Reporting Frameworks for Financial Instruments in Czech: Czech Accounting Practices versus International Financial Reporting Standards

JIŘÍ STROUHAL
Department of Financial Accounting and Auditing
University of Economics Prague
W. Churchill Square 4, 130 67 Prague 3
CZECH REPUBLIC
strouhal@vse.cz

Abstract: - During last decades financial accounting faces the shift of financial reporting paradigms from historical costs accounting towards fair value concept. The most visible item of this change is reporting for financial instruments, particularly for financial derivatives.
The research presents the particular approach of the analyzed area, namely identifying the particularities of reporting for financial instruments in correspondence to IFRS, through both theoretical description and empirical analysis, and continuously linking the findings to the actual knowledge stage and theories developed in the field. The results show a high level of similarity between Czech accounting principles and IFRS for reporting of financial instruments.

Key-Words: - Financial Instruments; Financial Reporting; IFRS (International Financial Reporting Standards); Czech Republic; Historical Costs Accounting; Fair Value Accounting.

1 Introduction

Fair value represents a financial reporting paradigm of nowadays, mandating fair value disclosures being the result of a long standing debate between the advocates of fair value and historical cost accounting.

From a very pragmatic point of view, the evaluation process can be seen as being nothing more than the search for an answer to a very important question: "What is the value of…?" Before parting in our quest for the appropriate answer, a definition of value must be given. We consider that this definition should start with the identification of the right value standard, i.e. the necessary type of value. Every standard of value contains a series of assumptions that represent the essence of the type of value used in a certain conjuncture. Furthermore, once that standard has been chosen, there is no guarantee that it will benefit the unanimous approval of its assumptions.

The most widely used value standards are "fair market value" and "fair value". A linguistic approach to the two terms indicates that "fair value" is a more comprehensive notion, because it refers to a value that is "right and correct". The "right and correct" concept is a more permissive one, the best way to illustrate it is by giving an example: the right value of an asset can be represented by its value on the market, by its intrinsic value, by its exchange value, or, in some situations, by the liquidation value of that asset. The concept of fair market value is a more restrictive one, due to the presence of the term "market". This trait can make one ask himself weather the term "market" is linked to the adjective "fair" (like in "fair market") or the noun "value" (like in market value). We are obliged however to determine the value we would receive on the market - during a real or a hypothetical transaction - in exchange for an asset. The "fair market value" represents the base of all judgments of value, while "fair value" is defined in terms of financial reports.

References to standards of value appear from the beginning of the 19th century, without the term being defined. It was in the second half of the 19th century when the development of the railways allowed the expansion of trade, thus favoring corporations and generating the necessity of evaluation solutions (algorithm) for properties (which had to be taxed), for settling disputes among shareholders etc. At the beginning of the 20th century, law courts, states and other regulation offices begun to be confronted with various litigations, which evolved business evaluations. Terms like "willing buyer", "willing seller" or "knowable", started being mandatory in the process of determining fair market value in the 1920s. Things started changing even more in the last half of the 20th century, when the most valuable assets of an economic entity begun to be intangible, rather than tangible. Therefore, the evaluation process had to evolve too, in order to keep up with the times. A more complex evaluation method was badly needed.

The first defend that **fair value** of financial assets and liabilities better enables investors, creditors and other users of financial statements to assess the consequences of an entity's investment and financing strategies, while the later suggest that investors would be reluctant to base valuation decisions on the more subjective fair value estimates pointing to the reduced reliability of fair value estimates relative to historical cost. Furthermore accounting standards setters in many jurisdictions around the world, including the United States, the United Kingdom, Australia, and the European Union, have issued standards requiring recognition of balance sheet amounts at fair value, and changes in their fair values in income.

The study places the role of the information provided through financial reporting within the mechanisms of capital markets, along with their other components. Moreover it focuses at one very important aspect in generating accounting information that is accounting regulations. The paper brings its contribution within the international literature not only through the mentioned integrated approach, but also through the particular focus on Czech emergent capital market.

