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SOME ELEMENTS ON THE ORIGIN AND CONTENT OF ROMANIAN ACCOUNTING REPORTING OBLIGATIONS IN RELATED PARTY TRANSACTIONS

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Abstract. There are two broad approaches in the literature on related party transactions (RPT). On the one hand, they are considered to represent a risk of misappropriation of funds to the detriment of shareholders, especially minority shareholders, due to the fact that these transactions are not carried out on market terms. On the other hand, such transactions are considered to simplify and streamline the work of some entities. Either way, accounting standard setters, as well as regional or global organizations, set special reporting obligations for firms involved in related party transactions. In Romania, in the national accounting rules, these reporting obligations are taken as such from the European Directive 34/2013 and are inspired, at the same time, from the international standard IAS 24. We can classify the reporting obligations in the case of related parties into two broad categories. First, there are obligations to disclose the transactions in the notes for all types of transactions, regardless of the nature of the related parties. Secondly, for the components of a group, there are obligations to prepare consolidated financial statements by following specific procedures; the latter obligations are, however, limited by the fulfillment of certain size requirements by the groups concerned.

Keywords: Related party transactions, Romanian Accounting Standards, European Directive 34/2013, disclosure obligations, consolidation rules.

JEL Classification: M41

1. Introduction

Accounting rules define rigorous criteria for recognizing assets, liabilities, revenues and expenses. All the rules related to these accounting recognitions apply to the raw material of accounting: the data in the supporting documents. If we assume that this data is accurate and reliable, then the information obtained from the application of accounting algorithms can be of good quality. Therefore, a premise of good faith in dealing with the primary input data in the accounting information system would be necessary. However, accounting information is often used contractually: one need only recall agency theory to agree with this statement. In these circumstances, another important premise of accounting process is that users of this information (in its accounting or processed form) take decisions on the basis of it and should be confident in the accuracy and relevance of specific reporting. Good faith adherence to accounting and financial reporting rules should lead to trust between the parties involved. However, it should not be forgotten that the mechanisms and processes by which information reaches users involve several parties with potentially different individual interests and different possibilities of influence. We could easily identify the producers of accounting information, its verifiers and the users themselves. The place of these categories in the production/valorisation of accounting information has been analysed through the prism of many economic, financial, organizational, etc. theories. We can agree with the idea that the aim of each of the parties involved is to promote their own interests, which may lead to some divergences and even some conflicts between the various parties. Thus, we can appreciate that, when they have the possibility, producers of accounting information are tempted to promote their own interests to the detriment of some of the other parties. This is where accounting standardization comes in, which mainly takes into account the interests of all. The standard-setting bodies are not only made up of representatives of the producers of accounting information; they may also be influenced by the actions of the other parties, depending on the type of standard-setting and the restrictions that the bodies have to take into account.

One of the situations in which producers of accounting information may exaggerate, in the sense of carrying out transactions that allow them to reach certain levels of certain indicators, is in commercial and financial relationships with related parties (RPT –related parties transactions). Whatever they are called - affiliated, related parties - experience has shown that transactions with such persons are likely to be suspicions in the sense that they may be suspected of not being conducted on market terms, i.e. not conducted as transactions with persons completely independent of the firm involved. There are even strong views that transactions of this type are arbitrary because one party may influence the other (Jian & Wong, 2010).

The existence of such situations - which have become very common (Gordon et al., 2004; Ryngaert & Thomas, 2012; Enriques, 2015) - has led the accounting standard setter to require additional disclosures of their effects or even to restate some data in order to obtain financial reports that are made public. In the related accounting and financial research papers, authors analyse such transactions on: sales of inventories, provision of services (including consultancy or assignment of copyrights), transfers of fixed assets, loans, guarantees, joint involvement in R&D, marketing, promotion, share swaps, etc. Henry et al. (2007), on a sample of US firms that were identified as violating the reporting rules, identify the most common types of RPTs used by these firms: loans between related parties, payments to firm managers without any proven services in return, sales and purchases in relation to related parties and not reported in the financial statements.

