

# **The enterprise's financial stability in times of crisis**

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*Note e ricerche*

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# The enterprise's financial stability in times of crisis<sup>(1)</sup>

“Del Dott.” STEFANIA VIGNINI

*“ABSTRACT”: Since the beginning of the third millennium, there were two world crises in financial markets: it now appears that a third one is beginning. Underlying the phenomenon are the behaviours of key stakeholder investors, who assumed the role of short- and very short-term “speculators”. However, the work of ratings agencies, which sometimes have issued assessments which proved to be totally unreliable, has also to be acknowledged, among the causes of the crisis. This paper will also examine the possible effects of crisis on the economic and financial balance and, consequently, on the financial statement of companies, particularly referred to the Italian one.*

## Premiss

On the morning of 6<sup>th</sup> August 2011 we learned from the press that, for the first time in history, Standard and Poor's credit-rating agency had downgraded the debt of the USA<sup>(2)</sup>, cutting one of the three famous As away. This fact, according to analysts, will result in an interest increase for the American Treasury of well over 100 billion dollars. The American ratings agency had announced later towards the beginning of December, that would have revised judgement on various European countries. On Friday 13<sup>th</sup> January 2012, the downgrade for Paris to AA+ came about. So too, had France exited the exclusive club of Triple A countries. The greatest mass downfall in the Eurozone decreed by Standard and Poor's was particularly hard on Italy, the only country to slide by two notches, ending up in the BBB+ category.

All this, according to numerous mass communication agencies, appears to be able to have, in following months, catastrophic effects upon the economy and, especially, upon world finance.

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(1) This piece of work is the result of other contributions. Particularly we refer to: CAPODAGLIO G., VIGNINI S., *Il passaggio agli IAS/IFRS: Maggior trasparenza o politica di bilancio?*, due to be published with Franco Angeli, and presented at the “L'impatto dell'adozione degli IAS/IFRS sull'informazione di bilancio delle imprese italiane quotate” Conference, for the presentation of the results of an interuniversity research project, University of Pisa, 23<sup>rd</sup>-24<sup>th</sup> June 2011; CAPODAGLIO G., *La crisi finanziaria e l'impero dei “valutatori*, in Rivista Italiana di Ragioneria e di Economia Aziendale, September-October 2011, pp.1-6.

(2) Following the downgrading of the US rating, President Obama declared that Standard and Poor's had miscalculated their sums, by thousands of billions of dollars and he also reminded people that other “assessors” of similar calibre, like for example Moody's, had expressed totally different judgements.

This was not enough to calm the markets: thus was the damage to the US Treasury made objective, causing chain reactions throughout all world stock exchanges.

I shall leave the task of discussing the possibility that these predictions are reliable or not to my colleagues of general economics: in my brief remarks, I wish to carry out some considerations regarding possible reflections of the phenomenon on the economic and financial equilibrium of companies in general and of those Italian ones, in particular, as well as on its eventual budgetary representation.

Evaluation is a prevailing concept throughout all sectors: there is not a single economic, administrative, teaching, scientific activity which has not been forced to be examined by “assessors”, who normally base their verdicts on *standardised* parameters, often framed by themselves.

Yet, who are these judges, whose sentences do not allow for appeal? Who nominated or elected them? Who do they answer to? It is no easy task to get answers to these questions: there is no register, no order or association of “assessors”, nor is there a school which trains them; they do not have to take exams which allow them to practice such delicate of activities, the only requirement asked of them is that they be “independent”. Not always is it clear, from whom, or from what must they be independent: logic wants that they were independent, not just from those players that have to undergo their judgement, but also from the environments wherein the subjects to be judged and the subjects judged operate. Moreover, they should not have any link with whoever fixes the parameters upon which they should base their judgements: it is patently clear that if the same subject fixes the parameters on which we have to base judgement and then applies them, he is able to choose in a completely arbitrary fashion.

