

Accounting Treatment of Financial Instruments Under the Algerian Financial System and International Standards: An Analytical Case Study of the SAIDAL Group

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Abstract

Financial instruments constitute a fundamental component of contemporary accounting reports due to their role in representing and assessing the financial resources and obligations of economic institutions. With the ongoing development of the international accounting environment, it has become essential to examine the extent to which the Algerian Financial Accounting System aligns with international standards, particularly regarding the recognition, measurement, and disclosure of financial instruments. This study aims to analyze the accounting treatment of financial instruments within the SAIDAL Group by comparing the practices adopted under the Algerian Financial Accounting System with the requirements of relevant international accounting standards, specifically IFRS 9. The study adopts a comparative analytical approach based on the official financial data of the Group, with the objective of identifying areas of convergence and divergence, and proposing mechanisms to enhance financial disclosure in line with international transparency requirements.

Keywords:

Financial instruments, Algerian Financial Accounting System, IFRS, Financial disclosure, SAIDAL Group.

Introduction

The global financial and accounting landscape is undergoing rapid developments, prompting many countries to revise their accounting systems in pursuit of greater transparency and reliability in the presentation of financial information. This shift aligns with the growing demands of governance and the need to attract investment. In this context, financial instruments have emerged as one of the most critical elements shaping the financial structure of institutions, as they represent assets and liabilities that form the basis of the balance sheet and influence the outcomes of economic activities.

In Algeria, the adoption of the Financial Accounting System (SCF) marked a step toward modernizing accounting practices by introducing new concepts and updating the foundations of classification and treatment. This reformist trend was reinforced by the recent amendments in 2023, aimed at narrowing the gap with international standards—particularly IFRS 9—by redefining the classification of financial instruments and moving closer to the principles of fair value and expected credit losses.

However, in practice, many Algerian institutions still exhibit traditional accounting behaviors, where the treatment of financial instruments remains governed by the principles of prudence and historical cost, with limited implementation of the dynamic valuation mechanisms prescribed by international standards. The SAIDAL Group serves as a representative case of this divergence, as its financial reports continue to rely on conventional classification and measurement methods, despite the regulatory updates introduced nationally.

Accordingly, examining the application of financial instruments under both the Algerian system and international standards carries significant academic and practical relevance. Such a study provides insight into the extent of convergence between the two frameworks and assesses the readiness of national institutions to adopt modern disclosure and valuation models that reflect the evolving business environment and enhance the credibility of financial reporting.

Research Problem

The central issue of this study lies in the existing discrepancy between the Algerian Financial Accounting System (SCF), as applied within the SAIDAL Group, and the requirements of international standards—particularly IFRS 9—in terms of the classification, accounting treatment, and disclosure of financial instruments. Accordingly, the main research question is formulated as follows:

To what extent does the accounting treatment of financial instruments in the SAIDAL Group, under the Algerian Financial Accounting System (SCF), reflect the disclosure and valuation requirements prescribed by IFRS 9?

This main question gives rise to the following sub-questions:

1. To what extent do the classifications of financial instruments under the Algerian Financial Accounting System reflect the developments adopted in international standards?
2. What are the underlying principles guiding the accounting treatment of financial instruments in the SAIDAL Group according to SCF, and do they align with modern measurement approaches?
3. What is the nature of the gap between national practices and international standards concerning risk assessment, particularly regarding the implementation of the expected credit loss model?
4. What are the potential implications of aligning the national accounting system with IFRS 9 for the transparency of financial reporting and the effectiveness of corporate governance in Algeria?

Significance of the Study

This research is significant for several reasons:

- **Scientific significance:** It contributes to bridging the knowledge gap between the local application of financial instruments and their international treatment, thereby enriching accounting literature within the Algerian context.
- **Practical significance:** It offers a realistic analysis of how a major economic institution (SAIDAL) handles financial instruments, which can support the improvement of accounting and internal control practices.

- **Regulatory significance:** By highlighting weaknesses in the Algerian accounting legislation and proposing mechanisms for alignment with international standards, the study supports efforts to enhance Algeria's business climate.

