STUDY ON DISCLOSURE LEVEL OF COMPANIES LISTED ON THE BUCHAREST STOCK EXCHANGE IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS: THE CASE OF INTANGIBLE ASSETS

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Abstract
In the context of economic globalization, the need for high quality financial information has become a desiderate. Accounting met such needs through a set of high quality standards, the International Financial Reporting Standards. Their global imposing, either through adoption or convergence, make its contribution to proper functioning of capital markets and even of the entire economy. The quality of financial reporting, however, is the result of how they are applied in each country or company. The objective of our study is to analyze the disclosure level of companies listed at Bucharest Stock Exchange (BSE) in compliance with the presentation requirements of the international accounting standard IAS 38 "Intangible assets". The empirical study revealed a significant level of non-compliance. In order to determine the degree of compliance with international accounting referential we built a disclosure index. Four hypothesis were tested in order to identify the factors that influence the disclosure level.

Keywords: *intangible assets, IFRS, compliance, disclosure index, financial reporting*

JEL classification: *M40, M41*

1. Introduction

In the context of changes occurring in the world, such as the development of financial markets and the expansion of multinational companies, there is a growing need for complex, comparable and transparent financial information. Moreover, the usefulness of accounting information has been put under question as a result of the great financial scandals and the recent economic crisis started in 2007. On the background of the loss of confidence in financial statements, the international accounting body (IASB) and the American accounting organization (FASB) intensified their efforts towards the international accounting convergence in order to achieve high quality global accounting standards, having as objective their worldwide implementation. Currently, an increasing number of countries have chosen to apply International Financial Reporting Standards - IFRS, either by adoption (most relevant example being the case of mandatory adoption for listed companies in the EU for their consolidated accounts) or by convergence with them (most renowned case being that of Australia).

After the EU endorsement of IAS Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards, listed companies from Member States, including banks and insurance companies must prepare their consolidated financial statements in accordance with IFRS as adopted by EU, excepting standards and interpretations related to financial instruments, as of January the 1st 2005. The objective of this decision consisted in providing of a higher level of transparency and comparability of the financial statements and a better functioning of community capital market. The implementation of IFRSs in Europe was not achieved without difficulty, under the strong influence of various categories of factors: the economic and social environment, the accounting culture and profession, the type of industry, enforcement difficulties (Gorgan and Gorgan, 2013).

In order to achieve compliance of national accounting regulations with EU regulations, as of 2007, in Romania they apply the IFRS as adopted by the EU, translated and published in Romanian, according to OMFP no. 1.121/2006 on the application of the IFRS. The preparation of financial statements in accordance with IFRS is mandatory for companies that are listed on a regulated market and that prepare consolidated financial statements. The other public interest companies are allowed to prepare their individual or consolidated financial statements under IFRS, for their own informational needs. In December 2010, National Bank of Romania issued the Order 27/2010 on the Accounting regulations conforming to IFRS, applicable to credit institutions starting 1 January 2012, being applicable to all credit institutions in Romania including Romanian branches of foreign credit institutions and foreign branches of Romanian credit institutions. Following the OMPF 881/2012 on the on the application of IFRS by companies whose securities are admitted to trading on a regulated market, these companies must prepare their financial statements under IFRS as of year 2012. OMPF 1286/2012 for approving the Accounting Regulations in accordance with IFRS, applicable to companies whose securities are admitted to trading on a regulated market presents accounting policies to be applied by entities for annual financial statements in accordance with IFRS requirements and a chart of accounts tailored to the information requirements of IFRS.

Albu et al. (2010b) deem that under the conditions of users requiring the application of IFRSs, a test environment and a selection process should have been performed which could have led to a viable local solution. Although the environment of emergence and development of IASB standards is very different from Romanian environment and incompatible with it, the preparation and disclosure of financial statements in accordance with international referential represented a legal obligation for companies and not a logical necessity. For Romania, the implementation IFRSs represents a significant change involving countless efforts from both the setters and especially from those who prepare financial statements.

Regardless the variant chosen by each country (IFRS adoption or IFRS convergence) in order to achieve high quality financial reporting on which users can make the right decision, it is not only the referential that matters but also the way standards are applied by each country or company. Difficulties related to the implementation of IFRS did not fail to appear, mostly due to different accounting traditions of each country, the political, social and economic environment in which companies operate.