Nowadays, maybe more than ever, it is the time to acknowledge the fact that information provided through financial reporting plays a crucial part on the arena of international financial sector. The current financial crisis makes us reconsider the entire decision making process in financial areas at different levels, financial instruments still having a "front seat" in the whole "real story". The foresights of the international referential have always been closely analyzed, considering their compatibility to national accounting systems in the context of existing problematic differences. The challenges in endorsing IFRSs are now highlighted by a big question mark on their capacity of properly defending the vulnerabilities of the international financial system.

The originality of the paper consists in offering insights on the specific case of Czech Republic, correlating the state of facts with the foresights of national accounting regulation, by reference to the international referential and the current financial crisis. The performed analysis on national accounting regulation reveals a high degree of similarities with the international referential. This imposes the focus on the significance of the found dissimilarities and questions how appropriate the formal harmonization degree is to the level of development on Czech capital markets. Another investigation is done on the way IASB is keeping pace with the developments and engineering within the international financial system.

2 Literature Review

Summarizing previous researches in the field of accounting harmonization we notice them focusing primarily on two basic aspects – the reliability and the correctness of the evaluation [1, 9, 10, 12]. However, it shall be stated that managers' requirements representing their specific needs are met differently [4]. There should be also mentioned a set of conceptual approaches [18] which emphasize a system of factors which are considered to be favorable or even determinant for the national accounting diversity.

Year 2002 represents an important moment for financial reporting, the Council of the European Union issuing an order imposing an obligation on companies listed on European stock exchanges to structure their consolidated final accounts according to the IFRS starting with year 2005 at the latest. If it wasn't for these uniform accounting standards, currently, there would be 27 different methods of financial accounting reporting by listed companies in the EU [25]. [3] anticipates that the future of the IASB will definitely be connected with the successful introduction of the IFRS in Europe. Therefore we can appreciate that the decision of applying IFRS within the European Union represents an approach which implicitly generates a process of reducing the accounting diversity in order to reach a certain level of uniformity, in the regional economic and political context of the European community.

[13] analyze the institutional factors influencing countries' decisions to voluntarily adopt International Financial Reporting Standards, using a sample of 38 countries, considering that a better understanding of the motivations for adoption would enable standard-setters to promote them more effectively to countries that currently don't employ International Financial Reporting Standards. Their findings show that countries with weaker investor protection mechanisms are more likely to adopt IFRS, fact which is actually consistent with the view that countries with weak shareholder protection bond themselves to superior accounting standards in order to access international investors and/or markets.

An interesting approach is the one of [2], focusing on the relationship between the paradigm of Fair Value Accounting (FVA) and International Accounting Harmonization (IAH), showing that FVA acts as a catalyst in promoting IAH. They find that the system of FVA fosters the globalization of financial markets and international economic integration, which in turn, refine the measure of fair value and the system of FVA. FVA propels IAH and IAH provides more relevant information that may foster the efficiency of global markets, which improves the quality of the FVA figures.

In the review made while examining the European evidence for the relationship between accounting information and capital markets, [7] classify the European literature into three groups: studies of the market reaction to newly released accounting information; studies of the long term association between stock returns and accounting numbers and studies devoted to the use of accounting data by investors and to the impact of market pressure on accounting choices.

[17] performed a survey on emerging derivatives markets concluding that both commodity and financial derivatives markets have grown in emerging market economies over the past few years, though the sizes of the markets are relatively small compared to those of matured economies.

As for where the Czech Republic's experience in derivatives, [14] describes them as a "phenomenon of the financial and commodity markets of the 80's and '90" allowing fast, easy, and affordable management of market risks faced by financial institutions, businesses and individuals. He performed an analysis on their national and international development trends and also described some accounting practices together with the approach of regulators.

Before the IFRS standards were adopted in the EU, it was stock exchanges in particular which required that listed entities submit financial statements in compliance with the IFRS or US GAAP. Previous researches dealing with the degree of disclosure [6, 18], or the probability of using multinational standards [8, 16, 19] indicate a positive correlation between the listing of accounting units on foreign markets and the degree of disclosure and use of multinational standards as the basis for financial reporting.