We can but draw a parallel with the last financial crisis of 2008, when the same current “assessors” maintained judgements that were highly positive regarding Lehman Brothers, right up to a few hours before they collapsed, thus creating enormous damage to all investors, with the distinct consequences, we all know about. We cannot even refrain from the comparison with the first great financial crisis of the third millennium, that of 2001, in which the bankruptcy of Enron and Worldcom was attributed to the inappropriate behaviour of the auditing companies, first among whom was Arthur Andersen: as is well-known, the consequences for these companies have been really heavy, so much so that Arthur Andersen disappeared from the world scene, on which, till then, it had been a leading actor.

The different destiny of the players who have been considered, rightly or wrongly, indirectly responsible for the two crises surprises: the auditing companies have paid dearly, the ratings agencies have paid nothing, rather, they continue to pass judgement undisturbed, even against that country, ambassador of the culture within which they originated. Once more, we hear talk of the “crisis of capitalism”, in the sense of the crisis of the economy of the free market and of the consequent “globalisation”: nobody can deny that the “globalised” financial operators may be defined pure “speculators” in an objective way, without, with this, necessarily giving the word a negative meaning. Since it is possible to earn (and lose) on the stock exchange markets, both buying or selling bull and bear, international speculation acts as

multiplier of economic trends, inevitably emphasising crises, just like the bull “bubbles”. Having said this, we ask ourselves if the current crises, which appear to occur with unusual frequency, may not be defined as “the failure of a culture” rather than of an economic model. Compared to the great depression of 1929, those current ones offer very different characteristics; in the western world, the industrial economy has, by now, been replaced by the financial economy, moreover, in that prevailing culture, which finds its origins within Anglo-American environments, two elements stand out: “competition” and “evaluation”. Within the free market, competition between economic subjects is linked with the very nature of the system: this should lead to the greatest efficiency possible, to the best exploitation of resources, to the best satisfaction of the citizen-consumers, in its broadest sense. Yes, consumers ought to be the real arbiters of the system; the result of competition between economic subjects should consist in the greater or lesser commercial success. However, all this could only come about in a perfect marketplace, which is actually non-existent; the actual markets provide ample “opaque” sacs wherein the slyest, and sometimes improper, players prosper, to the detriment of all others and despite the very characteristics of the free-trade model. On continental Europe, “targeted” interventions of the public power were attempted to remedy the situation, and they introduced limits to the discretion of the operators. In the Anglo-American context, instead, the phenomenon of “independent evaluation” developed: basically, certain private subjects, endowed with a certain amount of credit, nominated themselves “assessors”, issuing and spreading judgements on both public and private economic operators.

We have to note that, for the most noteworthy and esteemed assessors, there is a mechanism of cause and effect between the given evaluations and the fulfilment of the predictions at the basis of the same evaluations, so much more so that ratings agencies currently operate within a strict regime of oligopoly, just as happened (and still today happens, even if to a lesser extent) for auditing companies.

Should one of the major agencies pass an pejorative judgement on bonds listed on the stock exchange, it is highly probable that the trend of this will go down, thus confirming the goodness of the evaluation, even if it later turns out to be totally mistaken.

## 1. The evaluation of credit risk

Ratings companies attribute a certain parameter to both public and private debtors which should indicate the probability for the creditor to draw the lent capital sum together with all interest. It is clear that, the higher the probability, the more the creditors are happy with low interest rates, whilst as it gradually reduces, the interest required is higher and higher. Therefore, it all depends on

the comparison between the trust the creditor has in the debtor and that which he has in the “assessor”. As we have seen in the 2008 crisis, the levels of trust that the stock exchange operators gave the ratings agencies ended up, in many cases, being totally badly placed. This should suggest a greater scepticism in accepting the indications of subjects who, even if they are by now well-established at a world level, in certain circumstances demonstrated themselves to be completely unreliable. Moreover, the eventual position of conflict of interest of the “assessors” – who could operate in the same stock exchange markets to which their evaluations are destined – should be able to be identified. An obstacle to the possibility of economic operators quickly verifying the reliability of the evaluations issued by the ratings agencies is represented by the fact that the adopted procedure for formulating the judgement is not made known: in other words, it is not possible to verify what elements have been used in order to grant a certain subject the AAA standard and not the AAB one, or vice versa.

Public awareness of the logical process, upon which the attribution of the various standards is based, would consent to committing the verdicts of the assessors to critical analysis before, *ex post*, their eventual unreliability is demonstrated.