Summarizing the results of studies on this subject the following impediments were identified: the complex nature of international standards, the lack of understanding of IFRSs and constant changes in content (Larson and Street, 2004; Jermakowicz and Gornik-Tomaszewski, 2006; Epuran and Megan, 2006); the existence of underdeveloped capital markets (Larson and Street, 2004; Ding et al., 2007); difficulties related to language, terminology and interpretation, which are generated by previous practice in different countries belonging to different accounting culture (Larson and Street, 2004; Schipper, 2005, cited by Albu et al., 2010a; Jermakowicz and Gornik-Tomaszewski, 2006; Zeff, 2007; Soderstrom and Sun, 2007; Alexander and Servalli, 2009, cited by Albu et al., 2010a); the strong relationship between accounting and tax system (Larson and Street, 2004; Epuran and Megan, 2006); presence of many differences between countries, which implies high costs for their disposal (Creţu and Ioniţescu, 2005; Jermakowicz and Górnik-Tomaszewski, 2006; Nobes and Parker, 2008); local traditions, lack of political will, powerful local perspective (Callao et al, 2007, cited by Albu et al., 2010a, Burlaud and Colasse, 2010).

Armstrong et al. (2010) deem that cultural and political differences in the way businesses are run can delay the achievement of „a unique global financial communication system", because a unique set of accounting standards lacks the ability to emphasize „the differences between national business practices that arise from differences in institutions and cultures.

With or without impediments, IFRSs tend to become „a global core set of standards, especially for capital markets", significantly leaving their mark on national standards and regulations all over the world (Albu and Albu, 2014). This is the reason why international accounting convergence and IFRS implementation are a topic of great interest, widely debated in literature.

Larson and Street (2004) found that although many large companies from all over the world claim that their financial statements are prepared in accordance with IFRSs, the reality is different. Assessing the level of information and compliance with IFRSs, many national and international research highlighted the lack of compliance with the requirements of international standards in various aspects (El-Gazzara et al., 1999; Street et al., 1999 Tower et al., 1999, quoted by Fekete et al. (2008), Larson and Street, 2004; Fekete et al., 2008 Gîrbină and Bunea, 2009; Tsalavoutas et al., 2010, Lucchese and Di Carlo, 2012; Glaum et al., 2013). According to paragraph 16 of IAS 1 revised, entities shall not describe financial statements as complying with IFRSs unless they comply with all the requirements of IFRSs.

In order to analyze the compliance with IFRS of various financial statements, most of the researchers use the disclosure index as research methodology (content analysis is another option pretty much used) and try to identify the factors that influences the compliance level. (Cooke, 1989, 1991; Wallace & Naser, 1995; Dumontier & Raffournier, 1998; Street & Gray, 2001, 2002; Fekete et al., 2008; Hodgdon et al., 2008; Gîrbină, 2009; Tsalavoutas et al., 2010; Tiron-Tudor & Ratiu, 2010; Lucchese & Di Carlo, 2012; Glaum et al., 2013). Starting from the premise that IFRSs are considered global standards of high quality, a higher level of compliance determined using the disclosure index could lead to the conclusion of higher quality financial reporting.

The diversity of studies on this subject originates from the fact that many of them target certain countries, others target certain companies within a country or even companies listed on several stock capital markets in a given region. It is examined compliance with either a particular standard or multiple standards. In determining the disclosure index either mandatory or voluntary information can be used, based on purpose. When using voluntary information, researchers must apply professional judgment to establish reporting requirements that should be included in the checklist, each item being considered independently (Gorgan and Gorgan, 2013).

IAS 38 „Intangible Assets" is one of the standards analyzed. During the last decades, the issue of intangibles has been widely debated. Impediments related to recognition, classification, and assessment and reporting of intangible assets are topical, increasing the interest of researchers, practitioners and regulators from around the world.

The debates started from the awareness of importance of intangible assets for an entity, under the circumstances of the changes occurring in the world, for example: the development of technology, especially the information and communication technology, the increasingly sharper competition etc. There has been a shift from mass production economy to knowledge based economy. The potential of an enterprise consist in knowledge, information, technical progress, intelligence, the way they are managed by an entity. These are key components that can differentiate it from its competitors. The essence of a person, company or entire society ability to produce wealth consist primarily in the knowledge it owns (Gorgan, 2002).

In addition to items already present (e.g.: tangible assets), new items are becoming more present in the life of an entity, e.g. intelligence, technical progress, information, knowledge, customers relationships, suppliers, employees skills. The disclosure of such information is essential for users in making decisions. Accounting failed to meet the expectations of such a challenge, leaving this information outside of the statements of financial position or even outside traditional financial statements. Difficulties arises not only with regard to disclosure of intangible assets but also in relation to definition, classification, recognition and evaluation (Gorgan, 2007). Accounting practices related to intangible items rely on ambiguous theoretical background and typologies (Malciu, 2002).