We also find in the literature, analysis of the directions of RPT: between the entity and its owners, between the entity and the firms it controls/influences, between the entity and the persons in and close to the management. In the same way, the literature identifies and analyses the senses of transactions: vertical or horizontal, especially considering group structures. Ge et al. (2010) find that, in China, the introduction of somewhat stricter reporting rules on RPTs has led to a reduction in the use of these transactions for earnings management purposes. In turn, Pozzoli & Venuti (2014) find that strict regulation of RPTs, as in Italy, makes the performance of Italian firms unaffected by RPTs, although Marchini et al. (2018) find that detailed reporting is not sufficient to avoid the opportunistic use of these transactions.

From a tax point of view, things are even more complicated, in the sense that the currently applicable tax rule allows the tax authority to adjust the basis of assessment of certain taxes if it proves that the arm's length principle is not respected or when the taxpayer does not prove that this principle is respected. The term used by the tax authority to designate the values arising from transactions between related persons is transfer pricing. In areas such as corporate income tax or VAT, the possible interest of the tax authorities to investigate whether the prices between the parties are correct is complemented, in Romania, by the possibility of using these transactions for purposes related to the classification of entities as corporate income or income tax payers, but also in cases concerning access to certain financing (especially non-reimbursable funds).

In this study, we aim to trace the evolution of Romanian accounting and tax regulations since 1990 with respect to the reporting, interpretation and risks associated with related party/ affiliated party transactions.

There are other studies in the literature with similar objectives, as Mohamad Ariff & Hashim (2013) for Malaysia.

2. Literature Review

Relationships between an entity and its related or affiliated persons have long been subject to accounting reporting obligations or tax restrictions. In these circumstances, the related literature is extremely rich. Google scholar shows more than three million references when searching on the term *related parties transactions* and more than four million for *transfer prices*. On the web of science, when searching on the topic field, we find more than a thousand documents (mostly articles) for *related parties transactions*, while for *transfer prices* we have more than 10,000 positions. Obviously, it is impossible to propose an exhaustive literature review on the topics addressed in this study, which is why we have analysed around 50 articles published in the most diverse journals, by authors affiliated to many institutions and with references to extremely varied geographical and institutional contexts. The research methodologies identified in the articles we reviewed are also numerous, with all kinds of variables linked.

The studies on relations with affiliates/relationships are linked to the accounting, financial, management, corporate governance and business ethics literature.

It is useful to recall that an entity's relationships with related parties are not always considered to have negative economic effects. Gordon et al. (2004), Ge et el. (2010), Ryngaert & Thomas (2012), Pizzo (2013), Pozzoli & Venuti (2014), El-Helaly (2018), Pratama (2018), Hendratama & Barokah (2020) along with many other authors - identify two major divergent strands in the literature in this analysis. In a first category are those who consider transactions with related parties/affiliated parties as opportunistic (even abusive), generating conflicts of interest, i.e. used to maximize insiders' interests at the expense of other stakeholders (expropriating RPT) and thereby compromising managers' accountability in their agency relationship with owners. On the other hand, we find arguments in favour of affiliated/related party relationships, in that they often fit within the firm's usual business model, can benefit the entity (can be more efficient), through a much simpler negotiation process, contract facilitation, lower transaction costs and improved use of firm resources, strategic partnerships and risk mitigation.

In addition, it is possible that a firm in a network of affiliates may be able to get help from the others (loans on better terms, maturity negotiations, etc.) when it is in financial trouble (propping RPT). Along the same lines, El-Helaly & Al-Dah (2022) show that involvement in RPT may lead to more dividends paid by firms, including to minority shareholders, to mitigate the perception of conflict between the executive and minority shareholders generated by RPT involvement. However, it may be that the favourable effects of RPTs are not so well highlighted, as the widespread use of these transactions for earnings management purposes or for siphoning funds from some firms are much more present in the literature. Marchini et al. (2018) find that the relationship between RPTs materialized in sales and corporate governance is negatively associated with discretionary accruals, implying that good governance reduces the association between RPTs and earnings management.

