<td>IAS 39 amended for Annual Improvements to IFRSs 2009</td>
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<td>6 August 2009</td>
<td>Exposure Draft Classification of Rights Issues proposing to amend IAS 32</td>
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<tr>
<td>November 2009</td>
<td>Classification and measurement provisions of IAS 39 replaced by IFRS 9 effective 1 January 2013, with earlier application permitted</td>
<td>AMENDMENT TO IAS 32 REGARDING THE CLASSIFICATION OF RIGHTS ISSUES</td>
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4. The process of accounting convergence in the field of financial instruments

Since 2000, FASB and IASB started to work on eliminating existent differences between US GAAP and IFRS. They decided to entitle this process as convergence, bearing in our opinion a particular character if we are to consider just the involved parties. In the context of the internationalization of business and globalization of financial markets, the pleas for a real harmonized reporting framework that should offer guidance for preparing financial statements to reveal open, complete, unambiguous and timely information are not surprising [5].

In March 2006, the IASB and the FASB further clarified their intentions to work together to improve and converge financial reporting standards by issuing a Memorandum of Understanding (MoU), A Roadmap for Convergence between IFRSs and US GAAP - 2006 - 2008. As part of the MoU, the Boards worked jointly on a research project to reduce the complexity of the accounting for financial instruments. This joint effort resulted in the IASB’s issuing of the March 2008 discussion paper Reducing Complexity in Reporting Financial Instruments, which the FASB also published for comment by its constituents. Focusing on the measurement of financial instruments and hedge accounting, the discussion paper identified several possible approaches for improving and simplifying the accounting for financial instruments.

A majority of respondents to the discussion paper supported a significant change in the current requirements for reporting financial instruments. In addition, many of the user respondents expressed support for the boards’ working together on a project to simplify the accounting for hedging activities, provided that the simplification would reduce the complexity of financial statement interpretation. A majority of respondents to the exposure draft were concerned that many of the proposed amendments would create
further divergence between hedge accounting under US GAAP and under IFRS. Many of these respondents urged the boards to work together on a joint project to improve hedge accounting, noting that the FASB’s hedge accounting project could be incorporated into the boards’ research projects on reducing complexity.

The objective of the joint Project of the FASB and IASB Accounting for Financial Instruments (formerly Financial Instruments: Improvements to Recognition and Measurement and including the Accounting for Hedging Activities Project) is to significantly improve the decision usefulness of financial instrument reporting for users of financial statements. The project will replace the FASB’s and IASB’s respective financial instruments standards with a common standard. The Boards believe that simplification of the accounting requirements for financial instruments should be an outcome of this improvement.

On January 31, 2011, the FASB and the IASB proposed a common solution for impairment accounting, Supplementary Document (SD) —Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Impairment. The comment period ended on April 1, 2011. (The original IASB ED Financial Instruments: Amortised Cost and Impairment (IASB’s original ED), was issued in November 2009. The FASB Proposed Accounting Standard Update Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities (FASB’s original ED) was issued in May 2010, and included proposals for the impairment of financial assets).

Many respondents to the SD made general comments about the project, including (Comment letter summary, www.fasb.org):
(a) convergence between the IASB and the FASB;
(b) concerns regarding due process;
(c) the interaction between the SD and the boards’ original EDs; and
(d) the effect of the proposals on non-financial and smaller institutions.

On February 9, 2011, the FASB issued a Discussion Paper—Invitation to Comment (ITC)—Selected Issues about Hedge Accounting to solicit input on the IASB’s Exposure Draft, Hedge Accounting, in order to improve, simplify, and converge the financial reporting requirements for hedging activities. One purpose of the ITC was to gather feedback from the FASB’s stakeholders about whether the changes to current hedge accounting guidance set forth by the IASB’s ED represents a better starting point for improving current U.S. GAAP than the changes set forth by the FASB’s proposed Update.

5. Conclusions

The ever-expanding economic globalization of late leads to the development of international financial markets and, implicitly, a heightening of the requirements in that which concerns information disclosed to investors operating on these markets. The many existing differences between the accounting standards, and implicitly the accounting methods and practices of various countries have a direct impact on the financial reporting of companies in these countries. Since international investors need to be able to understand the information disclosed in financial statements, which are drafted according to different rules, there was a lot of pressure from these investors to create a common body of accounting standards, to allow for more accurate comparisons between accounting information.

At the same time, the evolution of primary financial instruments into derivatives, due to the need for risk hedging, as well as the increase in the number of possibilities for obtaining profits by speculating on prospective events, have forced the accounting profession, through its most representative bodies, to develop accounting standards that would keep up with the evolution of financial instruments. Thus, the development of accounting standards for financial instruments has essentially been shaped by the need to report the off-balance-sheet exposures that entities might have to derivative contracts, which under traditional reporting norms are not reported, as derivatives do not have an investment to begin with, and therefore, no cost to report. We agree with the opinion of some authors that the understanding and controlling economic phenomena, and developing a better prevention system for financial instability, is linked to disclosed accounting information and its quality [3].

It is clear that accounting for financial instruments is likely to remain an extremely difficult area, both in the short term and for a number of years. The many ways of measuring financial instruments and the associated rules are one of the main causes of today’s complexity.

Still there seems to be a general consensus among the major standard setters and their representatives that fair valuing all financial instruments can be the only ultimate solution. IASB and FASB have also reiterated their long term objective of requiring all financial instruments to be measured at fair value with realised and unrealised gains and losses recognised in the period in which they occur. This controversial view has to deal with considerable resistance even though the standards setters are trying to move ahead of current practices in offering suitable solutions [7]. Some voices considered that by imposing the valuation of financial assets at their current market value, fair value accounting forced companies to write-down asset values, destroying equity and threatening banks’ lending ability [2].
The problem is even more difficult due to the context now surrounding fair value that took some of the finger pointing for the current financial crisis. While already being a sensitive topic, fair value measurement brought even more controversies due to the circumstances generated by the impact of the financial crisis on capital markets around the world [6].

The consequences of applying fair value valuation to financial instruments have been widely debated and disputed by many specialists who believe that the recognition in financial statements of the variation of the fair value of financial instruments in accordance with the fluctuations of market prices leads to a higher volatility of the result. Since the debates on this subject are far from being over and have not given birth, to this day, to actual solutions, in the future our research activity shall be oriented towards analysing the effects of the valuation of financial instruments over the information provided in financial statements.

Given the process of convergence for accounting standards initiated by the IASB and FASB, which is aimed at drafting a common Standard, it appears that the issue of differences between accounting standards is about to be solved. However, we believe that the long series of amendments applied to the standards concerning financial instruments is by no means coming to an end, since the frequent changes occurring in the evolution of markets, in particular in that which concerns financial markets, makes it impossible to establish accounting standards that would cover any possible situation that may occur in reality, which leads to a feeling of permanent instability.

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