There is no consensus about terminology, definition and classification of intangible items. These has been referred as: intangible assets, intangible capital, immaterial investments, intellectual capital (usually used in management), human capital, invisible assets etc.

Intangible assets are, according to IAS 38, non-monetary, identifiable asset without physical substance. In order to be recognized, an intangible asset must meet the following criteria: a) the definition requirements (identifiable, control and future economic benefits) and b) recognition criteria. Entities often use resources or make debts to acquire, develop, maintain or upgrade intangible assets like computer software, patents, copyrights, motion picture films, customer lists, mortgage servicing rights, licenses, import quotas, franchises, customer and supplier relationships, marketing rights (IAS 38.9). Not all the items listed above meet the definition requirements of an intangible asset (e.g.: staff training costs, advertising costs, specific talent in the technical or business management). For them, the costs related to acquisition or internal generation are recognized as expenses when they incur. However, if acquired in a business combination (groups) businesses, those elements are part of the goodwill recognized at the acquisition date (IAS 38.10).

As financial statements cannot capture all the factors that bring value to the enterprise, because of the recognition and measurement constraints, the question of measuring and reporting them outside the classic financial statements was raised. Many studies have shown that in order to improve the quality of reporting, these elements must be communicated to the user, one way or another. The intellectual capital has been brought in discussion, signaling a different type of capital as opposite to physical or financial capital (the economist John Kenneth Galbraith uses for the first time the concept of intellectual capital in 1969-Bontis, 2000), with divergent views on definition and measurement.

Nahapiet and Ghosal (1998) define the intellectual capital as the amount of all knowledge a firm uses to create competitive advantages. The most common classification is that, according to which, intellectual capital includes human capital, customer capital and structural capital. Some experts deem that intellectual capital is intangible capital equivalent. Hunter et.al (2005) showed that there is an inclusion relationship (the intellectual capital being a component of intangible capital). Other researchers defined intangible capital through its component: human capital, customer capital and structural capital. Intangible assets are only a part of intangible capital (Precob, 2014; Fădur et al., 2013).

As an answer to all these debates and given the particular importance of "intangible" in the new economy, the Integrated Reporting Framework was created, according to which the disclosure of important information related to intangible items must be done in an integrated report. Information on the following matters will be provided:

-intellectual capital (fixed intangible assets that form a competitive advantage - e.g. patents, "organizational capital" - tacit knowledge, systems, procedures, protocols);

-human capital (e.g. competences, skills and experience of employees, capacity and motivation to innovate)

-social and relational capital (e.g.: institutions and relationships established within and between communities, user groups and other networks).

Integrated reporting is the process from which communication results, mostly visible through a periodically „integrated report" of the value created over time (IIRC, 2013).

The objectives of our study targets only the information provided intangible assets according to IAS 38. We will realize a brief overview of the studies on this subject targeting information disclosed in relation with intangible assets especially in the context of application of international standards.

Sahut el al. (2011) conduct a comparative study, international versus local standards, on the informational content of the intangible assets for 1855 European listed companies for a 6 years period, 2002-2004 for local standards and 2005-2007 for international standards. The authors find that the book value of other intangible assets is greater after the application of international standards, compared to the application of local standards, providing more information that explain better the price of the share and stock market returns. The results of the research suggest that the adoption of international standards determined a series of changes in the value of accounting information, for example, many companies have reclassified as goodwill intangible assets that no longer meet the definition of IAS 38, but additional assessment have been made in order to comply with IAS 38 and IFRS 3. According to IAS 38, the criteria used to classify intangible items as intangible assets are more restrictive. Thus investors seem to pay less attention to goodwill compared to other tangible assets seen as income generator. In line with previous studies, the obvious differences among countries persist, despite the existence of a common set of standards, while legal and regulatory characteristics of each country and market forces have a significant impact on the value relevance of accounting data.

Ferrari and Montanari (2010) analyze the effects on intangible generated by the adoption of IAS 38. After the application of international standards, some categories of intangible are recognized in the statement of comprehensive income, others are capitalized, and others are evaluated for impairment test. A number of 128 Italian companies were analyzed for year 2005 (99 small and medium enterprise and 29 big enterprises). The results of the study revealed that IAS 38 decreases the amount of intangible assets disclosed in the balance sheet, to a greater extent in the case of SMEs than in the case of large enterprises. These differences can be explained by different development strategies of these categories of companies (in the case of SMEs the strategies are internal, while large companies develop using external channels). In addition, it is found that the decrease of the intangibles value, through their inclusion in the statement of comprehensive income, is not compensated by the increase of the economic value after the impairment test, instead of amortization in the case of intangible assets with an indefinite life.