Henry et al. (2007) find arguments in the literature that fraudulent reporting is rare and that fraudulent reporting hardly involves RPTs, suggesting that most RPTs reported in financial statements are not fraudulent.

It should also be noted that the approach of RPTs as having predominantly negative effects would only be valid when these transactions are significant (Gordon et al., 2004). Thus, research finding negative economic effects of RPTs is the most numerous among the articles we reviewed for this text. Mohamad Ariff & Hashim (2013) identify in the literature that related person transactions contributed significantly to the 1997 Asian economic crisis. Also in the context of analysing the causes and effects of crises, Johnson et al. (2000) provide a description and categorization of how firm management uses its own and minority resources for their own self-interest (tunneling), finding some differences generated by institutional factors such as civil and common law countries. Nekhili & Cherif (2011) identify negative effects, in the sense of minority expropriation, generated by RPTs with major shareholders and the firms they are affiliated with.

Chen et al. (2009) identify techniques by which Chinese listed firms, especially state-owned ones, have used RPTs to hide non-performing assets, leading to the emergence and imposition of restrictive rules on these relationships.

Along the same lines, there are studies that consider that the great financial scandals of the 21st century have also been caused by the improper exploitation of related party transactions (Bona-Sánchez et al., 2017). There is even talk of an expropriation of minority shareholders through transactions between affiliated persons, through operations akin to actual embezzlement (tunneling) or to supporting distressed affiliated entities (Cheung et al., 2009). In this context, some of the firm's business partners, in particular lenders, may go so far as to require in loan agreements that, during the term of the loan, the borrowing firm does not engage in RPT or, if it does engage, does so on terms agreed with the lender potentially affected by these relationships (Kohlbeck & Mayhew, 2004).

Cheung et al. (2006), for a sample of firms in Hong Kong, conclude that minority shareholders are significantly negatively affected when the firms in which they hold shares engage in some types of RPT. El-Helaly (2018) identifies in the literature an association of RPTs with minority expropriation, decreased firm values, reduced quality of financial reporting, increased risks of reporting errors, and decreases in firms' long-term performance. All of these negative effects can be mitigated by good corporate governance as well as quality financial audit. Board diversity as an element of good governance is also considered as a way to limit the negative effects of RPT by Mani & Bansal (2025). Kohlbeck & Mayhew (2017) consider that the existence of RPTs is a signal (red flag) suggesting an increased risk of future corrections of financial statements, especially since RPTs are associated, for the sample studied by the two authors, with lower audit fees, explained by the hiring of auditors who are not necessarily specialized in the business area of the firms analysed. A possible decrease in the quality of financial reporting is analysed by Lee et al. (2016) who, on a sample of Korean firms, find a significant negative association between the comparability of financial statements and RPT, both in terms of the volume of these transactions and their volatility or their materialization in cash transactions. At the same time, Lee et al. (2016) find that firms involved in RPTs more often opt for different accounting policies than other firms in the industry, precisely to make it more difficult to detect the effects of RPTs. Also in Korea, Park (2018) concludes that high RPTs may be positively associated with an increase in involvement in tax avoidance, especially for firms that are part of specific Korean groups (Chaebol), but that regulatory developments may attenuate this relationship. In a different geographical context, Sari et al. (2017), on a sample of Indonesian firms, find similar relationships between tax avoidance, RPT and governance: increasing RPT volume is associated with more tax avoidance, a relationship that is attenuated by good corporate governance.

Given the two rows of effects of RPT, we agree with Jian & Wong (2010) who find that these transactions can be categorized into normal transactions and abnormal transactions, similar to accruals (normal and discretionary).