[21] analyzes accounting harmonization with reference to the standards which are most widely discussed in terms of their practical implementation, namely: IAS 32 Financial Instruments: Presentation, IFRS 7 Financial Instruments: Disclosures, and IAS 39 Financial Instruments: Recognition and Measurement. It is [24] who defends the international referential considering the current crisis circumstances, by underlying the importance of also analyzing the way IFRSs are applied, key issue often underestimated in Europe. He also recalls what the Banking supervision committee of the Euro system had stressed before the crisis began, namely that the quality and international consistency of IFRS implementation and enforcement is vital to financial stability.

Numerous researches also deal with information potential of measurement and accounting. Information systems are to assure enough information and transfer it according to a company's need, in relation to a company organisation structure. Knowledge is a fluid mix of framed experience, values, contextual information, expert insight and grounded intuition [26]. One portion supports day-to-day decision making; another part is used for tactical and strategically decision making [5, 22]. To assess an information system, economic and technical aspects should always be taken into account. [15]. Accounting part of the information system helps to make accounting records be in compliance with valid legislature [20].

3 Research Design

Paper develops a diagnosis of the Czech accounting system in the particular area of reporting for financial instruments. This is done through a descriptive analysis of the considered variables. The quintessence of the research methodology is based on the mutual relationship between information provided through financial reporting and the capital market. On one hand there are accounting regulations strongly influencing the outcome of financial reporting, and then, it is this outcome that determines the reaction of players on the capital markets. The reactions of players on the capital market often leads to financial engineering that must activate the reaction of standard setting bodies which will respond through the tool of accounting regulations and the circle is therefore reengaged. The reactions of players on the capital market and their financial engineering determine the investors' behavior, while the reaction of standard setting bodies and accounting regulations are part of the accounting regulatory process. The outcome of financial reporting is also influences by the accounting profession and accounting practices. The investors' behavior, the accounting regulatory process, the accounting profession and accounting practices are all influenced by one country's history, culture, political and economic environment.

An empirical analysis is performed on accounting regulations in the field of financial instruments. It involves closely analyzing the foresights of the Czech accounting regulation, of the IFRSs and also of the European Directives. The similarities and dissimilarities between the considered accounting regulations are therefore determined.

Harmonisation can be divided into two groups: formal accounting harmonisation and material accounting harmonisation. Formal harmonisation refers to the way accounting standards are written: that is, to their legal or quasi-legal specification. Material harmonization refers to the level of concordance exhibited by the actual practices of companies in implementing accounting standards. Majority of researches dealing with the topic of the measurement of harmonization are focused on the formal part of this process.

Historically, researches dealing with material harmonisation measurement used the model based upon Van der Tas approach. [23] uses a **Herfindahl concentration index (H index)** to measure the harmonization of an accounting method within a country. The H index is computed as:

$$H = \sum_{m=1}^{M} P_m^2 \qquad (1)$$

where:

H Herfindahl index

m alternative accounting method m

P_m relative frequency of accounting method m

[23] developed two variants of H index; the C index and the I index. The C index measures national harmonization when a company provides information for several alternative methods of particular accounting practices. The I index measures international harmonization, i.e. harmonization of accounting practices among two or more countries. The I index is computed as:

$$I = \left[\sum_{m=1}^{M}\left(\prod_{n=1}^{N} P_{m,n}\right)\right]^{\frac{1}{N-1}} \qquad (2)$$

where:

I I index

m alternative accounting method m

n country n

$P_{m,n}$ relative frequency of accounting method m in country n

Several models are also proposed for measuring of formal harmonisation. E.g. [11] deals with **Spearman's correlation coefficient** for measurement of the actual stage of national accounting standards and those of IASB. Spearman correlation coefficient is a non-parametric measure of correlation – i.e. it assesses how well an arbitrary monotonic function could describe the relationship between two variables, without making any other assumptions about the particular nature of the relationship between the variables. Certain other measures of correlation are parametric in the sense of being based on possible relationships of a parameterised form, such as a linear relationship. The modified calculation formula for the formal accounting harmonisation measurement is as follows:

$$rs = \frac{\sum_{i=1}^{n} R(NC_i)R(IC_i) - n\left(\frac{n+1}{2}\right)^2}{\sqrt{\sum_{i=1}^{n} R(NC_i)^2 - n\left(\frac{n+1}{2}\right)^2} - \sqrt{\sum_{i=1}^{n} R(IC_i)^2 - n\left(\frac{n+1}{2}\right)^2}}$$

where:

n total number of accounting methods included in the sample

$R(NC_i)$ rank order of accounting method i of national accounting standards

$R(IC_i)$ rank order of accounting method i of international accounting standards