Teodori and Veneziani (2010) study the IAS 8 application effects on the financial reporting for Italian companies listed at several capital markets in 2005 and 2006, using the content analysis and the disclosure index as research methodology. In the same time the potential factors that influence the level of disclosure in compliance with IAS 38 are analyzed. Although the authors expected the company to disclose both required but also voluntary information related to intangible assets, in the context of IAS 38 requirements and knowing the importance of these items for a company, the degree of compliance with international standards is low.

Dumitrescu (2012) analyze the way Romanian companies listed at BSE disclose their information related to intangible assets. For this purpose he develop a disclosure standard based on the most important intangible assets mentioned by literature: human capital, technology, customers, quality policy and image. The conclusions of the study showed that the disclosure of information related to intangible assets is at its beginning, companies not giving enough importance to the disclosure of detailed information on intangible assets in their annual reports. However, most companies provide information on human capital (training programs, the presence or absence labor conflicts, award scheme, etc.), information on research and development, and environmental protection. Furthermore, the author proposes a model to assist companies in identifying, assessing and controlling intangible elements which can be used both for internal (management of intangible assets) and external purposes (presentation of information to users to assess the resources and the potential of the company).

Fădur et al. (2013) identify the extent to which companies listed on Bucharest Stock Exchange and on Madrid stock exchange comply with the disclosure requirements of IFRS on intangibles. There have been analyzed consolidated financial statements prepared in accordance with IFRS. Based on the eight questions from the set proposed by the authors in accordance with IAS 38 requirements, the disclosure level of companies was determined (level of dissemination of the Romanian companies included in the sample being 32.57 %, while the one of the Spanish companies was 61.11%) and a critical analysis of the reporting in accordance with IAS 38 was performed. In addition to the information required by IFRS, the authors analyzed non-financial information related to human structural and relational capital. Unlike the Romanian companies, Spanish companies provide more information about intangible items.

Precob (2014) calculated the "average degree of dissemination of information on intangible capital", analyzing annual reports, corporate social responsibility reports, information on the official website of the company and reports according to the Romanian Financial Authority for 63 companies listed on BSE. Each criteria used to express the components of intangible capital –human capital (number and age of employees, incentives / benefits to employees, time spent on training of employees), structural capital (national and international certifications obtained in the field of product quality, concern for the environment; customers satisfaction index, social programs, donations) and relational capital (innovation, research and development, management information system, number of patents) – was evaluated with scores between 0 and 1, where 1 is granted for a complete, detailed, satisfying answer. The study revealed that the level of information disclosure is between 0.08 and 0.73 while the intangible capital subcomponents have an average score of 0.35 (human capital), 0.37 (relational capital) and 0.21 (structural capital). In line with similar studies, a direct association of medium intensity between the level of dissemination and the quality of auditor membership to Big 4 was detected.

In the context of the increasing number of worldwide companies applying IFRSs and of the controversies related to assessment and disclosure of intangible assets, our research aim to answer the following questions: What is the level of compliance with IFRSs of the financial statements of Romanian companies listed at BSE (Bucharest Stock Exchange) in relation to information requirements of IAS 38? What are the factors that influences that level of compliance? What are the most important aspects omitted in the disclosure of intangible assets of the companies listed at BSE?

The paper is structured as follows: the first part includes literature review on the nationally and internationally application of IFRSs, highlighting the studies that targeted the intangible assets, the second includes an explanation of the methodology adopted for the study and its results, and the last part consist in conclusions and future research directions.

2. Methodology and research results

2.1. Research methodology

The disclosure index is used as research methodology. The choose of the disclosure index was determined by the analysis of the literature and the success of the disclosure index among the researcher that tried to establish compliance with international standards.

We chose to analyze the requirements of IAS 38 because of the importance of assessing and reporting intangible assets to the users, on one hand, and the interest showed lately by the studies on IFRS implementation on the other hand. It is expected that entities to disclose detailed information on intangible assets, in the context of their increasing importance, although national standards are different from the international ones. IAS 38 is one of the most innovative standards both in theory and in terms of performance impact (Teodori and Veneziani, 2010).

