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THE IMPACT OF THE EU ACCESSION PROCESS ON FINANCIAL REPORTING

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Abstract. Moldova journey for European Union (EU) membership impose a transformation across its regulatory frameworks. In the field of financial reporting, the EU path triggered adoption of International Financial Reporting Standards (IFRS), alignment with the EU acquis, and implementation of the European Accounting Directive. In this regard, the aim of this paper is to trace the progress achieved by Moldova up to this point on European journey in the financial reporting field. Subsequently, the challenges that remain for the business environment and policies to speed up their reduction will be pointed out. In the study, we will call on the European Commission Reports, existing statistical data, as well as the most recent references subscribed to the researched topic.

Keywords: financial reporting, financial statements, EU acquis.

JEL Classification: M41; M48.

Introduction

The European aspirations of the Republic of Moldova were clearly outlined since 2014 by signing the EU-Moldova Association Agreement (AA) and the Deep and Comprehensive Free Trade Area Agreement (DCFAA). These were extremely important documents in shaping policy development in Moldova, stimulating speed and depth of economic and financial reforms. Later on March 3, 2022, Moldova has officially applied for membership of the European Union and was granted the status of EU candidate country on June 23, 2023. Subsequently, on 15th of December European Council gave green light to Moldova's negation process and the first inter-governmental conference marking the formal launch of the accession negotiations was held on 25 June 2024.

Moldova journey for European Union (EU) membership impose a transformation across its regulatory frameworks. Moldova was obliged to fulfil conditions based on European values and principles. Even if not all conditions did concerned directly the business environment, they constituted an essential premise for creating a favourable climate to the growth and development of businesses. In the field of financial reporting, the EU path triggered adoption of International Financial Reporting Standards (IFRS), alignment with the EU acquis, and implementation of the European Accounting Directive.

In this regard, the aim of this paper is to trace the progress achieved by Moldova up to this point in its European journey in financial reporting field and the impact of these achievements on the business environment. In the next section of this paper, we will have a deeper look on assessment of the EU acquis in the financial reporting field, underling the positive steps but also challenges that remains.

Impact of undertaken reforms in the field of financial reporting: state of play and challenges

Moldova has made significant progress in aligning with European Union standards for financial reporting and control. This advancement culminated on June 15, 2026, when the European Union and Moldova officially opened the fundamentals cluster of accession negotiations, which includes Chapter 32, on Financial Control. This chapter focuses on ensuring that Moldova adopts and implements EU standards regarding public internal financial control, external audit, and the protection of the EU's financial interests.

In this regard, we will have a deeper look on the transformations and major impact reflected in the financial reporting field in the last years in our country.

Regarding the accounting and audit, the harmonization was carried out during the legislative alignment process, resulting in the implementation of the Law on Accounting and Financial Reporting

No. 287/2017 and the Law on the Audit of Financial Statements No. 271/2017, both in force since January 1, 2019.

Currently, the vast majority of local enterprises report under the National Accounting Standards (NAS). Still, SMEs and large entities from Moldova have the option to choose under which standards to report national or international. At the same time, public interest entities, such as financial institutions, insurance companies, are legally mandated to adopt International Financial Reporting Standards (IFRS). The transition of Republic of Moldova to IFRS, was one of the most important and crucial steps to align with global norms.

Law on Accounting and Financial Reporting mentioned above, specifies the categories of entities, taking in the consideration three main features: total value of assets, total value of revenues from sales and the average number of employees in the company. The same Law draw up the manner of keeping accounting and reporting under accounting standards and specifies that an entity can draw up: abridge, simplified or full financial statements.

According to Law on Accounting and Financial Reporting No. 287/2017, micro-entities and natural persons that conduct entrepreneurial activity, once registered as value-added tax payers, keep double-entry accounting and draw up abridged financial statements. Small entities keep double-entry accounting and draw up simplified financial statements. Medium-sized and large entities keep double-entry accounting and draw up full financial statements.

The new legislation provisions, which will enter into, force on 1 January 2027, aims to harmonize even more the national legislation with European Union directives in the field of accounting and financial reporting.

According to the new provisions, aligned with the recommendations contained in Directive (EU) 2023/2775 a larger number of companies from Moldova will benefit from abridge or simplified reporting forms. The change was possible, due to the adjustment of criteria for classifying economic entities as micro, small, medium, large and groups. The revision of the classification criteria, which will enter into force on 1 January 2027, will also reduce the number of large and medium-sized companies required to audit their financial statements, which will lead to lower administrative costs for the business environment.