The possible effects of RPTs and the likely intentions of firms' management to report favourable figures may represent events with significant effects on the reported accounting figures, so it is expected that the literature will investigate the correlation between RPTs and earnings management. El-Helaly et al. (2018), on a sample of Greek firms, find that RPTs are more likely to be used as a unique earnings management tool, as a substitute for real earnings management techniques, only for firms that do not appeal to Big 4 auditors; the same authors do not find a systematic relationship between RPTs and accrual earnings management (AEM). On the contrary, on a different sample, Gordon & Henry (2005) identify a positive association between RPT and EM as measured by adjusted absolute accruals.

The reporting requirements imposed by accounting and tax rules can be seen as part of efforts to improve the transparency of firms as part of the move towards better corporate governance. Ge et al. (2010) find evidence to support the claim that RPT information is used by investors to determine the extent to which accounting information is credible for purposes of assessing firm performance. The membership of firms in financial or personal groups can generate economic effects, and government economic policies can be oriented in directions that take into account the existence of many such situations. Moreover, transactions of this type are found in all countries and their development at international level has led international and regional organizations to tackle the problem and propose rules to be applied to ensure that business is conducted in a way that is as undistorted as possible. The Organization for Economic Co-operation and Development (OECD, 2022) regularly issues guidelines so that companies and governments can follow clear steps to ensure the right environment and fair consequences of related party transactions.

We should not imagine that the authorities' efforts to identify the effects of this type of transactions is only of recent date. Davies (2018) shows us that in the UK there is a long history of their regulation, going back to the 1840s. The application of good corporate governance principles can have effects in the sense of discouraging transfer price manipulation related to RPTs (Lo et al., 2010). Thus, the existence of independent directors, the duality of the CEA – president of the board, the presence of financial experts on the audit committee are factors that decrease the likelihood of transfer pricing manipulation by the Chinese firms analysed by Lo et al. (2010).

Hendratama & Barokah (2020), on a sample of Indonesian firms, find a negative effect of RPT on firm value due to the market perceiving related-party selling as opportunistic and less credible than other selling. However, improved CSR reporting may lead to a mitigation of this negative relationship.

In terms of the type of related parties with which transactions are carried out, Bona-Sánchez et al. (2017) find that more than half of the Spanish listed firms analyzed report such transactions and that more than 99% of these are with majority shareholders. For a sample of U.S. firms, Gordon et al. (2004) find in the notes to the financial statements that 80% of firms report at least one such transaction, with an average of 3.9 transactions per firm; in almost half of the cases, RPTs are with executive management.

Chen et al. (2009), analysing the correlation between RPT and the performance of listed Chinese firms, reach different conclusions depending on the direction of RPT. Thus, the high level of RPT by which the analysed firms are in a buyer position is positively correlated with the financial and market performance of these firms. However, if the analyzed listed firms are controlled by other firms, then RPT is negatively correlated with market performance, which indicates that the controlling individuals of Chinese listed firms in the sample proposed by Chen et al. (2009) use RPT in their own interest rather than in the interest of other stakeholders.

Chen & Ye (2025) find that the impact of RPTs may be limited by the existence of more than 10% major shareholders, which also leads to increased accounting conservatism in financial reporting.

The existence of significant RPT and their potential negative effects also depend on economic, political and institutional variables. A country's level of development may influence the number and importance of such transactions. Also, managers' training and/or experiences in the country of their tenure or in developed countries may have an effect on the level of involvement in RPT.

In RPT studies, several variables are used to measure these transactions. The most straightforward relates to the share of related party transactions in the total assets of the firm under analysis (Mani & Bansal, 2025). Nekhili & Cherif (2011) find in the literature proxies that refer to the value of RPT, the number of these transactions or binary variables that take into account the existence or not of certain RPT. Because RPTs are approached from the two perspectives mentioned above, we also find attempts to measure RPTs with negative effects (i.e. those considered to negatively affect minority shareholders) as well as RPTs with positive effects. Mani & Bansal (2025) take from the literature the idea that RPTs with key personnel and their family members, as well as with firms in which they have an interest, represent transactions with the potential to expropriate minority shareholders.