The research uses the disclosure index as methodology. The choice was made after literature review and noticing the success of the disclosure index in establishing compliance with international standards. In the same time we performed a content analysis of the financial statements of companies listed on BSE, collecting and analyzing data in order to objectively describe the reported information on intangible assets.

IFRSs implementation in various countries of the world resulted in series of studies that tried to establish the compliance with this standards. Most of them use the "dichotomous" disclosure index approach, proposed by Buzby (1975), and developed by Cooke (1989, 1991). If a required item is present then that item is scored as 1, otherwise it is scored as 0.

Tsalavoutas et al. (2010) deem that the index is not entirely dichotomous, because there are some items that are not applicable to a company and hence these are scored as "not applicable". The index is computed as a ratio between the existing disclosure level and the maximum applicable disclosure level of that company.

$$DI = \frac{\sum_{i=1}^{m} di}{\sum_{i=1}^{n} di} \quad (1)$$

Where:

DI-disclosure index

di-score for item i (1 if the item is disclosed, 0 otherwise)

m-number of item disclosed

n- the maximum number of item to be disclosed

An index value closed to 1 suggest a higher level of disclosure and compliance, a value close to 0 meaning the opposite. The index computed this way is unweighted as it gives equal weight to all the items involved. There is also a weighted index but is thought to be biased because of the subjectivity in setting the weight of each item. The unweighted disclosure index was mostly used in previous studies related to compliance with mandatory requirements of IFRSs (Street and Gray, 2002; Glaum and Street, 2003; Fekete, 2008; Hodgdon et al., 2008; Gîrbină, 2009; Tsalavoutas et al., 2010; Lucchese and Di Carlo, 2012; Glaum et al., 2013).

Our research followed several steps. First we identified the items used to determine the disclosure index using IFRS Presentation and Disclosure Checklist) (Deloitte) and the text of standards.

Subsequently we determined the disclosure index by giving a score of 1 if the item is disclosed, 0 in the opposite situation. For this purpose we conducted a thorough analysis of the content of the annual reports of the selected companies. Before scoring an item as 0 or 1, an analysis was perform on whether that requirement is applicable to that entity (some of the requirements of the standard may not be relevant for an entity). The not applicable requirements were removed from the calculation of the index. Information disclosed voluntary by companies which is not mandatory but encouraged to be disclosed by IAS 38 is not included in the analysis. We thought that every item required is equally important for users and therefore we avoided to give weight to items, reducing subjectivity and following the trend of most previous studies. The disclosure index for each entity was calculated using the formula:

$$DI = \frac{\sum_{i=1}^{m_{IAS\,38}} di_i^{IAS\,38}}{\sum_{i=1}^{n_{IAS\,38}} di_i^{IAS\,38}} \quad (2)$$

Sample presentation

The sample consist of companies listed at BSE (category I and II) that prepared their consolidated financial statements in accordance with IFRS in years 2010, 2011 and 2012. Most of them are groups of companies that applies the international standards, only one entity preparing individual financial statements in accordance with IFRS. Data were collected between September 2013 and February 2014 from the websites of the companies concerned. The results of the selection process of companies included in the study are presented in the following table.

Table 1 **Sample selection**

Number of companies listed at BSE (category I and II)	80
- Financial services institutions	12
- Companies that present their financial statements in accordance with national standards in 2010 and 2011	54
= Companies that present on their website their financial statements in accordance with IFRS in 2010, 2011 and 2012	14

Hypotheses tested

Previous studies have highlighted a number of factors that influence the disclosure level in accordance with international standards. Some of the factors studied are: the size of the entity, profitability, auditor reputation, leverage (financial structure), international visibility, industry type etc.

Company size, usually measured as total assets or sales, is one of the factors that can influence the disclosure level, starting from the premise that bigger companies benefits from better informational systems and more resources that can be redirected towards financial reporting. Some studies revealed a positive correlation between company size and the disclosure level: Fekete, Matiş and Lukács, 2008 – disclosure index calculated for standards related to consolidation, Bonson and Escobar (2006) - study on disclosure level on the Internet. Other studies failed to find a correlation between disclosure level and company size (Street and Gray, 2002; Gîrbină, 2009).

Profitability, calculated as ratio of net income and total assets, can influence the disclosure index, as it is considered that companies that perform well have a greater interest in disclosing their positive results. Previous studies on relationship between profitability and disclosure level are inconsistent. Gîrbină (Gîrbină, 2009), Fekete, Matiş and Lukács (Fekete, Matiş and Lukács, 2008), Street and Gray (Street and Gray, 2002), Dumontier and Raffournier (Dumontier and Raffournier, 1998), found the two variables independent, Shinghvi and Desai (Singhvi and Desai, 1971) found a positive correlation, while Wallace and Naser (Wallace and Naser, 1995) found a negative correlation.