## **2. The possible consequences on financial statements of Italian companies**

That which has happened on world financial markets might, directly or indirectly, have notable effects on the economic and financial equilibrium of Italian companies. It is obvious that the companies which have bonds listed on the stock market immediately feel the effects of what is happening: from a financial point of view and one of liquidity, such enterprises surely find greater difficulty in fulfilling their needs. Taking for granted the inopportunity to look for new risk capital in these times, even indebtedness may result to be much more difficult and burdensome; the reasons are evident and linked both to the unfavourable conditions for issuing debenture loans, and to the usual reaction of the banking sector, which in these times feels the effects of imbalances deriving from speculative investments eventually carried out and which tends to “recover” profitability, by way of increases of active interest rates and of commission charges and by way of a more careful selection of customers, in order to reduce the risk of insolvency. In difficult economic situations, the attitude of the credit institutions associates the companies which have bonds listed on the stock market with all the other enterprises; the repercussion of the financial crisis have the same effects upon the “real” economy. There is, however, a phenomenon which, in relation to the current situation, distinguishes the two categories of Italian company: I refer to the use of International accounting principles, which is provided for by a certain

number of companies<sup>(3)</sup>), whereas all other companies apply the norms as per the Civil Code.

## ***2.1. Impact of international accounting principles on the performance offered by Italian enterprises***

As is known, the international principles (IAS/IFRS) privilege the market values in budget estimates, while the Civil Code, normally, provides for the historical values. Moreover, many of the budget evaluations adopted by the IAS/IFRS are tied in with predictions of financial flow expected on the basis of predictions forecast at the time of the evaluations themselves. In brief: in times of crises, the use of international standards increases their effects upon financial statements, just as happens, obviously in an opposite way, when there is a favourable trend. The phenomenon sets off a vicious circle which might cause devastating consequences: budgetary outcomes, which are particularly negative in these circumstances, reflect upon the credit risk rating used by the banks, also following the Basel Accords; this objectively makes bank financing more difficult and burdensome, which was already worsened by the reasons outlined above. It is evident that all this cannot have but consequences on budgets, whose results will be the subject of new critical “evaluations”, with the onset of yet another perverse cycle.

The international accounting principles which follow Anglo-American accounting standards, among which are those issued by the IASC, are influenced by two elements which make them substantially different from traditional Italian accounting techniques and from the very characteristics of our economic system: the first one regards the fact that they are based on patrimonial accounting systems<sup>(4)</sup>, which have, by now, been surpassed in Italy for many decades; the second one reflects the range of the subjects involved: such international principles are concerned almost exclusively with large-sized enterprises, which resort to the stock markets for their financing, whereas our economic system is dominated by small to medium-sized companies, with capital ownership which is concentrated in the hands of the

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(3) In order to extend the International accounting principles to small and medium-sized enterprises please consult, among other authors: CAPODAGLIO G. - SANTI M.- TOZZI I., (2011), *The introduction of International accounting standards in the Italian small and medium sized entities*, Economic Research, N°.2, June 2011, pp.126-136. See, amongst other authors, MECHELLI A., *Accounting Harmonization and Compliance in Applying LASB Standards: An Empirical Survey about the First Time Adoption of LAS 7 by Italian Listed Groups*, in Accounting in Europe, vol.6, 2009, pp.231-270.

(4) For a close examination of the various accounting systems, please see, among other authors: CAPODAGLIO G., SEMPRINI L., VIGNINI S., (2011), *I sistemi contabili*, in CAPODAGLIO G. (a cura di), *Principi contabili e di bilancio*, RIREA, Rome, pp.17-61. In particular, as for a quick examination of the patrimonial system, cf.: VIGNINI S., SEMPRINI L., *Il sistema contabile patrimoniale nelle sue diverse evoluzioni*, in Rivista Italiana di Ragioneria e di Economia Aziendale, 2010, pp.644-655. We advise reading, among other authors: SELLHORN T., GORNIK-TOMASZEWSKI S., *Implications of the LAS Regulation for Research into the International Differences in Accounting Systems*, in European Accounting Review, vol.15, supplement 3, 2006, pp.187-217; SCHIPPER, K., *The introduction of International Accounting Standards in Europe: implications for international convergence*, European Accounting Review, 2005, 14 (1), pp. 101-126.

reference partners. Having said this, there is no doubt that such principles represent a very important breaking-point in the history of national economic and business doctrine.