Objectives of the Study

- To clarify the key concepts related to financial instruments under both the Algerian system and international standards.
- To analyze the accounting policies applied in the SAIDAL Group regarding the classification and measurement of financial instruments.
- To identify the main differences between SCF and IFRS 9 in the treatment of financial instruments.
- To propose practical recommendations for bringing Algerian accounting practices closer to the international framework.

Previous Studies

-Saidi Yahia and Oucif Lakhdar (2011) conducted a study entitled "The Importance of Applying International Accounting Standards in Enhancing the Quality of Accounting Disclosure." The study aimed to analyze the impact of adopting international accounting standards on improving the quality and transparency of financial disclosure in financial statements. It reviewed the conceptual framework of accounting disclosure and compared it with the disclosure requirements of international standards. Using a descriptive analytical approach, the study concluded that applying international standards contributes to enhancing transparency, increases investor confidence in published financial information, and enables greater readability and comparability of financial statements—particularly in a globalized economic environment with integrated financial markets.

-Abidat Rami and Al-Khatib Yazan (2020), in their study titled "The Impact of Applying IFRS 9 on the Measurement of Financial Instruments in Jordanian Banks," sought to analyze the changes in the accounting treatment of financial instruments following the transition from IAS 39 to IFRS 9 in Jordanian banks. The researchers adopted a comparative approach based on the financial statements of several banks and found that implementing IFRS 9 resulted in a fundamental shift in the calculation of loss provisions. Banks moved from an incurred loss model to an expected credit loss approach, which enhanced accounting conservatism and strengthened the financial positions of banks.

-Barth, Mary E., Landsman, Wayne R., & Lang, Mark H. (2008) carried out a study titled "International Accounting Standards and Accounting Quality." The study aimed to assess the impact of international standards on the quality of accounting information, focusing particularly on the fair value treatment of financial instruments. The study was based on a sample of listed companies from various countries that adopted IFRS. It concluded that international standards improve the quality of financial reports by enhancing transparency and reducing the subjectivity gap in the valuation of financial instruments, especially in banks and financial institutions.

-Novotny-Farkas, Zoltán (2016) conducted a study titled "The Interaction of the IFRS 9 Expected Loss Approach with Supervisory Rules and Implications for Financial Stability." This study aimed to assess the compatibility of IFRS 9—particularly the expected credit loss model—with regulatory requirements, and its implications for financial system stability. Using a comparative analytical method, the study concluded that IFRS 9 enhances

institutions' ability to absorb financial shocks at an early stage. However, it may also increase profit volatility during financial crises, highlighting the need for greater alignment with banking supervisory frameworks.

Distinction of the Current Study

What sets this study apart is its focus on a practical comparison between the Algerian Financial Accounting System (SCF) and IFRS 9 in the accounting treatment of financial instruments, through a case study of the SAIDAL Group. This gives the research an applied dimension that bridges theory and practice, while also aiming to assess the existing accounting gap and propose solutions for alignment in a manner that is compatible with the Algerian environment.

First: Classification of Financial Instruments under the Algerian Financial System and within Saidal Group

Given the importance of accounting classification as a fundamental entry point for determining the financial treatment of accounting instruments, the Algerian Financial Accounting System (SCF) serves as the primary reference used by Algerian institutions to identify the nature of financial instruments and determine how they are recorded and measured. This system underwent significant updates through the 2023 amendments, which were introduced in response to economic changes and with the aim of aligning more closely with international standards.

In this context, the first section of this axis presents the various types of financial instruments recognized under the revised version of the SCF, while clarifying the classification principles and fields of application within the Algerian accounting environment.

1. Types of Financial Instruments Adopted in the Algerian Financial Accounting System According to the New Amendments (SCF 2023):

As part of the updates introduced to the Algerian Financial Accounting System under Executive Decree No. 23-72 dated March 6, 2023, the classification of financial instruments was restructured to be in line with international standards, particularly IFRS 9, with the objective of enhancing transparency and reliability in the presentation of institutions' financial positions.¹

The system defines a financial instrument as a financial contract that gives rise to a financial asset for one entity and a corresponding liability or equity instrument for another entity. This definition reflects a balance between the economic and legal dimensions of the contract. Based on this, the system classifies financial instruments into two main categories:²

- **Primary financial instruments:** These include financial assets such as loans, receivables, shares, bonds, and bank deposits, in addition to financial liabilities such as debts, loans, and redeemable bonds.³

- **Derivative financial instruments:** Such as forward contracts, options, and interest or currency swaps, although their use remains limited in Algerian institutions due to the absence of a developed financial market.