In order to achieve a quantification of the similarity degree between the considered accounting referential there was developed an empirical analysis with character of comparison. Based on the methodology of previous studies dealing with formal harmonization [11, 21] there was identified a series of elements regarding financial instruments which we then organized within five big topics as follows: 1. Financial assets, 2. Financial liabilities, 3. Equity instruments, 4. Derivatives and 5. Hedge accounting. For each one of the 20 elements which were identified we proceeded to achieve a comparison between the accounting treatment as it appears within the four accounting referential considered for analysis. Thus, for each possible and/or existent accounting treatment within at least one of the considered accounting referential we have allocated the 1 or 0 value, where the 1 value shows that the considered accounting treatment exists within the considered accounting referential, and the 0 value is given for the situation when the considered accounting treatment isn't found within the considered accounting referential.

The most frequently used methods in trade literature when an analysis at the level of national accounting regulations is aimed are **Jaccards' association coefficients**. The two considered coefficients offer the possibility of quantifying both the association degree and the dissimilarity degree between different sets of accounting standards taken into consideration for analysis. So as to dimension the association or compatibility degree between two or more accounting systems, the calculation formula for the Jaccards' coefficients shows as follows:

$$S_{ij} = \frac{a}{a+b+c} \quad (4)$$

where:

S_{ij}	similarity between two sets of accounting standards
a	number of characteristics taking a value of 1 in both sets of standards
b	number of characteristics taking a value of 1 in the *i-th* set and 0 in the *j-th* set
c	number of characteristics taking a value of 0 in the *i-th* set and 1 in the *j-th* set

$$D_{ij} = \frac{b+c}{a+b+c} = 1 - S_{ij} \quad (5)$$

where:

D_{ij}	dissimilarity between two sets of accounting standards
a	number of characteristics taking a value of 1 in both sets of standards
b	number of characteristics taking a value of 1 in the *i-th* set and 0 in the *j-th* set
c	number of characteristics taking a value of 0 in the *i-th* set and 1 in the *j-th* set

The obtained results are than interpreted and discussed in the light of the achieved descriptive diagnosis for Czech capital markets. The final step of the research design is following the latest reactions of IASB, EEC and the Czech accounting system on matters related to financial instruments.

4 Comparative Analysis of Requirements Given by Czech and International Financial Reporting Standards

Similar rules apply to reporting equity securities, either realizable or intended for transactions, both in the Czech Republic and in the system of reporting according to the IFRS. The impacts on the balance are therefore identical as regards the Held for Trading and Available for Sales portfolios. The principal reason, however, lies in the fact that the IFRS information requirements are much more exacting.

The most important difference in reporting for long-term bonds lies in the technique of discharging the remainders between the nominal value and the purchasing price of the bond (i.e. amortization of the discount or premium on securities). While the Czech accounting units give a strong preference to the linear distribution of these costs or revenues in time (often motivated by tax relations), the IFRS require definitely that the amortization be based on the effective interest rates.

It is true that the fair value is one of the evaluation bases in the Czech Republic; however, its determination is usually based on pricing models, not the market price. When comparing the evaluation bases of the IFRS and the Czech conditions, it should also be noted that long-term receivables may not be priced in current values (and, subsequently, amortized costs) pursuant to the Czech regulations, with not only short-term receivables and short-term obligations, but also those with a period of maturity exceeding one year having to be priced and reported in their nominal values by companies operating on the Czech market in compliance with the applicable regulations. The complete ignorance of the time value of money may therefore significantly affect (though in perfect compliance with the statutory requirements) the accounting statements and, eventually, misinform potential investors in the process of making investment decisions.

4.1 Reporting for Securities in Czech Republic

The Czech regulations require that accounting units re-valuate **equity securities and ownership shares** as at the balance date, applying either the method of equivalence or the fair value, depending on the type of portfolio in which the same are included.

