

# **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**

# International Harmonization of Reporting for Financial Securities

Published by WSEAS Press

[www.wseas.org](http://www.wseas.org)

**Copyright © 2011, by WSEAS Press**

All the copyright of the present book belongs to the World Scientific and Engineering Academy and Society Press. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the Editor of World Scientific and Engineering Academy and Society Press.

All papers of the present volume were peer reviewed by two independent reviewers. Acceptance was granted when both reviewers' recommendations were positive.  
See also: <http://www.worldses.org/review/index.html>

ISBN: 978-1-61804-008-4



World Scientific and Engineering Academy and Society

## 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 fundamentals. 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	
<b>International Convergence and Harmonization towards a Global Capital Market</b>	<b>1</b>
Chapter 2	
<b>Non-Derivatives: First Stage in the Development of Financial Securities</b>	<b>23</b>
Chapter 3	
<b>Derivatives: Friends or Enemies?</b>	<b>63</b>
Chapter 4	
<b>Concluding Remarks and Future Developments</b>	<b>145</b>
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

