تأثير استقلال الاقتصاد المالي على جودة المعلومات المحاسبية

The impact of independent financial economy on the quality of accounting information

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الملخص:

أصبح الاقتصاد المالي مستقلاً عن الاقتصاد الحقيقي من خلال الأدوات المالية التي تم إنشاؤها مثل المشتقات المالية التي تهدف إلى إدارة المخاطر ، ويمكن إلقاء اللوم عليها لتفاقمها ، إلى حد التسبب في أزمة عالمية. في ضوء ما سبق ، تبحث هذه الورقة في تأثير الاقتصاد المالي المستقل على جودة المعلومات المحاسبية ، لتحسين جودة المعلومات المحاسبية. باستخدام البحث الوصفي ، وذلك لأن هذه الطريقة تساعد الباحث في التعامل مع البيانات التي تحتوي عليها (حالة الأزمة اليونانية).

حيث تكون نتيجة هذه الدراسة وجود اقتصاد مالي مستقل يضر بجودة المعلومات المحاسبية مما يجعل التقارير المالية لم تقدم جميع المعلومات التي تساعد المستخدم على اتخاذ القرار. وعليه توصي الدراسة بضرورة الإفصاح الاقتصادي في التقارير المالية.

الكلمات المفتاحية: الأزمة المالية ، الاقتصاد المالي ، جودة المعلومات المحاسبية ،

Abstract:

The financial economy is becoming independent of the real economy by created financial tools such as financial derivatives meant to manage risks, can be blamed for having exacerbated it, to the extent of causing a global crisis. In light of the aforementioned, this paper examines the impact of an independent financial economy on the quality of accounting information, to improve the quality of accounting information. using the descriptive research, that because this method helps the researcher to deal with data, which has it (Greek crisis case).

Where the result of this study is an independent financial economy harms the quality of accounting information that causes the financial reports have not presented all information which helps the user to make a decision. Thus the study recommends, have to be economy disclosure in the financial reports.

Key words: financial crisis, financial economy, the quality of accounting information,

Introduction:

Accounting information is the results of accounting processes, generally presented in a form of financial statement or an annual report. If scrutinized, most of every definitions of accounting states that accounting information is the output of accounting processes. (Fardinal, 2013)

although, Quality accounting information is an inexhaustible resource, a factor that influences the degree of prosperity of an entity or even of a country(STANCIU,2020), sometimes these reports of financial transactions do not reveal the exact financial scenario that happens, Lack of transparency due to the loopholes of accounting guidelines and management's intention mislead the investors' interpretation. Moreover, some accounting areas have remained hazy for a long period (Arjun Gope, 2017). The quality of accounting information is directly related to the decision-making and interests of accounting information users. (Wang & others, 2020)

In addition to that, the accounting information has impact on economy, where the economy consists of two sides real economy and financial economy.

The real and financial economy have to be related. the meaning of the real economy is " the key section as activities of this sector persuade economic output and is represented by those economic segments that are essential for the progress of Gross Domestic Product (GDP) of an economy. The real sector generates better outcomes if accompanied by a healthier financial system; thus, the advancement of the financial sector, which is money in the widest sense, is a means for the growth of real. " (Khalil & Chaisrisawatsuk, 2018).

Although, the relation between the real and the financial economy is very important, the financial economy comes out of balance in such a way that the financial economy no longer primarily supports the real economy, but takes on an independent life of its own in such a way as to damage the real economy and leading to happen the financial crises.

This change is generally attributed to the parallel transformation in capital markets that has occurred in recent years. Trillions of dollars of assets are indeed traded daily in financial markets for derivative securities like options and futures, for example, that hardly existed a decade ago. However, it is less obvious how important these changes are. Insofar as derivative securities can be valued by arbitrage, such securities only duplicate primary securities. For example, to the extent that the assumptions underlying the Black-Scholes model of option pricing (or any of its more recent extensions) are accurate, the entire options market is redundant, since by assumption the payoff of an option can be duplicated using stocks and bonds. The same argument applies to other derivative securities markets. Thus it is arguable that the variables that matter most consumption allocations are not greatly affected by the change in capital markets. Along these lines, one would no more infer the importance of financial markets from their volume of trade than one would make a similar argument for supermarket clerks or bank tellers based on the fact that they handle large quantities of cash. (Werner, LeRoy, 2000)

The quality of accounting information is important and many studies focus on it, which measured by disclosure, represent the real financial position and on the time, although many studies wanted to reach to the high quality of accounting information, this quality still not reach to a high level.