The fair value of the given instrument is always considered the optimum information; should it be impossible to determine it, the accounting unit uses an expert evaluation on the basis of an evaluation model. Unfortunately, the optimum situation, i.e. the derivation of the fair value from the market price, seldom occurs in the environment of the poorly transparent Czech stock market, and that is why other models usually have to be employed.

The disadvantages of evaluation on the basis of net value include the differences in evaluation bases used in accountancy, as well as the fact that the application of the principle of precaution is preferred among Czech companies, and the impossibility of re-valuation of certain types of property to higher values (as distinct from the IFRS).

Deriving the information on the fair value from the P/E ratio seems to be a good method. Nevertheless, it should be stated that this model fails if the company shows a loss. Besides that, the indicator is hardly available to accounting units in the environment of the Czech market.

The principal disadvantage of the dividend discount model lies in the presumption of a constant rate of growth of dividends, which is almost inapplicable in practice. Nevertheless, this presumption is applicable for the calculation of the expected dividend in the course of no more than two subsequent periods; on the other hand, this model fails if the accounting unit concerned does not pay dividends or shows a loss.

Accounting units in the Czech Republic may report equity shares in balance sheets in compliance with their purchase prices if it is impossible to determine the fair value in a reliable manner. Czech companies often opt not to use the equivalence method (to which the right of choice applies) to report capital participations with a significant or decisive influence, reporting them in compliance with their respective purchasing prices (applying adjusting entries if necessary).

In the past, when the costs of re-valuating equity securities were allowable for tax purposes only to the amount equal to the revenues from such re-valuations, accounting units often criticised this system, clearly preferring the capital method of re-valuation.

As the re-valuation of short-term equity securities has no impact on the tax assessment base at present, this problem has ceased to arise.

The **reporting of bonds** with a maturity period of less than one year does not show any significant discrepancies with the requirements of the IFRS standards. On the other hand, we should look with a critical eye at the fact that the reporting of these instruments with maturity periods exceeding one year is not consistent with the IFRS. The purchasing costs of investments in bonds increase uniformly with the discount/premium amortization; from the viewpoint of the issuer, however, it should be noted that these contracts are reported in their nominal, not current values.

Accounting reports presented by listed and non-listed companies are not comparable in the field of reporting long-term investments in bonds.

The most serious problems in the field of reporting **derivative contracts** by entrepreneurs manifest themselves in determining the fair values of these instruments, as well as the fair values of off-balance sheet receivables and off-balance sheet payables. The fair value is considered (and defined) as the amount for which the asset could be exchanged or an obligation settled in a transaction between well-informed and willing parties under standard conditions. Nevertheless, the negotiation of derivative financial instruments has entailed and, as can be reasonably feared, will entail an information asymmetry between the enterprise and the company with whom the contract is negotiated. The overwhelming majority of entrepreneurs is unable to determine the fair values of their derivative contracts, fully relying on the information supplied by financial institutions with whom such contracts are negotiated. Unfortunately, in practice, companies often have only information on the fair values of such instruments, lacking any information on the fair values of off-balance sheet receivables and off-balance sheet payables arising from the negotiated derivative contract.

In relation to the accounting reporting and disclosure of information on derivative contracts, the following aspects should be mentioned: insufficient information disclosed, inconsistent approaches of companies to disclosing information – this applies not only to financial reports of various companies, but even to annual reports of single companies. Thus the comparison and analysis of the disclosed information is made very complicated.

The respective pieces of information on the structure of derivatives, their nominal and fair values, types of derivative instruments, their duration, development etc. are usually scattered throughout the annual report. The levels of detail differ, and every company reports data in a different form. For instance, the nominal value is reported with every type of derivative instrument; however, the fair value is reported in summary according to the risk hedged by the derivative concerned. Most accounting units in the Czech Republic declare in their financial statements that they do not use derivatives for speculative reasons. The problem of insufficient information on derivatives persists, carrying with it the risk of making it impossible to differentiate between speculative and hedging transactions, and enabling the misinterpretation of reports. The detailed description of the structure of derivatives allows for an improved detection of the purpose of derivatives.