Auditor reputation, determined by the auditor membership to Big Four, can influence the disclosure level of an entity starting from the premise that big audit firms can encourage companies to disclose more information as they have a reputation to maintain. The results of the studies on the relationship between auditor reputation and the disclosure level in accordance with IFRS are divergent. Street and Grey (Street and Gray, 2002), Gîrbină (Gîrbină, 2009) and Bonson and Escobar (Bonsón and Escobar, 2006), Gorgan and Gorgan (2012) found a positive correlation between the disclosure level in accordance with IFRS and auditing by one of the big audit firms.

The percentage of intangible assets in total assets is a ratio that can influence the disclosure level as entities with a higher level of intangible assets may have a bigger interest in disclosing information about them. Da Silva et al (2012) found no correlation between percentage of intangible assets and the disclosure level in accordance with IAS 38.

Starting from the items presented above, our study test the following hypotheses:

H1 There is a positive correlation between company size and the level of compliance with IAS 38

H2 Profitability is positively associated with the level of compliance with IAS 38

H3 Auditing by one of the big firm audit (auditor's reputation) is correlated with the level of compliance with IAS 38

H4 The percentage of intangible assets is correlated with the level of compliance with IAS 38

2.2. Research results

In order determine the disclosure index, starting from the objectives of our study, IAS 38 requirements were considered. The disclosure indexes for each company, calculated for years 2010, 2011 and 2012 are as follows:

Table 2 **Disclosure index**

Company	**Index 2010**	**Index 2011**	**Index 2012**
Petrom S.A.	0,6250	0,6250	0,6250
ALRO S.A.	0,5000	0,5000	0,5000
ALUMIL ROM INDUSTRY S.A.	0,5455	0,5455	0,5455
Rompetrol Rafinare SA	0,4615	0,4667	0,5000
Oltchim SA	0,6923	0,7143	0,6923
Transelectrica	0,5455	0,5455	0,5455
SNTGN TRANSGAZ SA	0,5455	0,5455	0,5455
Romcarbon SA	0,6364	0,6364	0,7273
Dafora	0,2727	0,2727	0,2727
Impact	0,1667	0,1818	0,1818
Teraplast	0,6923	0,7273	0,7273
Turism Felix	0,6364	0,5833	0,5455
THR	0,5455	0,5455	0,6364
Electroaparataj	0,0000	0,0000	0,0000

The results, according to descriptive statistics are as follows

Table 3 **Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
Index 2010	14	,0000	,6923	,490379	,2053168
Index 2011	14	,0000	,7273	,492107	,2057244
Index 2012	14	,0000	,7273	,503200	,2122397
Valid N (listwise)	14				

The mean value of the disclosure index is approximately constant every year, showing a slight increase (0,4903 in year 2010; 0,4921 in 2011and 0,5032 in 2012), proving the fact that companies tend to maintain the disclosure of the same information from one year to another, and even to copy the same sentences without adapting them to that particular year.

The smallest value of the disclosure index on the intangible assets is 0, as one of the company does include the notes in its financial statements. The biggest values of the disclosure index are 0. 6923 in 2010, 0.7273 in 2011 and 0.7273 in 2012. The fact that, in general, the percentage of intangible assets in total assets is low, is not a reason that can justify the lack of transparency in relation to their disclosure.

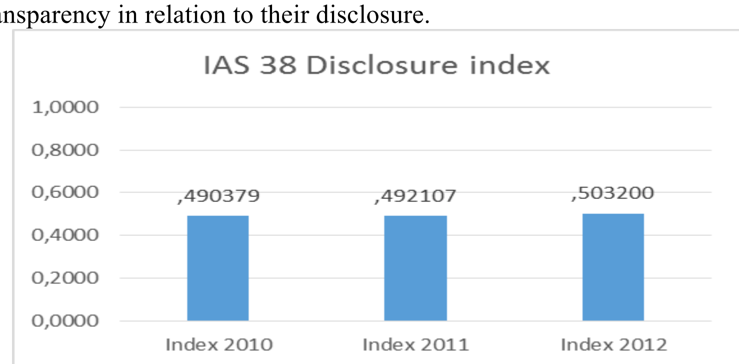

Figure 1 Mean disclosure index

Correlation analysis attempted to determine the factors influencing the level of information in accordance with the requirements of IAS 38. Four hypotheses were tested. In order to test the correlation between the previously determined disclosure index and the influencing Spearman (to test the hypotheses H1, H2 and H4) or Pearson (to test the hypothesis H3) correlation coefficients were used. Test results showed a moderate positive association (r = 0.505 at a significance level of 0.1) between the disclosure level in accordance with the requirements of IAS 38 and auditor reputation.