Our aim of this study is to improve the quality of accounting information, and noticeable, the crisis in the USA and Greece happened by using Financial derivatives, which made the financial economy independent.

Therefore, our study seeks to raise the level of quality of accounting information by asking the following questions:

1. what is the impact of financial economy on the quality of accounting information?
2. What would do to reduce that impact?
Previous studies:

<u>The quality of accounting information:</u>

(ferrer & others,2020) The results show that EPS forecast accuracy has increased due to the higher levels of both sustainability disclosure and reporting quality after the enforcement of Directive 2014/95/EU.

(STANCIU,2020) demonstrate the major positive impact of quality accounting information on economic-financial analysis, financial reporting and business performance. An optimal quality of accounting information allows managers to make better decisions in order to achieve the entity's objectives and this can maintain better links with all its business partners, which is a must for competitiveness.

the result of study (Wang,2019) about the impact of fair value on the quality of accounting information in China is that, the implementation of the new enterprise accounting standards improves the ability of the net assets and earnings per share to explain the stock price, that is, the value correlation of accounting information has improved, and the implementation of the standard is better. The measurement attribute of fair value is more advantageous in ensuring the relevance of accounting information, because fair value can truly reflect the economic benefits brought by assets to enterprises. More accurately reflect the company's operational capabilities, solvency, and help users of accounting information to make the right decisions.

The study (Perera&Yasas, 2019) proved that value relevance of accounting information has not significantly improved in the post-IFRS period than the pre-IFRS period.

The results of this study (Savitrah & Anggraheni, 2018) reveal that the quality of accounting information as measured by the earnings income has a significant negative effect on COD; however, if it is measured by earnings, predictability does not affect COD. In addition, the report of the board of directors has a significant positive effect on COD. These results indicate that COD is influenced by both accounting information in the financial statement and also by non-accounting factors, i.e., characteristics of the board of directors, which is reflected in the report of the board of directors in the annual report.

(Susanto ,2016). the quality of accounting information is influenced by the quality of accounting information systems.

(Wang,2016) the time of information disclosure quality and time control of different industries and different enterprises information dis-closure affect the quality of information disclosure, and then affect the cost of equity financing.

(bukeny,2014) study the relationship between the quality of accounting information and the financial performance of the public sector in Uganda. proved that, there is widespread reported misuse of resources and poor accountability.

(Fred de Koning,2008) the most important characteristics of information quality appear to be accuracy and completeness.

All previous studies focus on how to make the quality of accounting information better, because of its impact on the economy and making the right decisions, but this quality is still lower than the required quality, even after making IFRS adjustments.

<u>The studies about independent financial economy (derivatives):</u>

(LEMA & GRANDES,2020) The use of derivatives is more strongly and positively statistically associated with the investment (credit and profits channel) and trade channel and thereby to economic growth.

(Arjun Gope, 2017) most derivative contracts are off-balance-sheet items, lacking in transparency and inconsistent accounting treatment.

(DAETZ, 2016) unconventional Longer-Term Refinancing Operations (LTROs) had an impact on the financial economy, but have not necessarily helped the real economy in the Eurozone.

Where (Reinert, 2012) using the financial derivatives have made the financial economy comes out of balance in such a way that the financial economy no longer primarily supports the real economy, but takes on an independent life of its own in such a way as to damage the real economy.

(Murad Shibli, 2011) Financial derivatives are blamed for the catastrophic financial crisis

(Acha, Ikechukwu A., 2011) proved that, derivatives triggered the financial crisis.

(Barnes,2010) describes briefly the background and context concerning the role of derivatives in the 2008 crisis that affected the U.S. and global financial markets. Specifically, we look at the events leading up to the financial meltdown and the impact of derivatives, regulatory reform, subprime mortgages and mark-to-market accounting.