It is also useful to separate the RPT into transactions carried out between the parties before they can be qualified as related, to transactions carried out after the affiliation relationship is confirmed (Ryngaert & Thomas, 2012); these latter transactions are those that can affect the performance of the company, the shareholders' yields and the possibility of financial difficulties.

From a fiscal point of view, it is easy to understand the mistrust with which the authorities concern transactions with related persons: transfer prices can be used to move profits to lower-tax territories, which creates difficulties in collecting budgetary revenues and also creates an unfair competition between firms involved in such transactions and those that do not have related relationships. This kind of transfer of profits to other territories has not only effects on the reduction of some taxes, but also on the diminution of the dividends that will be received by the minority shareholders, not involved in the holding/control of the affiliated persons to whom the transfer was made (Abigail & Dharmastuti, 2022).

The evolution of the regulation on RPT reporting and, upstream, the deterrence of asset diversion operations through such transactions is very spectacular, both at international level, as well as at regional and national level. However, regulation is not sufficient to mitigate the negative effects of RPT. Enriques (2015) shows us that there are other tools that can be used in this respect, besides the regulation of reporting: the prohibition of certain types of transactions, the introduction of procedural guarantees such as the existence of independent directors, the involvement of independent experts (including auditors), etc. Regarding auditors, Habib et al. (2017) identifies two types of important situations: on the one hand firms involved in transactions that may qualify as manipulators (RPTs, but also other types of transactions or behaviors) may prefer slightly less demanding auditors so that they do not have to justify some non-conformities in the application of reporting rules (this is the case of Indonesian firms politically connected and analyzed by Habib et al., 2017). On the other hand, some firms involved in the RPT opt to hire reputable auditors (possibly Big N) so that the information they provide (including about the RPT) is perceived by users as credible and of good quality, especially in financial markets in emerging countries.

3. Accounting rules on related party transactions

The current Romanian Accounting Standards (RAS) for companies that do not apply IFRS – that is OMFP 1802/2014 – is the result of the transposition into the Romanian legislation of the provisions of Directive 34 of the European Parliament and of the European Council. It is useful to see what are the requirements of this directive regarding transactions with affiliated persons and how they are defined, as well as the terms used in Romanian, but also in several other EU languages. RPT reporting is considered to provide users (especially financial market actors) with the information necessary for investors to discipline the opportunistic behaviour of firms (Kohlbeck & Mayhew, 2010).

3.1 Related parties in the European Directive 34/2013

The Romanian version of the European directive 34/2013 (https://eur-lex.europa.eu/legal-content/ro/TXT/?uri=CELEX%3A32013L0034, accessed on 14 March 2025) uses the term affiliated parties (*părți afiliate*) as well as affiliated companies (*întreprinderi afiliate*). The latter notion is defined very quickly as ”two or more enterprises within a group”. In order to determine what affiliated parties mean, Directive 34/2013 refers to IFRS as adopted by the EU, more precisely on IAS 24 *Related Party Disclosures*. For this article, we use IFRS versions, in all Union languages, available on the EU website, at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02023R1803-20250101 (accessed on 14 March 2025).
Regarding the terms used in Romanian, we find some inconsistencies. Table 1 takes over, from the European and Romanian normative acts, the main such terms.