Table 4 **Correlation results for hypotheses H1, H2 and H4**

			IAS 38 Index	Company size (Sales)	Company size (Total assets)	Profitability	Intangible assets to total assets ratio
Spearman's rho	index IAS 38	Correlation Coefficient	1,000	,060	-,196	,157	,175
		Sig. (2-tailed)	.	,704	,213	,320	,266
		N	42	42	42	42	42

*** Correlation is significant at the 0.05 level (2-tailed)**
**** Correlation is significant at the 0.10 level (2-tailed)**

Table 5 **Correlation results for hypothesis H3**

		Index IAS 38	Auditor's reputation
index IAS 38	Pearson Correlation	1	,505**
	Sig. (2-tailed)		,001
	N	42	42

*** Correlation is significant at the 0.05 level (2-tailed)**
**** Correlation is significant at the 0.10 level (2-tailed)**

2.3. Critical analysis of the information presented in the financial statements published by the entities listed on the BSE in accordance with IAS 38

The empirical testing of the compliance of financial statements of listed entities on the BSE with the information required by the international reference will be continued with a qualitative analysis of financial reporting on intangible assets. Following a thoroughly analysis of the financial statements of the entities and scoring the compliance with the reporting requirements, a series of general remarks could be outlined.

The analysis of financial statements was conducted over three years (2010, 2011 and 2012). In general the disclosure index is low and remains constant from year to year despite expectations. Only four companies showed a slight increase.

The first presentation requirement of IAS 38 is to present information for each class of intangible asset, generally this requirement being met by most of the companies. Analyzing financial statements, we found that the most present classes of intangible assets in the statement of financial position are: licenses, patents, computer software, other intangible assets, prepayment for intangible assets, intangible assets in progress and goodwill (five companies disclose this item separately: ALRO, Rompetrol Rafinare, Romcarbon, Dafora, THR Marea Neagra)

Companies do not distinguish between internally generated intangible assets and other intangible assets. Probably most of the assets are purchased, but the information about how they are obtained (separate acquisition, business combination, government grants) are not available. Thoroughly analyzing the financial statements we could infer only for two companies which of the intangible assets are internally generated (development expenses) and which ones are acquired. We also identified the lack of information related to IAS 38 requirement on presentation of the additions indicating separately those from internal development, those acquired separately, and those acquired through business combinations. Only two companies received 1 point for this requirement.

For each class of intangible assets an entity must disclose whether the useful life of an intangible asset is indefinite or definite (IAS 38.118) and when the useful life is indefinite, the book value of the asset, the reasons supporting that assessment and a description of the factor(s) that played a significant role in making that decision (IAS 38.122). Most of the companies, probably under the influences of local rules and taken by surprise by this new requirement, do not disclose such an information. Petrom and THR Marea Neagră are the only companies that perform this classification, reporting that all intangible assets have finite useful life, excepting the goodwill.

Teodori & Veneziani (2010) deem that the two categories of intangible assets have a different impact on financial results, e.g.: when brands are thought as having an indefinite useful life, EBIT and net income are for sure better than in the situation in which the brands would have been amortized.

For assets with indefinite useful life, all the companies (excepting Electroaparataj) disclose in accordance with IAS 38.118, the useful life used, the amortization methods (in all the cases the straight-line method), the gross carrying amount and any accumulated amortization (aggregated with accumulated impairment losses) at the beginning and end of the period;

Entities facing impairment losses and their reversal, disclose such information, but not other additional information required by IAS 38.120 on impaired intangible assets. Not all the companies disclose the amount of amortization recognized during the period (IAS 38.118). None of the companies provides a description, the carrying amount and the remaining amortization period of each individual intangible asset that is significant, in the financial statements of the entity (IAS 38.122).

The IAS 38.126 requirement that demand the disclosure of the aggregated amount of research and development expenditure recognized as expense of the period, in most cases is not applicable, but even when these items exists, the entities does not disclose the required information.