Adopting the international accounting principles, as affirmed before, leads to a budgetary model which is significantly different from that used up to now by national companies, both under the profile of information aims and the consequent conceptual layout, as well as with regards to drafting models and evaluation criteria of the single balance items. There is no doubt that the conceptual layout of the IFRS financial statement of accounts is very far away from that one which developed in Italy following the adoption of IV EEC Directive<sup>(5)</sup>. The financial-year statement of accounts, drafted following civil law parameters, seems to favour, at historical values, both a configuration of income produced and a notion of net capital which, *de facto*, privilege the informative expectations of the external financial backers. That which precedes depends on the emphasis recognised by the legislator to the principle of estimative prudence in the process of drafting the financial statement of accounts, according to which the presumed losses must be accounted, but not so the desired gains. This presupposes the aim of safeguarding the integrity of the capital by possible decisions to distribute non certain income, obviously to the detriment of third party creditors; these are interested in conserving the capital on which, if necessary, they demand what is due. In such a way, it is plausible to suppose that the legal order has privileged the protection of the creditors in accordance with the characteristics of the Italian economic system, in which the main methods of financing for companies are based upon borrowed capital. The provisions of the Civil Code and national accounting principles offer a model of “historical costs” financial statement whose values do not represent the future income obtainable from the patrimonial element, but the sacrifice borne by the company at the time of its acquisition, to be reintegrated by way of economic profitability.

Our financial statement model is thus characterised by: a clear importance of the principle of prudence, the first drafting principle enunciated by article 2423 *bis* of the Civil Code; the irrevocability of the cost as fundamental criterion for financial statement evaluations; a focusing of the information on the financial-year income quantity; a higher retention of wealth within the structure of the company, because of the impossibility of highlighting and distributing income which has not been realised by exchanges with third economies.

According to the *Framework for the preparation of financial statements* the financial statement has to provide information regarding the patrimonial situation, regarding the economic outcome and the company financial dynamics that are useful to a wide range of users in order to adopt their

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(<sup>5</sup>) This directive substantially attributes the qualification of aim of the statement of accounts to the principle of clarity and true and appropriate representation of the patrimonial, economic and financial situation of the enterprise. Such provision assumes the role of “general clause”, meaning that the principles for the drafting of the statement of accounts and the criteria for evaluating its accounting items derive from it.

economic decisions. It is the same document to then privilege the information needs of the investors, real or potential, on the presupposition that a financial statement that is able to satisfy their information needs will also be able to satisfy the needs of the other users. The same document, at paragraph 10 stresses that not all the needs of information of the various stakeholders may be satisfied by the financial statements, even if certain of them are common to every user, deriving from this that given that it is the investors who provide the risk capital to the company, the preparation of the financial statements that satisfy their information needs, will also satisfy the majority of the needs of other users). Analogously, in IAS 1, paragraph 5, we read: the information provided by the financial statement, together with the information contained in the notes, aid the users to predict future financial flows of the company and, in particular, the timescale involved as well as the certainty in generating monies and analogous liquidity.

According to the *Framework*<sup>(6)</sup>, such informative expectations would concentrate upon the capacity of the company to produce financial flow (cash generating ability). On such flows is based the evaluation of the recoverableness of the investment by the investors, understood in the shape of payment of dividends and capital gains obtainable from the sale of the share. As a consequence, the whole evaluation and representative apparatus of the IFRS financial statement is aimed at highlighting the aptitude of the company to produce financial flow in the future<sup>(7)</sup>, offering a predominantly perspective view of the company performance. Such a cognitive end justifies the resorting, by the IASB standards, to criteria of evaluation inspired in this specific case, by the logic of the fair values<sup>(8)</sup>, as well as or alternatively to historical value. Still according to the *Framework*, the principle of prudence<sup>(9)</sup> can be translated into completely general directions to approaching the evaluation theme: “prudence consists in the use of a degree of caution in exercising of judgements necessary for effecting the estimates required under conditions of uncertainty, in a way that the activities or the profits are not overestimated and the liabilities or the costs are not underestimated”<sup>(10)</sup>. The concept of prudence here does not find asylum, if not in the meaning of reliable forecasting of

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(6) *Framework* IASB, paragraphs 9-15.