Table 1. Terms for related parties in some languages of the EU

The regulation	*Official languages of the regulation*	*Main term*	*Term specific to companies*
OMFP 1802/2014	Romanian	părți legate	entități afiliate
Directive 34/2013	Romanian	părți afiliate	întreprinderi afiliate
IAS 24 (on UE website)	Romanian	părți afiliate	entități afiliate
Directive 34/2013	English	related party	affiliated undertaking
IAS 24 (on UE website)	English	related party	related entity
Directive 34/2013	French	partie liée	entreprises liées
IAS 24 (on UE website)	French	partie liée	entité liée
Directive 34/2013	Italian	parte correlata	imprese affiliate
IAS 24 (on UE website)	Italian	parte correlata	entità correlata
Directive 34/2013	Spanish	parte vinculada	empresas ligadas
IAS 24 (on UE website)	Spanish	parte vinculada	entidad vinculada
Directive 34/2013	German	Nahestehende Unternehmen und Personen	verbundene Unternehmen
IAS 24 (on UE website)	German	Nahestehende Unternehmen und Personen	Unternehmen
Directive 34/2013	Portuguese	parte relacionada	empresas coligadas
IAS 24 (on UE website)	Portuguese	parte relacionada	entidade relacionada

The existence of rules for reporting transactions with related parties is not in itself sufficient to ensure that users are properly informed. Equally important is the compliance of entities with the rules imposed by the standards. Obviously, we can expect different levels of compliance, depending on various factors and with various consequences.

3.2 The main provisions of the Romanian accounting standards (RAS) on related parties transactions

The Romanian regulation (OMFP 1802/2014) was drafted by the Romanian standard setter (Ministry of Public Finance) to take into account and introduce in Romania the provisions of the European Directive 34. Considering the above, in the immediately preceding subsection, we should find in the Romanian regulation provisions on related parties – as general notion – doubled by provisions on affiliated entities. In fact, it is easy to guess that we will have at least two levels of regulation. First, we find disclosure rules (presentation in the notes) mandatory for individual firms that prepare this component of financial statements. Secondly, we expect the rules for consolidating accounts, that is, for preparing financial statements at the level of groups of enterprises, with specific restatements and restrictions. To these lines of obligations that we can qualify as the result of the existence of the RPT, a newer regulatory requirement is added, regarding the report on the corporate tax.

a) Definition and classification of related parties in OMFP 1802/2014

In the concrete case of some American firms, Kohlbeck & Mayhew (2004) find that most of the RPT is conducted with key staff members of the company, with main shareholders/associations and with companies controlled or significantly influenced. It is no wonder, then, that European, international and, consequently, national accounting rules take into account these categories of related parties in the rules they lay down.

In OMFP 1802/201, as defining the related parties, we find a classification – that is, a definition by enumeration. A distinction is made between linked individuals and related entities. Thus, an individual person or a close member of the family of that person is linked to a reporting entity if that person meets one of three conditions:

1) has joint control or control over the reporting entity;
2) has a significant influence on the reporting entity; or
3) is a member of the key staff at the head of the reporting entity or the parent company of the reporting entity; in this case, we must not ignore the fact that the transaction may be part of the remuneration of the entity's key staff member (Kohlbeck & Mayhew, 2004).

To verify the fulfilment of these conditions, control, joint control, significant influence have the meanings that the consolidation rules provide. On the other hand, by a close member of the key staff family we mean: a) the children and the spouse (wife) or life partner of the person; b) the children of the spouse (wife) or life partner of the person; and c) the persons depending on the person or the spouse (wife) or their life partner.

In the case of related entities, we must include entities that meet one of 8 conditions:

1) an entity and the reporting entity are members of the same group (meaning that each parent, subsidiary and subsidiary of the same group is related to the others);
2) an entity is an associate or jointly controlled entity of the other entity (or joint venture entity or jointly controlled entity of a member of the group to which the other entity belongs);
3) both entities are jointly controlled entities of the same third party;
4) an entity is a jointly controlled entity of a third entity, or and the other is an associate entity of the third entity;
5) the entity is a post-employment benefit plan for the benefit of employees of the reporting entity or of an entity related to the reporting entity;
6) the entity is jointly controlled or controlled by a linked individual;

And

7) a related individual has significant influence on the entity or is a member of the key management personnel of the entity (or the parent undertaking of the entity);
8) the entity or any member of a group to which it belongs provides services to the key management personnel of the reporting entity or the parent of the reporting entity.

b) Disclosure obligations on the related party transactions

To begin with, the rule establishes the obligation to present, in the notes, the existence of related parties, regardless of whether or not transactions with them have been carried out.