(Oldani, Chiara and Savona, Paolo,2010) explained that, the world has changed with the spread of derivatives in global financial markets. Complex derivatives make transactions and balance sheets more opaque, opening up opportunities for subprime and predatory lending and the mismanagement of public debt.

Previous studies indicated that financial derivatives were the ones that led to the separation of the financial economy from the real and the harmful effect on the real economy, while the last study (LEMA & GRANDES,2020) the financial derivatives have effected positively on economy.

Methodology of study:

To answer these questions, have to use the descriptive research, that because this method helps the researcher to deal with data, which has it.

The variables measured by:

-The independent financial economy (independent variable): this variable is going to measure by financial derivatives as (Reinert, 2012) using the financial derivatives have made the financial economy comes out of balance in such a way that the financial economy no longer primarily supports the real economy.

-The quality of accounting information (dependent variable): in this study, measured the quality of accounting information by disclosure. Where the data collected about Greek crisis from previous studies and Eurozone website.

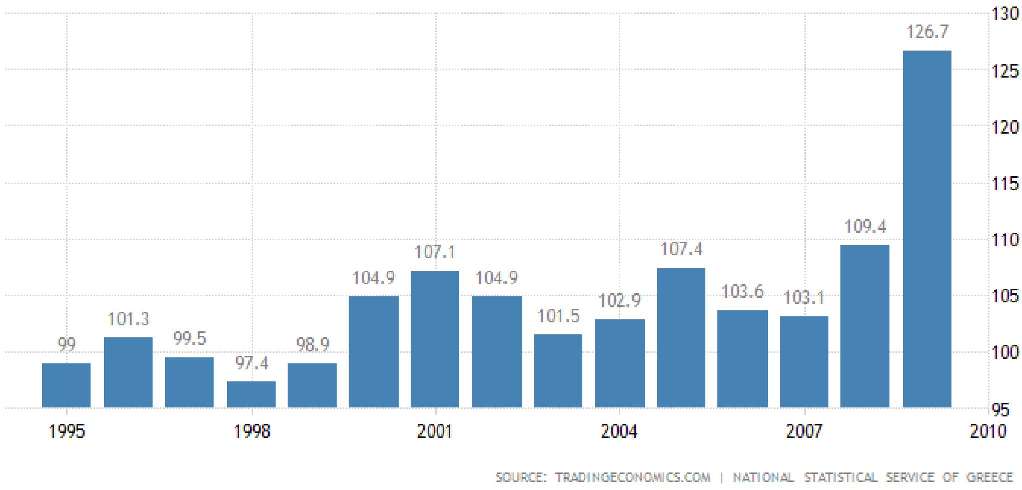
Greek crisis:

to qualify for Eurozone membership, need to be fulfilled in order the Maastricht criteria, as described in article 121 (1) TEC: (Iancu, 2017)

1. Inflation should not exceed 1.5 percentage points, which is the average rate of the three EU states with the lowest inflation rates.
2. Long-term inflation rate should not exceed by more than two percentage points the average rate of the three EU countries with the lowest inflation.
3. The national currency-euro exchange rate should range within a ±15% band. Moreover, every candidate to the Euro Area should participate in the EMU for at least two years before the euro adoption and should not devaluate the national currency over the same period.
4. Budget deficit should not exceed 3% of the GDP, i.e., complying with fiscal discipline7. A sharper deviation of the budget deficit from the 3% rate triggers automatically the excessive deficit mechanism, except for the case when such deficit is reported to the European Commission as being exceptional and temporary.

5. Public debt should not exceed 60% of the GDP8. When exceeding this ceiling (the cases of Croatia, 86.7% and Hungary, 75.3% in 2015), then the obligation is to lower the debt below the 60% ceiling. The same is valid for the Euro Area states.