(7) See conclusions at the end of the work.

(8) Regarding the topic of fair value or cost, please consult, among other authors: QUAGLI A., AVALLONE F., *Fair Value or Cost Model? Drivers of Choice for IAS 40 in the Real Estate Industry*, in European Accounting Review, First Published on: 29th June 2010. See, among other authors: REIS, R.F. and STOCKEN, P.C., *Strategic consequences of Historical cost and fair value measurements*, Contemporary Accounting Research, 2007, 24 (2), pp.557-584; WHITTINGTON, G., *Fair value and the LASB/FASB conceptual framework project: an alternative view*, Abacus, 2008, 44 (2), pp.139-178.

(9) That affirmed by SODERSTROM and SUN, in a valuable work previously cited, is slightly different (SODERSTROM N.S., SUN J.K., *IFRS adoption and accounting quality: A review*, in European Accounting Review, 2008, Vol. 16, pp.675-702). According to these authors, where there is a lack of an adequate control system for implementing IFRS, their *principle-based* nature could press companies with finance modes based upon the capital of third parties to interpret the new standards in such a way as to privilege the information needs of the external financiers.

(10) Paragraph 37 of the *Framework*.

future results<sup>(11)</sup>). A configuration of income which is “potentially produced and a notion of net wealth at market values, considered to be more adapt to carry out investment or disinvestment evaluations”<sup>(12)</sup>.

The IASB financial statement model<sup>(13)</sup> is characterised by a lesser level of prudence, since the evaluations at market value eliminate reserves of value which are in the historical costs model; by the possibility of distributing income which is not realised, but which is seen in the financial statement on the basis of the market value of cashable activities; by a greater variability of the financial statement results and of the amount of net wealth, since they are tightly connected to fluctuations in market value of wealth elements expressed at market values; by a greater level of subjectivity and, consequently, by a lesser level of verifiability, of the evaluations operated by the administrators.

Now, if the IAS/IFRS consider investors and financiers as privileged receivers of the information contained in the financial statement, as a consequence, they introduce elements of subjectivity into the evaluations,<sup>(14)</sup> for the sole purpose of converting often anachronistic values (for example, in that they are based on historical costs) into market values, which better allow us to appreciate the economic value produced by a company. Therefore, whenever the impact on the economic and financial performance communicated through a financial statement drawn up applying the international accounting principles, is significant, so too the conditioning on stakeholder decisions may be important. This conditioning, however, would not be generated by a different operative situation of the companies, rather, simply by purely accounting differences, of representation, determined by the whole of the conventions applied, in the light of the same management operations and the same wealth which the company is endowed with. The possibility of adopting a set of alternative principles, for the sole purpose of improving the performance perceived by the stakeholders remains, without any doubt, immensely to the fore. Therefore, the passage to the IAS/IFRS regarding ratings, influences the size of company wealth and the configuration of income which will result from the financial statement; influences the various possibilities for the appreciation of management performances and, lastly, the various possible ways of dividing the wealth produced among the reference stakeholders. All these aspects obviously also have an influence on

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<sup>(11)</sup> CAPODAGLIO G., *I Principi contabili in Italia e le loro prospettive future*, in CAPODAGLIO G., BALDARELLI M.G. (a cura di), *L'armonizzazione dei Principi Contabili in Europa. Allargamento dell'U.E. e confronto internazionale*, RIREA, Rome, 2003, p.23. See, among other authors: MECHELLI A., *Accounting Harmonization and Compliance in Applying LASB Standards: An Empirical Survey about the First Time Adoption of LAS 7 by Italian Listed Groups*, in Accounting in Europe, vol.6, 2009, pp.231-270.

<sup>(12)</sup> PAVAN A., PAGLIETTI P., *La Value Relevance dell'informatica di bilancio: dai principi contabili italiani agli standard contabili internazionali*, in Rivista Italiana di Ragioneria e di Economia Aziendale, February 2011, p.20.