For disclosing in the notes, the rule first establishes that ”a transaction with the related parties is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged or not”. Similarly, it is necessary to present the manner in which the key management staff was remunerated, on the whole (total remuneration), but also on components (fixed, variable, cash, in kind/advantages, in shares, etc.)

The list of related party transactions includes:

- purchases or sales of goods (inventories, real estate and other assets);
- sales or purchases of services;
- financing operations such as leasing contracts or other loans or capital contributions in cash or money;
- making available the results of research activities – development;
- agreements for the transfer of licenses;
- granting of personal;
- real guarantees; the assumption of liabilities by related persons on behalf of the entity or by the entity on behalf of linked persons.

The information to be disclosed in relation to related party transactions relates to: transaction amounts, closing balances (including off-balance-sheet commitments or collateral received/given) from those transactions; terms and conditions under which transactions, adjustments and provisions arising from related party transactions, and expenses for waiving some claims against related parties were conducted. This information shall be presented by categories of related persons: the parent company, entities that jointly control or significantly influence, subsidiaries, associated entities and those jointly controlled with other persons, key personnel in the management of the entity or its parent company, other related persons.

These obligations of presentation in the notes are valid for all companies obliged to draw up notes, that is, for small entities, as well as for medium and large ones. The classification on these categories of entities is made according to the size criteria established by the OMFP 1802/2014. However, even if micro-entities do not have, in principle, the obligation to draw up and present notes to the financial statements, the OMFP 1802/2014 also requires these micro-entities to present elements related to the relations with some related parties, that is, ”the amount of advances and loans granted to members of the administrative, management and supervisory bodies, with the indication of interest rates, main conditions and any refunded amounts, including amortised or waived and the commitments made on their behalf in the form of guarantees of any kind, with an indication of the total per category”.

c) Accounting consolidation obligations concerning certain related parties

Firms falling under the category of linked entities may also be required to be included in a set of consolidated financial statements, for the preparation of which specific accounting procedures must be followed.

First, it is necessary to identify a parent company, that is, a company that has control over one or more other companies, called subsidiaries. The parent company shall form a group together with its subsidiaries. If this group falls under the category of large groups, then the consolidation obligation becomes effective. The condition for classification as a large group is to exceed, for two successive financial years, two of the three size criteria established by the OMFP 1802/2014. These criteria refer to a) total assets: 125,000,000 lei; b) net turnover: 250,000,000 lei; average number of employees during the financial year: 250.

In calculating these indicators only the figures reported by the parent company and subsidiaries included in the consolidation shall be taken into account. On the other hand, the size indicators (total asset and net turnover) are obtained on the basis of data in the individual financial statements, without any of the consolidation-specific eliminations.

Small and medium-sized groups (that is, those not exceeding the limits set out above) are exempted from the obligation to prepare consolidated annual financial statements, unless one of the affiliated entities is a public interest entity.
OMFP 1802/2014 also lays down other specific exceptions to the consolidation obligations, such as for example parent companies which, in turn, are controlled by another entity that draws up consolidated financial statements.
The preparation of consolidated financial statements requires specific procedures for the homogenization of individual financial statements, the aggregation of homogenized individual financial statements, the elimination of the effects of reciprocal transactions, and the removal of the securities held by the mother in the subsidiaries, along with the equity of these subsidiaries.
If we start from the premise that RAS limits the consolidation itself to the parent company and its subsidiaries, we must also add the regime established for entities where voting rights of less than 50% are held, that is, entities where significant influence and joint control are exercised. The consolidation of these entities is done by the equity method, that is, by applying a valuation method that excludes the taking over of assets and liabilities by the investor, limiting itself to taking over the part of its accounting incomes, after some homogenization and removal adjustments.

