INTERNATIONAL HARMONIZATION OF REPORTING FOR FINANCIAL SECURITIES

Authors
Prof. Jiri Strouhal
Dr. Carmen Bonaci

Editor
Prof. Nikos Mastorakis

ISBN: 978-1-61804-008-4
International Harmonization of Reporting for Financial Securities

Authors

Dr. Jiri Strouhal
Dr. Carmen Bonaci

Editor

Prof. Nikos Mastorakis
Preface

Dear readers,

This publication is devoted to problems of financial reporting for financial instruments. This branch is among academicians and practitioners widely discussed topic. It is mainly caused due to current developments in financial engineering, while accounting standard setters still lag. Moreover measurement based on fair value approach – popular phenomenon of last decades – brings to accounting entities considerable problems.

The text is clearly divided into four chapters. The introductory part is devoted to the theoretical background for the measurement and reporting of financial securities and derivative contracts. The second chapter focuses on reporting of equity and debt securities. There are outlined the theoretical bases for the measurement, and accounting treatment for selected portfolios of financial securities. Third part of text is devoted to derivative contracts. These contracts became popular during last two decades as a tool for hedging of currency and interest rate risks. The text focuses firstly on the accounting treatment of fixed-term operations and subsequently there is devoted a considerable space to the option contracts. There are specified selected option pricing models and there is also documented the sensitivity analysis of the option premium on selected parameters. Finally, there is also stressed an attention on selected option strategies as a tool for corporate risk management.

Final passage summarizes current practice. In addition, there is outlined the expected development in the harmonization of accounting rules and the procedures for reporting of financial instruments in SMEs. We hope that this book will be a valuable guide for anyone seeking constructive engagement with regard to international harmonization of financial securities reporting.

Authors would like to thanks World Scientific and Engineering Academy and Society (WSEAS) for the kind support of this book.

March, 2011

Jiří Strouhal
Carmen Bonaci
Acknowledgements

This book is a final output of the postdoctoral research project GA402/08/P024 “Analysis of Measurement and Reporting of Financial Securities by Listed and Non-listed Companies in the Czech Republic” supported by Czech Science Foundation (GA ČR). Works on this book were also supported from the European Social Fund through Sectoral Operational Program Human Resources Development 2007-2013, project number POSDRU/89/1.5/S/59184 “Performance and excellence in postdoctoral research within the field of economic sciences in Romania”, Babeş-Bolyai University, Cluj-Napoca being a partner within the project.
About Authors

**Jiří STROUHAL**  
University of Economics Prague, Czech Republic

Jiří Strouhal is a senior lecturer with the University of Economics Prague, from which he obtained his PhD in 2005. He holds a certificate of accounting expert from the Czech accounting certification scheme (based on ACCA professional scheme). He is an editorial board member of several referred international journals (in the USA, South Africa and Taiwan). From 2007-2009 he was a member of the Committee for Education and Certification of Accountants of the Union of Accountants; from 2009 he is a Vice President of Chamber of Certified Accountants Czech Republic. From 2010 he also acts as a consultant of financial accounting issues for Czech Statistical Office. His research interest is based in reporting of financial securities and reporting of SMEs.

---

**Carmen BONACI**  
Babes-Bolyai University Cluj Napoca, Romania

Carmen Giorgiana Bonaci holds a Ph.D. from the Babes-Bolyai University and she is an assistant professor within the Accounting and Audit Department of the university. She obtained tenure within the Babes-Bolyai University after graduating the PhD program with a PhD dissertation on financial instruments – theoretical and practical fundaments. She is a current member of the European Accounting Association, Critical Accounting Society and CECCAR Romania (Body of Expert and Licensed Accountants of Romania). Her research activities are mainly developed in the area of reporting for financial instruments, international financial reporting, corporate governance, accounting in emerging economies, accounting education and the accounting profession.
# Table of Contents

Preface iii  
Acknowledgements iv  
Author's Affiliation v  

Chapter 1  
**International Convergence and Harmonization towards a Global Capital Market** 1  

Chapter 2  
**Non-Derivatives: First Stage in the Development of Financial Securities** 23  

Chapter 3  
**Derivatives: Friends or Enemies?** 63  

Chapter 4  
**Concluding Remarks and Future Developments** 145  

References 155  
Appendix 1 161  
Appendix 2 178  
Appendix 3 181  
Subject Index 186
SUBJECT INDEX

A
Accounting Harmonization, 6
AFS (Available for Sale), 51, 59
Amortized Cost, 46, 50, 148
Assets, 2
At-the-money (ATM) Option, 85