<sup>(13)</sup> SAVIOLI G., *La rappresentazione della realtà aziendale tramite il bilancio: il modello nazionale e il modello LASB*, in SAVIOLI G. (a cura di), *Principi contabili internazionali e Basilea 2. L'impatto sulle PMI*, Franco Angeli, 2008, p.16.

<sup>(14)</sup> For a closer examination of the situation of the company following the application of the international accounting principles, we advise that you read: DI PIETRA R., *Governo aziendale e standard contabili internazionali*, Cedam, Padua, 2005; MARINIELLO L.F., *L'applicazione degli IFRS e la performance d'impresa*, in Rivista dei Dottori Commercialisti, N°.3, 2004, pp.489-514.

the credit capacity of the companies. In this sense, given that the application of the international accounting principles can change the economic, financial and wealth equilibrium, which results from the financial statement, so too the evaluation of the credit-deserving nature of companies in accordance with the Basel Accords<sup>(15)</sup> might be conditioned by it significantly. The rating is based upon information deducible from periodical, final and estimate-financial statements, which in turn, may be influenced to various degrees by the application of the international accounting principles. The New Accord on capital<sup>(16)</sup> makes it so, that credit worth (the amount of credit that can be agreed upon and relative cost) depends on the rating the companies receive from credit institutions. Leaving a deeper study of the “technicalities” linked to the New Accord on Capital to the one side, for which we refer to the voluminous reference literature, we have again to emphasise the importance of the rating for the purpose of credit risk measurement<sup>(17)</sup> associated to liabilities. Through it we qualify, indeed, the risk, that the creditor must take on, of suffering losses due to the insolvency of the debtor or his downgrading.

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<sup>(15)</sup> For a summary of the first Accord we recommend, among other things, the reading of the following contributions: BAGELLA M., CAIAZZA S., *L'Accordo di Basilea 1: verso una nuova regolamentazione dei requisiti del capitale bancario*, Bancaria, 2001, N°4, pp.60-74; LAVIOLA S., *La riforma dell'Accordo sul Capitale: il funzionamento del metodo dei rating interni*, Bancaria, 2001, N°4, pp.24-38; SIRONI A., ZAZZARA C., *Il nuovo Accordo di Basilea: possibili implicazioni per le banche italiane*, in Rivista Bancaria, 2001, N°4; ZAZZARA C., *I modelli per il rischio di credito nel nuovo Accordo di Basilea*, in Rivista Bancaria, 57 (4), 2001.

<sup>(16)</sup> Basel II Accord, which had the intention of bettering the weak points of the first Basel Accord, has generated a regulation concerning the patrimonial requirements which the bank has to satisfy in order to face the risks of its very own activity (the applying, in Italy by way of Legislative decree N° 267 of 27<sup>th</sup> December 2006 and circular of the Central Bank of Italy N° 263 of 27<sup>th</sup> December 2006 “Nuove disposizioni di vigilanza prudenziale per le banche” [New provisions for prudential vigilance for the banks]). Fundamental normative premiss is constituted by Legislative decree N° 38/2005, as well as by the New accord on capital. The first has extended the applying of the IAS concurrently with Basel II to the company financial-year statement. The aspect to be considered is that the implementation (2006) occurred in a period of important economic growth . There can be no doubt that, with the application of the IAS/IFRS, the financial statements of many companies had, so to speak, improved. The use of fair value had caused an important effect of amplification of the fluctuations of the courses of bonds: it has unanimously been recognised that in the times of growth, the use of future values for the items of the financial statements, provoked the illusion of wealth increase, which in turn, pushed market rates ever higher, through perverse mechanisms, which created the phenomenon known as the “speculation bubbles”, one which was absolutely predictable and recurring. Nevertheless, with 2008, the crisis is very intense and the same banks ask for intervention to block IAS32 and IAS39. They asked the IASB for intervention in order to modify the documents and this came about in a very rapid way. During the recent period of decrease in values, the self same perverse mechanisms had caused a vicious circle of continual devaluations, with the inevitable explosion of existing bubbles; this provoked widespread and deep losses, with the consequent recourse to public intervention and with the requests for law changes, precisely by those operators who had pushed most for innovation and who had applauded the use of fair value.