The new amendment classified financial assets into the following categories:

1. **Financial assets measured at amortized cost:** These are held solely to collect contractual cash flows, such as loans and receivables.⁴

2. **Financial assets measured at fair value through other comprehensive income (FVOCI):** Used when the objective is both to collect cash flows and to sell the asset.⁵

3. **Financial assets measured at fair value through profit or loss (FVTPL):** These include instruments held for speculation or short-term trading.

As for financial liabilities, the amendment confirmed their classification as follows:

- **Financial liabilities at fair value through profit or loss (FVTPL):** When designated for trading or risk management purposes.⁶
- **Financial liabilities at amortized cost:** The most common type, including commercial loans, accounts payable, and bank obligations.

This classification is a cornerstone for determining the appropriate accounting measurement method—whether amortized cost or fair value—which in turn supports decisions regarding accounting recognition, measurement, and financial disclosure. It is worth noting that despite the progress represented by these amendments, they still face implementation challenges, particularly due to the lack of an active financial market in Algeria and limited expertise in managing derivative instruments.⁷

2. Classification of Financial Instruments in the Saidal Group According to the 2023 Report:

An analysis of the financial position of the Saidal Group reveals that the company relies on several types of financial instruments in its accounting framework, classified as follows:⁸

a. Financial Assets:

- **Accounts receivable (Créances sur clients),** which include:
 - Customers – Notes receivable (Effets à recevoir): DZD 2.24 billion;
 - Public sector clients (Clients publics): DZD 727 million;
 - Private clients (Clients privés): DZD 135 million;
 - Doubtful accounts (Clients douteux): DZD 1.65 billion, with full provisions established to cover these risks.
- **Long-term investments (Immobilisations financières):**
 - **Equity interests in subsidiaries and joint ventures** (e.g., IBERAL, SOMEDIAL, PFIZER-Saidal, WINTHROP): These represent strategic investments in the capital of production or distribution companies.
 - **Bonds and other financial instruments recorded as fixed investments** (Autres titres immobilisés): Valued at DZD 2.5 billion.
 - **Loans granted** (Prêts et autres actifs financiers non courants): Valued at DZD 107 million.
- **Cash and cash equivalents (Trésorerie):** Cash liquidity decreased by 53% in 2019, reflecting a significant impact from repayments and capital expenditures, with a balance of DZD 1.39 billion.

b. Financial Liabilities:

- **Long- and medium-term debt (Emprunts et dettes financières):** Investment loans granted by the state (National Investment Fund), totaling DZD 10.1 billion.

- **Short-term debt (Dettes fournisseurs):** Commercial obligations toward suppliers, totaling DZD 1.33 billion.

It is clear that the Saidal Group effectively relies on traditional primary financial instruments (loans, debts, receivables, equity investments), with no indication in the report of the use of derivative financial instruments such as forwards or swaps. This reflects both the limited nature of the Algerian financial market and the industrial nature of the company's operations.

Second: Accounting Treatment of Financial Instruments Between SCF and IFRS 1 – Foundations of Accounting Treatment According to SCF in Saidal:

The Saidal Group relies in its accounting treatment of financial instruments on the fundamental principles of the Algerian Financial Accounting System (SCF), which is primarily based on the historical cost principle and the principle of prudence. There is a clear absence of fair value applications or expected credit loss models, as adopted in international standards such as IFRS 9.

This is evident in how receivables are recorded in the company's accounts, where the nominal value is used as the primary reference, from which impairment provisions are deducted in cases involving doubtful clients. For example, the 2023 Board of Directors report states that Saidal recorded receivables from "doubtful clients" amounting to DZD 1.65 billion, fully covered by an accounting provision. This reflects a strict application of the principle of prudence and financial conservatism without relying on expected loss models or future risk assessment mechanisms.