Alignment with the European acquis, from the last years, has also increased corporate transparency requirements by introducing the obligation to present a management report. According to the Law on Accounting and Financial Reporting No. 287/2017, the management report must include, at a minimum, the following information:

1. *Financial performance indicators.* This section of the management report must disclose information regarding the financial performance recorded by the entity during the reporting period (the

entity's financial position may also be analyzed, at the entity's discretion). Typically, financial indicators such as revenue, financial results (profit/loss), profitability, etc., are examined.

2. *Non-financial performance indicators* relevant to the entity's activity – this constitutes another section of the management report, disclosing information that characterizes the entity's operations from the perspectives of customers, internal business processes, and learning and growth. Various non-financial performance indicators are used for this purpose, which can be categorized into three groups.

The first group includes indicators characterizing the entity's relationships with customers. These include: customer satisfaction level; number of new customers; customer profitability; the entity's share of the sales market (market share), etc.

The second group of non-financial performance indicators characterizes the entity's internal economic processes, namely: innovation processes; new product development; product (or service) quality, which can be evaluated via: the scrap rate, the share of returned products relative to total sales volume, the percentage of quality targets met, etc.; production process organization, assessed using non-financial indicators such as: production process rhythmicity, the number of major production process improvements, labor productivity, material consumption norms, labor input, the procurement process, evaluated via: order lead time, average order size, etc.; the sales and distribution process, assessed via: delivery timeframes, on-time delivery, delivery costs; after-sales service, assessed via: extended warranty periods, technical support during use, etc.

The third group comprises non-financial performance indicators that describe the entity's capacity for learning and development. Of particular interest are the following indicators: the degree of implementation of the internal audit system; the percentage of employees trained in quality management; the level of employee satisfaction; the percentage of workers empowered to manage processes; information systems used in the production process, etc.

The list of non-financial performance indicators can be quite extensive. The choice of a particular indicator depends largely on the entity's strategic goals and development directions, as well as its specific circumstances.

The entity independently decides which financial and non-financial indicators—and how many of them—will be presented in the management report and/or the explanatory notes to the financial statements, as well as the criteria by which these indicators will be grouped. Everything depends on the entity's interest and objective in disclosing public information. If the goal is to attract more investors or to convince suppliers and creditors of the entity's operational stability, then more detailed information regarding the entity's activities during the reporting period may be presented in the management report and, where applicable, in the explanatory notes to the financial statements; conversely, if the management report and/or the explanatory notes to the financial statements are prepared solely to comply with the requirements of Law on Accounting and Financial Reporting No. 287/2017, then the information presented therein must align with the statutory provisions.

Still, the inclusion of ESG (Environmental, Social, and Governance) indicators in the management report is an official European Union requirement. These parameters serve as essential non-financial indicators that measure an entity's sustainability performance beyond traditional accounting figures. As part of its EU accession process, the Republic of Moldova is gradually adopting these rules.

The obligation to report these non-financial indicators is not apply to all local companies. Large companies and public-interest entities have to report ESG non-financial indicators in a separate section of the management report. Similar, local companies supplying goods to EU partners must report these non-financial indicators, regardless of their size. Currently, for local SMEs non-financial data reporting remains voluntary. Therefore, the accession process transforms gradually this type of reporting in a requirement for European alignment and competitiveness.

Conclusions

As part of its European Union accession process, the Republic of Moldova has implemented major structural reforms to align financial reporting with European standards. These changes directly affect how companies classify their business activities, prepare their financial statements, and report their data. Moldova has made progress in aligning its financial reporting and public financial with European standards. A major milestone was achieved, when the European Union formally opened the Fundamentals negotiating cluster, which includes Chapter 32, Financial Control.

Still, acknowledging existing challenges, costly transition to IFRS standards, lack of qualified personnel, and adaptation to the new European directives on ESG sustainability are very important.

The local business environment is navigating a complex and demanding period of adaptation. Despite significant progress, the economy of the Republic of Moldova continues to be affected by a series of systemic problems. The declining labour force, the low volume of investments in technologies and innovation, the low sophistication of national products and the permanent problems related to competition and access to finance, as well as the effects of climate change, lead to reduced competitiveness of domestic entrepreneurs in relation not only to foreign markets, but also within the internal market. Therefore, in order to prepare the national economy for deeper integration with the economy of the EU, Moldova needs to build economic resilience, foster investor trust and upskill accounting professionals to ensure full compliance with international standards.

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