All the entities declare that they use the cost model for both initial and subsequent recognition. Even if, by the adoption of IAS 38, the revaluation model has been introduced for the subsequent evaluation of intangible assets (a major change for Romanian companies accustomed to historical cost), none of the analyzed companies has chosen this option. Specific information about fair value is missing.

We can conclude that there is a lack of interest in disclosing information on intangible assets for most of the entities analyzed. Some information required by IAS 38 not only is not detailed but is not even disclosed. It is expected, in the future, that entities listed at BSE to pay more attention to user needs and to be aware of the importance of recognition, assessment and the disclosure of intangibles.

By the adoption of IAS 38, companies applying international standards must comply with more restrictions on intangible assets recognition, restrictions that, for example, unlike the national standards, allow the recognition of the lists of customers but not of the formation expenses. It is recommended that entities to be aware of the intangible assets with indefinite useful life, to be able to correctly apply the depreciation tests, to review whenever needed the amortization method, the useful life and the residual value of the intangible assets with definite useful life. At the same time, companies must consider the option provided by IAS 38 on the intangible assets reevaluation. The mission is extremely difficult, as long as IAS 38 considers that intangible assets can be assessed only where there is an active market and it is quite unusual the existence of a market for such a type of assets (IAS 38.78).

Companies' efforts should be directed not only towards compliance with IAS 38, but also towards the measurement and disclosure of the intangible items that create value which cannot be found in the financial statements. Teodori & Veneziani (2010) recommend a greater transparency in reporting information in order to obtain a clear representation of intangible assets and of financial performances.

3. Conclusions and research limitations

The application of IFRSs in Romania is a reality and an adaptation of Romanian accounting to the global changes. This is a process that cannot be achieved without difficulty, especially because the Romanian environment, where the IFRSs are to be implemented, is different from the environment where they originate from.

Even if the advantages of applying international standards in Romania are beyond any doubts, we must note that the purpose to meet the needs of various categories of users, and especially the needs of investors, can be seriously compromised because of the financial statements which only pretend compliance with IFRS.

In line with previous studies from Romania and other countries that apply IFRS, our study shows that there is a high level of non-compliance with IAS 38. Many of the companies analyzed do not disclose required information, proving superficiality in the disclosure of intangible assets. Test results showed a moderate positive between the disclosure level in accordance with the requirements of IAS 38 and auditor reputation.

Albu C.N. et al., (2010b) deem that although significant changes occurred lately: the users begin to demand not only quantitative but also qualitative information; auditors are more exigent and the accounting preparers are becoming more qualified etc., currently IFRSs are not fully understood and properly applied in practice. In this context we draw attention to the need of management involvement in the financial reporting process. The management along with well-trained accounting professionals could achieve the implementation of international accounting referential.

In the new knowledge based economy, new communication channels of the intangible assets must be developed. Increasing the quality of intangible assets disclosure cannot be achieved without companies' efforts to report information as detailed and various as possible. For example, under the restrictive conditions of IAS 38 on intangible assets recognition, companies may be required or may voluntarily disclose information on internally generated assets and the reason they do not meet the recognition criteria.

Internationally, the Integrated Reporting Council (IIRC) supports entities by creating an international framework of integrated reporting which guides the creation of an integrated report. This report will disclose information on human capital, intellectual and relational capital. In Romania, some companies curently present information about corporate social responsibility. The study conducted by Dumitru et al. (2011) for determining the degree of transparency in the communication of information related to social responsibility by the entities listed on the BSE, has shown that there is a correlation between the level of transparency of the information presented on their websites and the activity type of the company (business firms in the non-financial domain have a higher degree of disclosure on their sites than financial services firms).

Research limitations are related on one hand to subjectivity in determining whether an information requirement is fulfilled when the disclosure index is calculated and, on the other hand to the reduced number of companies analyzed due to fact that in Romania, before 2012, only listed groups of companies were required to prepare their consolidated financial statement in accordance with IFRS. Moreover, the relatively short period of analysis (three years) is explained by the fact that at the moment the study was conducted, companies had not disclosed their financial statements for the year ended December 31, 2013, and collecting data prior to 2012 would have led to a reduced sample size.

Future research will target an increased number of companies analyzed, taking into account that as of 2012 all companies listed at BSE must prepare their individual financial statements in accordance with IFRS. Moreover, a larger period of time could be used for analysis and an increased number of items that could influence the disclosure level. Reducing subjectivity in determining the disclosure index could be achieved by involving more researchers and by comparing scores obtained. The use of more complex research methodologies could lead to more relevant results. In this respect, adding questionnaires could be useful to understand the actions of the various entities.

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