As a consequence of the 2007-2008 financial crisis, Basel III then intervened as that whole of provisions approved by the Basel Committee on Banking Supervision, with the intention of perfecting the existing prudence regulations of the banking sector, the effectiveness of the action of vigilance and the capacity of the intermediaries to manage the risks they take on. Basel III intends to increase the quantity of capital issued by the banks. The implementation of the Basel III Accord will, however, be a gradual one: from 1<sup>st</sup>January 2013 it will come into full force on 1<sup>st</sup> January 2019.

<sup>(17)</sup> Regarding quantitative methods of measurement and management of risk of credit within the banks, please see, among other authors: BESSIS J., *Risk Management in Banking*, 1998, Wiley, New York; SANTOMERO A.M., *Commercial Bank Risk Management: An Analysis of the process*, in Journal of Financial Services Research, 1997, 12; SAUNDERS A., *Credit Risk Measurement*, Wiley, New York, 1999.

### **3. Conclusions**

To conclude these brief remarks, we may observe that the last financial crises were principally due to unscrupulous behaviour of financial operators, which caused fluctuating trends, in an abnormal way, of the course of bonds and shares. In particular, as regards shares, the variations which can be found in their exchange quotations have nothing to do with the value attributable to the company groups owned by the issuing societies. If the damage caused by the crisis limited itself to this, it would probably be considered surmountable, given that just the search for new risk capital by listed companies and, as has been mentioned, the possibilities of favourably issuing new debenture loans would be temporarily compromised. As has been witnessed though, a series of concomitant causes may provoke economic and financial imbalance, even within healthy companies.

Is there a remedy that may prevent the reoccurrence of crises of this kind? At a company level, surely not: only the governors of complex macroeconomic systems may intervene, though we do not know how. Whoever decides to move enormous amounts of capital, aiming for short-term and very short-term profit is pushed exclusively by predictions of increases or decreases of market-rates (of whatever type, however), even after few hours, or even minutes, without absolutely considering the reasons of such predictions.

Financial operations are more and more like games of chance: we never ask ourselves why the roulette ball will probably land on the black, rather than on the red; the important thing is that it goes there. Whoever plays on the rise or fall of stock exchange rates, does not consider the capital share of companies that produce, whose successes or failures are the fruit of the joint work of people, of bright intuitions of technicians and researchers, of the courage of those who have accepted the challenges of those activities; no, market-rates are numbers which appear on video monitors forever connected, 24 hours a day every day, with the main stock exchanges of the world. Everything depends on predicting if in the following hours, these numbers go up or go down in absolute value, the rest does not matter. But, if this is how it works, why do the operators give so much importance to the judgements, sometimes unreliable ones, that the ratings agencies attribute to values that are inferred (we believe) from the financial statements of companies? It is easy: because they predict that such judgements, reliable or not, will nevertheless have an effect on the trends of the stocks involved.

A final consideration: maybe all this is the consequence of a long cultural process, which, in recent decades, has penetrated academic environments, the Italian one as well, spreading therefore throughout various environments. The development of economic analysis through mathematical models has pushed scholars to “become fond” of such tools, gradually becoming more and more complex, till they give them a meaning of their own, far from that instrumental one, sometimes even removed from the economic reality to which they refer.

In the companies context, then, they moved more and more away from the concept of “income”, particularly from the “realised income” concept, privileging the financial aspect of cash flow generated, or, what is even worse, only probable; but there is more: the “company” phenomenon, which guided studies in continental Europe and especially in Italy, is at times forgotten, in the wake of Anglo-American culture, in which it remains unknown. Abandoning the concept of ‘company’, in order to substitute it with that of ‘business’, is not just a question of terminology: our Masters have taught us that the company is a living organism, a system which is fit to last in time and that its operations, its results, are to be interpreted in this light. A ‘business’, instead, stays just as it is, should it last but a day, and consists of a capital investment, with later rapid disinvestment.

There we have it, all this, seen at world level, or at least throughout the West, it may have contributed to the spread of practices, which, even if criticised and condemned, remain, resisting even financial catastrophes, maybe because whoever causes such catastrophes is often not the same player who suffers their consequences.

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