In this respect, it can be said that accounting units in the Czech Republic would find it very problematic to meet the requirements of the IAS 39 and IFRS 7 standards in the field of disclosing information on derivative contracts and their structure.

The greatest risk connected with h**edge accounting** seems to lie in the field of testing the efficiency of hedging relations. Not only is the majority of companies practically unable to test their hedge relations, but they also fear (not without reason) that the given efficiency test will show that hedge accounting is not beneficial; in other words, the test result will not match the requested interval of <-80 %; -125 %>.

It is undeniable that even if the fair-value option was applicable to a greater extent in the Czech Republic, companies would hedge only cash flows. This particular rule questions the long-term perspective of hedging the fair value, with the accounting units applying the fair-value option allowed to re-valuate an automatically hedged item (if it is a financial instrument) without having to meet the demanding conditions of hedge accounting.

As regards the accounting reporting of hedge relations, unfortunately, it must be said that the overwhelming majority of companies does not disclose detailed information on hedge accounting. The investor therefore usually lacks any information on the volumes of derivative transactions relating to the hedging of the fair value and the cash flow, respectively. Information on the method of measuring the efficiency of hedging relations and on the values of such efficiency is practically always unavailable. In addition, external users of accounting reports often find it unclear what part of the hedged nominal values was ineffective and how many hedge relations had to be terminated as a result of their ineffectiveness.

4.2 Formal Harmonisation of Czech and International Reporting for Financial Instruments

Based on the description of the empirical analysis which was done within the research methodology, there has been empirically tested the comparability degree between the selected accounting referential from two major points of view: 1. the one referring to the similarities between them, and 2. the one of the dissimilarities between the three accounting systems. In order to achieve the proposed comparison, we have considered that the best analysis, for this type of approach, is represented by the nonparametric correlation and the association degree between two or more than two considered variables. The comparative illustration of the obtained results is shown within the following two tables (Table 1 and 2).

Table 1. Measurement of Similarity Level between Accounting Systems (by Jaccard's Coefficients)

	CZE	IFRS	EU
CZE	1.000	0.651	0.561
IFRS	0.651	1.000	0.811
EU	0.561	0.811	1.000

Source: author's analysis

Table 2. Measurement of Dissimilarities in Accounting Systems (by Jaccard's Coefficients)

	CZE	IFRS	EU
CZE	0.000	0.349	0.439
IFRS	0.349	0.000	0.189
EU	0.439	0.189	0.000

Source: author's analysis

Both the dissimilarity and similarity coefficients calculated through the study and presented within the above tables show a great degree of similarity between all three considered sets of accounting regulations where issues of reporting for financial instruments are concerned. The Czech accounting regulations are similar with the foresights of the European Directives, but not as much as with the international referential (0.439 Jaccard's dissimilarity coefficient and 0.561 Jaccard's similarity coefficient).

The performed analysis also reveals an extremely high level of similarities between the foresights of the international referential (IFRS) and the European Directives on issues connected to financial instruments (0.189 Jaccard's dissimilarity coefficient and 0.811 Jaccard's similarity coefficient). These results will be further investigated within the drawn conclusions of the paper.

As documented before Czech accounting system is strongly driven by the prudence principle and is especially based on the historical costs accounting. Moreover in Czech's case, the items reported in portfolios AFS (Financial Assets Available for Sale) and HFT (Financial Assets Held for Trading) may be also treated in historical costs using the Lower of Cost or Market model in case that the company is not allowed to receive the fair value of this asset.

Quite surprisingly this possibility (which is not strongly forced by accounting regulation like fair value) is used by more than 90 % of Czech companies. Therefore the huge changes in fair values of assets really didn't have such a strong impact on financial reports of Czech companies which present their statements under national regulation.

5 Conclusion

The performed empirical analysis on aspects concerning reporting for financial instruments documented the existence of a high similarity degree among all considered accounting referential (IFRS, European Directives and Czech accounting regulations). This study continues previous researches by considering the foresights of the European Directives with a particular reason. Nowadays, lots of fingers seem to be pointing to the international referential as to be a major factor in the current crisis. However, this is too much simple approach in determining the roots of the real problems. Doubtful eyes are already laying on IFRSs asking how they could have allowed this to happen. We should not forget though the role of each national accounting system in generating information used on capital markets. A principle based accounting regulation has as centre piece professionals capable of ethically making decisions that are in their hands, based on sound economic judgements.