<u>The public debate:</u>
it was obvious that Greece was never eligible to enter the euro area. the public debt was 107.5 to GDP, while the Maastricht criteria explained, Public debt should not exceed 60% of the GDP.(figure1)



<u>Deal Gold Mansachs bank (swaps):</u> (Ruiz,2012)
in December 2000 and June 2001—not even six months after Greece was 'officially' acknowledged to have satisfied the Maastricht criteria and was permitted to enter the euro area—Goldman Sachs engaged in a series of transactions that involved various types of financial derivative contracts, known as swaps, with the Greek government as part of a deal designed to conceal the nation's mounting sovereign debt levels through what was essentially a secret, off-the-books loan. While those close to the deal officially maintained its purpose had been 'aimed' at reducing Greek debt levels and borrowing costs—an argument more or less outlined in a 2010 press release by Goldman Sachs that remains extremely suspect to this day—its effect was the exact opposite.
the deal Goldman Sachs created for Greece was a financial mirage with negative and very real consequences for the small European nation-state of less than 11 million. Greece's publicly reported deficit/debt ratios were artificially reduced in 2001 by effectively issuing the country an upfront 'cash-advance,' through the use of cleverly crafted swaps by Goldman Sachs, at a time when such a 'loan' was not required by Eurostat to be reported as a liability. Therefore, the unconventional pseudo-loan was not only kept off the public books, it was also explicitly used to write-down the existing sovereign debt load as though the funds were in fact surplus government revenue. While this allowed the Hellenic Republic to provide EU regulators with the appearance of an improving Greek fiscal position—required by the Maastricht Treaty and SGP for continued membership in the euro area—it ultimately created an unstable illusion that could have only been temporarily maintained. Goldman Sachs, which would later package the whole deal and profit extensively from its public selling at market prices, had originally 'engineered' a lucrative method of repayment for the amount of the loan. Like the loan amount itself, its repayment method was also temporarily concealed for Greece by use of a swap, but the house of cards almost immediately came crashing down under the first signs of economic turmoil. There were no socially useful commodities created, nor was any type of commodity production or

infrastructure project financed through the deal's activity. Nevertheless, massive amounts of profits, namely through the charging of fees, were made on 'window-dressing' transactions by one of the largest investment banks in the world. In short, finance capital found it more profitable in the current stage of capitalism to 'invest' in the sovereign debt markets of European nations-states—through the financing of further perverted financial activity—than it did to invest in the actual financing of production.

the Goldman deal with Greece was composed of what are called cross currency swaps (CCSs) and interest-rate swaps (IRSs), but it also included a hedged risk (or an insured bet) based on the deal itself where Goldman Sachs utilized the now infamous credit-default swap (CDS)—a financial instrument whose speculative use by investment banks is known to have directly contributed to the eruption of the US sub-prime mortgage crisis in 2007. The deal seemed to fit the official narrative outlined in a public statement issued in November 2001 by the Greek finance ministry's public debt management agency (PDMA), where it explicitly cited " 'the extensive use of derivatives' " in order to more efficiently service its debt in accordance with the membership requirements of the euro area (Dunbar 2003). Such a statement makes evident that the Greek approach to managing sovereign debt was an immediate consequence and inevitable outcome of the euro area's central contradiction of externally placed fiscal targets and internally controlled fiscal policy that resulted from the Maastricht Treaty and the SGP.

Result:

To determine the impact of financial economy on the quality of accounting information, studied the case of Greek crisis explained, how used the financial derivatives (swaps) to manipulate, and entre to euro zone, with Goldmansachs bank. Where the euro zone puts Maastricht criteria, to join. Greece could not pass these criteria as in graph. It can be seen that; the Greek public debt was more than 100% of GDP. while the Maastricht criteria cleared the public debt does not have to be more than 60% of GDP. However, it joined to euro zone using the swaps to decrease the public debt.

As known the financial derivatives (swaps) made the financial economy independent.

Therefore, the independent financial economy has negative impact on quality of accounting information.

Conclusion:

The quality of accounting information is the most important to make a decision. Although many factors impact the quality of information which is cleared by many studies, the quality of information is not at a high level.

Furthermore, some studies explained the financial economy imbalance the real economy and made the economy is fragile.

Also, financial derivatives help to imbalance the financial sector with the real one. Moreover, this tool made many crises such as mortgage crisis and the Greek crisis, etc... both of them explained that.

Those crises were happened by Risk transfer and made the picture of a company or report is better than in fact. In other words, made the quality of information was lower as in the Greek crisis.

Therefore, these pieces of evidence exploring that, the financial economy impact the quality of information.

For that reason, I recommend that , have to make the economy disclosure, that gives to a decision-maker higher level of quality information.

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