B
Balance Sheet, 2, 51, 61, 83, 113, 137
Bear put Spread, 121
Bear Split-strike Combo, 120
Binomial Model, 91
Black-Scholes Model, 93
Bond, 25, 54, 132, 135
Bull Call Spread, 117
Bull Split-strike Combo, 116

C
Call Backspread, 118
Call Option, 84, 87
Cash, 30
Cash Flow Hedge, 135
Cash-Secured Short put, 119
Collar, 124
Commodity Derivative, 64
Commodity Forward, 75
Commodity Option, 86
Commodity Swap, 81
Cost, 46, 50
Covered call / buy write, 115
Credit Risk, 65, 141
Cross Currency Swap (CCS), 79
Currency Derivative, 64

D
Delta Option, 100
Derecognition, 49
Derivative, 63
Direct Investment, 24
Disclosure, 3, 140
Discontinuation of Hedge Accounting, 139
Discount, 54
Dividend Discount Model, 60
Dollar-offset Method, 131

E
Effective Interest Rate, 44, 54, 150
Enron, 4
Equity Derivative, 64
Equity Forward, 75
Equity Instrument, 25, 30, 34
Equity Option, 85
Equity Swap, 81

F
Fair Value, 1, 20, 50, 59
Fair Value Hedge, 135
Fair Value Model, 18
FIFO, 53
Financial Accounting Standards Board (FASB), 2, 149
Financial Asset, 25, 29, 31, 45
Financial Crisis, 20
Financial Instrument, 23
Financial Liability, 45
Financial Security, 23
Fixed Term Operation, 63
Formal Harmonization, 16
Forward, 73
Forward Rate, 73
FRA Contract, 74
Futures, 69, 73
FVOCI (at Fair Value through other Comprehensive Income), 149
FVPL (at Fair Value through Profit or Loss), 50
FVTPL (at Fair Value through Profit or Loss), 149
FX Forward, 73
FX Option, 86, 95
FX Swap, 78

G
Gamma Option, 100
Garman-Kohlhagen Model, 95
Greeks, 99

H
Hedge Accounting, 130
Hedge Documentation, 133
Hedge Effectiveness, 131
Hedge of Net Investment in Foreign Operation, 135
Hedged Item, 132
Hedging, 130
Hedging Instrument, 131
HFT (Held for Trading), 50
Historical Costs Model, 18
HTM (Held to Maturity), 54

I
IAS 32, 5, 17, 30
IAS 39, 5, 17, 43, 140
IFRS 7, 5, 66, 140
IFRS 9, 148
IFRS for SMEs, 149
Initial Recognition, 45
Interest Rate Derivative, 64
Interest Rate Option, 85
Interest Rate Swap (IRS), 75, 135
International Accounting Standards Board (IASB), 2
International Financial Reporting Standards (IFRS), 9
In-the-Money (ITM) Option, 84
Intrinsic Value, 30, 72, 91
Issuing Price, 54

L
L+R (Loans and Receivables), 50
Liabilities, 1, 19
Liquidity Risk, 65
Long Call Butterfly, 128
Long Position, 65
Long Straddle, 124
Long Strangle, 126

M
Market Risk, 65
Market Value, 2, 18, 48
Material Harmonization, 16
Measurement, 1, 17, 45
Measurement Basis, 17, 45

N
Net Asset Value Model, 59
Nominal Value, 26, 54, 75

O
Option, 84
Option Premium, 84, 89
Option Strategy, 113
Organized Market, 25
OTC (over-the-counter) Market, 25, 86
Out-of-the-money (OTM) Option, 85

P
Premium, 54
Presentation, 2, 5, 49
Price/Earnings Ratio Model, 60
Primary Financial Instrument, 23
Prospective Test, 138
Protective/married put, 114
Put Backspread, 122
Put Option, 84
Put-call Parity, 94

R
Ratio Spread with Calls, 129
Recognition, 49
Regression Analysis, 132
Replacement Value, 18
Retrospective Test, 138
Rho Option, 100

S
SEC, 11
Sensitivity Analysis, 66, 99, 142
SFAS 107, 30
SFAS 140, 49
SFAS 157, 20, 31
Share, 25
Short Position, 65
Short Straddle, 125
Short Strangle, 127
Spot Contract, 27, 29
Swap, 75

T
Theta Option, 101
Time Value, 91

U
US GAAP, 11, 23, 31, 46

V
Vega Option, 101

W
Weighted Average, 53

Y
Yield Curve, 76