The real state of facts is that nowadays European Directives actually incorporate a great deal of the foresights of IFRS which shouldn't therefore be blamed for all the wrongs in the international financial arena. It is also true that the prudence, so highly valued by continentals, seems to have saved some of the damages of the financial crisis in some cases, but prudence itself can be thought of as professional judgment amidst sound accounting principles.

The fighting to designate a scapegoat for the actual financial crisis not only wastes valuable time and efforts, but might even raise obstacles for further developments of appropriate solutions.

It is well known that the emerging economies affected by the current global crisis should be involved in the process of drawing up the new exhibition industry architecture, as value for money of exhibition should be on the top position [27].

Financial instruments' complexity is high enough to require collaboration of all those having a grounded opinion. Therefore all current initiatives that join regulatory bodies around the world working on projects concerning different aspects of financial instruments should be further developed, and not slowed down by reciprocal blaming. It is clear that countries like Czech Republic are far from making themselves herd at international level just by considering the degree of development of their national capital market. Still we have European organism representing them and trying to keep feet with international developments. A good example would be the Proactive Accounting Activities in Europe initiative whose objective is "to stimulate debate on important items on the IASB agenda at an early stage in the standard-setting process before the IASB formally issues its proposals". The initiative's ambition is to represent a European point of view and exercising greater influence on the standard-setting process. This way, national regulatory bodies start a first collaboration among them and furthermore express their outcome toward higher levels.

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. 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 (International Accounting Standards Board) and FASB (U.S. Financial Accounting Standards Board) 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.

Fair value has its' supporters, but also its' inquisitors, motivated by its advantages and limits, while an orientation in future of the regulations upon historical values does not represent itself an optimistic vision upon the future. A series of regulatory organisms, comities and commissions, studies, some in collaboration, others individually, ways to improve these aspects that regard accounting and audit, but only future will show us the direction things will evolve, how well they have collaborated and the impact that they want to have upon the market, the way remaining opened to multiple analysis and researches in the domain.

Acknowledgement

This paper is one of the research outputs of the project GA402/08/P024 registered at Czech Science Foundation (GA ČR).

References:

[1] S. Aisbitt, Measurement of Harmony of Financial Reporting within and between Countries: The Case of the Nordic Countries, *European Accounting Review*, Vol. 10, No. 1, 2001, pp. 22-51.

[2] B. Barlev, and J.R. Haddad, Harmonization, Comparability, and Fair Value Accounting, *Journal of Accounting, Auditing and Finance*, 2007, pp. 493-509.

[3] G. Brown, and A. Tarca, A Commentary on Issues Relating to the Enforcement of International Financial Reporting Standards in the EU, *European Accounting Review*, Vol. 14, No. 1, 2005, pp. 181-212.

[4] J.G. Campos, R.M. Martin, J.S. Lopez, and J.I. Armesto, A Traceability Model for Spread Manufacturing Environments, *WSEAS Transactions on Systems*, Vol., 6, No. 3, 2007, pp. 520-527.

[5] Yu Chang-Rui, and Luo Yan, Research on Models of Decision-making Problem Recognition, *WSEAS Transactions on Business and Economics*, Vol. 5, No. 5, 2008, pp. 37-43.

[6] T.E. Cooke, The Impact of Size, Stock Market Listing and Industry Type on Disclosure in the Annual Reports of Japanese Listed Corporations, *Accounting and Business Research*, Vol. 22, No. 87, 1992, pp. 229–237.

[7] P. Dumontier, and B. Raffournier, Accounting and Capital Markets: A Survey of the European Evidence, *European Accounting Review*, Vol. 11, No. 1, 2002, pp. 119–151.

[8] S. M. El-Gazzar, P. M. Finn, and R. Jacob, An Empirical Investigation of Multinational Firms' Compliance with International Accounting Standards, *International Journal of Accounting*, Vol. 34, No. 2, 1999, pp. 239–248.