d) Report on income tax information

In 2022, OMFP 1802/2014 has been completed by introducing a new chapter entitled "Report on corporate income tax information". This new regulation establishes certain reporting obligations for autonomous entities and very large groups, i.e. those with a turnover of at least RON 3,700,000,000, for two successive financial years. This type of reporting is similar to a long-standing requirement for banks: country by country reporting (CbCR).
The report detailing the corporate tax information should include, separately for each Member State (where applicable):

(a) the name of the ultimate parent company or autonomous entity, the financial year concerned, the reporting currency and, where applicable, a list of all subsidiaries consolidated in the financial statements of the ultimate parent company for the relevant financial year, established in the Union or in the tax jurisdictions included in Annexes I and II to the Council Conclusions on the EU list of non-cooperative jurisdictions for tax purposes;

(b) a brief description of the nature of the activities;

c) number of employees in full-time equivalent;

d) total revenues, which is the sum of net turnover, other operating income, income from participating interests, excluding dividends received from affiliated entities, income from other investments and loans forming part of fixed assets, other interest receivable and other similar income; this income also includes transactions with related parties

(e) the amount of income before taxes;

(f) the amount of income tax expense recognized in the reporting period in respect of current tax expense recognized in respect of taxable profit or tax loss for the reporting period by the entities and branches in the relevant tax jurisdiction; this does not include provisions for uncertain tax liabilities;

g) the amount of corporate income tax paid in cash during the financial year by entities and subsidiaries in the relevant tax jurisdiction; this includes taxes withheld at source by other entities on behalf of the reporting entity and its subsidiaries;

(h) the amount of retained earnings at the end of the financial year in question (income of the current year and other previous years for which it has not yet been decided to distribute as dividends).

The report must also be presented for each tax jurisdiction which, as at March 1 of the financial year for which the report is to be made, is listed in Annex I to the Council Conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes, and present this information separately for each tax jurisdiction which, as at March 1 of the financial year for which the report is to be made and as at March 1 of the previous financial year, was listed in Annex II to the Council Conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes.
Information shall be attributed to each relevant tax jurisdiction on the basis of the location or existence of a fixed place of business or a permanent establishment or a permanent economic activity which,

having regard to the activities of the group or autonomous entity, may be subject to liability to tax on profits in that tax jurisdiction.
Where the activities of more than one related entity may be subject to liability for corporate income tax in a single tax jurisdiction, the information attributed to that tax jurisdiction shall be the sum of the information relating to such activities of each related entity and its branches in that tax jurisdiction.
The report on corporate income tax information shall be published within 12 months of the balance sheet date of the financial year for which the report is made.
Such regulation is expected to lead to more transparency in financial reporting and even discourage groups from using optimally located subsidiaries in low tax jurisdictions. Perhaps in the EU, the CbCR may be more successful than in Indonesia, for example, where Romulo & Dalimunthe (2023) find that an equivalent obligation has not led to a limitation on the application of tax avoidance techniques.

4. Conclusions

RPT reporting rules are useful in the sense that they can bring to the attention of users significant elements of the firm's involvement in these types of transactions, which allows an assessment of the effects of these transactions. However, the existence of the rules by themselves is not sufficient to ensure that the parties involved are fully informed and that these rules discourage behaviour with negative effects. Enriques (2015) warns us that no regulation can be successful in protecting minority shareholders in the absence of strong enforcement actors: active and demanding supervisors and regulators, specialized courts, supporting institutions such as an independent press or anti-corruption or anti-money laundering social norms.
In analyzing relationships with affiliates/related parties, it is much more useful to relate these transactions and their possible effects to some other variables. In the literature, we could find studies correlating RPT with: the value of the firm, corporate governance elements (shareholder structure, board composition, including the presence of independents, internal audit, external audit, etc.), family or non-family nature of the firm/group, institutional environment, level of perception of corruption, degree of investor protection, performance of the entities (with various measures of performance), leverage, cost of capital, earnings management, share of different types of related party transactions, networks through which these transactions are carried out, tax avoidance and tax optimization, etc.

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