[9] E. Emenyonu, and S. Gray, EC Accounting Harmonisation: An Empirical Study of Measurement Practice in France, Germany and the UK, *Accounting and Business Research*, Vol. 23, No. Winter, 1992, pp. 49-58.

[10] E. Emenyonu, and S. Gray, International Accounting Harmonisation and the Major Developed Stock Market Countries: An Empirical Study, *International Journal of Accounting*, Vol. 31, No. 3, 1996, pp. 269-280.

[11] A. Fontes, L. L. Rodrigues, and R. Craig, Measuring convergence of National Accounting Standards with International Financial Reporting Standards, *Accounting Forum*, Vol. 29, No. 4, 2005, pp. 415–436.

[12] D. Herrmann, and W. Thomas, Harmonisation of Accounting Measurement Practices in the European Community, *Accounting and Business Research*, Vol. 25, No. 100, 1995, pp. 253-265.

[13] O.K. Hope, J. Jin, and T. Kang, Empirical Evidence on Jurisdictions that Adopt IFRS, *Journal of International Accounting Research*, Vol. 5, No. 2, 2006, pp. 1-20.

[14] J. Jílek, Derivatives in the Czech Republic and Abroad, *Eastern European Economics*, Vol. 38, No. 3, 2000, pp. 26–63.

[15] P. Jirava, and J. Krupka, Information System Classification, *Proceedings of the 8th WSEAS Conference on Systems Theory and Scientific Computation*, Rhodes, Greece, 2008, pp. 94-98.

[16] C. Leuz, IAS versus U.S. GAAP: Information Asymmetry - based Evidence from Germany's New Market, *Journal of Accounting Research*, Vol. 41, No. 3, 2003, pp. 445–472.

[17] D. Lien, and M. Zhang, A Survey of Emerging Derivatives Markets, *Emerging Markets Finance and Trade*, Vol. 44, No. 2, 2008, pp. 39–69.

[18] G. K. Meek, C. B. Roberts, and S. J. Gray, Factors Influencing Voluntary Annual Report Disclosures by U.S., U.K. and Continental European Multinational Corporations, *Journal of International Business Studies*, Vol. 26, No. 3, 1995, pp. 555–572.

[19] A. B. Murphy, Firm Characteristics of Swiss Companies That Utilize International Accounting Standards, *International Journal of Accounting*, Vol. 35, No. 1, 1999, pp. 121–131.

[20] R. Myskova, Company Information Systems Used in Decision-Making Processes of Financial Managers, *WSEAS Transactions on Systems*, Vol. 8, No. 4, 2009, pp. 532-542.

[21] J. Strouhal, D. Matis, and C. Bonaci, Financial Instruments under the IFRS - A Priori Analysis from the Czech and Romanian Regulations' Perspective, *Accounting and Management Information Systems Journal*, Vol. 25, 2008, pp. 51–72.

[22] M. Spremic, and M. Popovic, Emerging Issues in IT Governance: Implementing the Corporate IT Risks Management Model, WSEAS Transactions on Systems, Vol. 7, No. 3, 2008, pp. 219-228.

[23] L.G. Van der Tas, Measuring Harmonization of Financial Reporting Practice, *Accounting and*

Business Research, Vol. 18, No. 70, 1988, pp. 157-169.
[24] N. Veron, Fair Value Accounting is the Wrong Scapegoat for this Crisis, *Accounting in Europe*, Vol. 5, No. 2, 2008, pp. 63–69.
[25] G. Whittington, The Adoption of International Accounting Standards in the European Union, *European Accounting Review*, Vol. 14, No. 1, 2005, pp. 127-153.
[26] Li Yuhua, B.A. Zuhair, and M. David, An Approach for Measuring Semantic Similarity between Words using Multiple Information Sources, *WSEAS Transactions on Knowledge and Data Engineering*, Vol. 15, No. 4, 2003, pp. 871-882.
[27] Zheng, Lei-Na, Pan Tie-Jun, Fang, Lei-Lei, Yu Yun, Hu Yue, Bao Hui-han. E-Exhibition Towards International Trade under the Current Global Economic Crisis, *WSEAS Transactions on Information Science and Applications*, Vol. 6, No. 1, 2009, pp. 31-41.