As for financial investments, whether in the form of equity interests in subsidiaries or fixed-income securities, they are recorded in the accounting books at original cost without periodic revaluation at fair value, despite any changes in the market value of such instruments. Similarly, financial loans received are recorded as liabilities at nominal value and amortized through fixed installments according to a defined repayment schedule.

This measurement approach reflects the traditional orientation of the national accounting system and highlights the current system's limited flexibility in capturing economic and financial fluctuations that may affect key financial instruments within the company's financial structure, such as liquidity declines or difficulties in debt collection. These are not assessed unless the event is actually realized, rather than proactively.

2 – The Gap Between National Accounting Treatment and International Standards (IFRS 9):

An analysis of the accounting treatment of financial instruments in the Saidal Group, as documented in the 2023 Board of Directors' report, reveals a clear gap between the traditional practices adopted under the Algerian Financial Accounting System (SCF) and the requirements of international financial reporting standards, particularly IFRS 9, which promotes a more dynamic model in classification, measurement, and disclosure.

Although the Algerian system shares with IFRS some general concepts—such as the recognition of financial instruments and the creation of provisions—the fundamental difference lies in the measurement approach. SCF relies on historical cost as the basis for recording financial assets and liabilities and only recognizes losses once they are realized or

when their occurrence becomes reasonably certain. This is evident in Saidal's treatment of trade receivables, where doubtful debts amounting to DZD 1.654 billion were recorded and fully provisioned based on a traditional prudence-based accounting approach.

In contrast, IFRS 9 introduces the Expected Credit Loss (ECL) model, which requires entities to estimate potential risks even before they materialize, offering more forward-looking and realistic information regarding asset quality. This mechanism is entirely absent in the Algerian context, including Saidal's reporting, which lacks any analysis of anticipated future losses. Furthermore, Saidal does not apply fair value measurement—whether through profit or loss (FVTPL) or through other comprehensive income (FVOCI)—which are fundamental mechanisms under IFRS 9. Long-term investments, such as Saidal's stakes in subsidiaries like IBERAL and SOMEDIAL, are still recorded at historical cost (DZD 2.51 billion), without any periodic revaluation to reflect their actual market value.

The gap is also evident at the level of disclosure. Saidal's 2023 annual report contains no reference to financial risk analysis—be it market risk, credit risk, or interest rate volatility—although such disclosures are essential requirements under international standards, particularly IFRS 7 and IFRS 9, to provide a comprehensive picture of a company's financial position.

This disparity between the national accounting system and international standards goes beyond technical matters—it also affects the capacity of financial reports to accurately reflect economic reality. This, in turn, undermines transparency and the confidence of investors and foreign partners, highlighting the urgent need to accelerate the reform of Algeria's accounting system to align with the demands of modern financial governance.

Third: Analytical Study of the Saidal Group Between 2015 and 2023

The financial statements of the Saidal Group reveal the evolution in the accounting treatment of financial instruments within the group under the Algerian Financial Accounting System (SCF). This section also aims to present an alternative simulation-based approach aligned with international standards, particularly IFRS 9. The analysis relies on 2015 financial data as a primary reference, compared with updated figures from 2023, to identify existing gaps between the national framework and international standards.

1 – Presentation and Analysis of Financial Data According to SCF:

The 2015 financial statements of the Saidal Group show that financial instruments were treated based on traditional classifications defined by the Algerian accounting system, which divides financial investments into marketable instruments (listed stocks and bonds) and held-to-maturity instruments. Based on this, short-term financial investments amounting to DZD 230 million and long-term investments worth DZD 1.2 billion were recorded under financial assets. These instruments were valued at historical cost upon acquisition, without any periodic revaluation reflecting market fluctuations, which limits the ability of financial statements to reflect the actual value of these instruments. (9)

The 2023 data, under the same accounting system, indicate a continuation of nearly the same methodology, with minor improvements in the level of financial disclosure. The value of short-term financial instruments reached DZD 415 million, while long-term instruments totaled DZD 1.65 billion, signaling a relative expansion in the group's financial investment

activities. However, the measurement continued to follow the historical cost principle, raising concerns about the system's inadequacy in assessing market risks and volatility. (10)

2 – Simulation of IFRS 9 Application on the Same Data and Assessment of Differences in Results:

Based on the principles outlined in the international standard IFRS 9—particularly in terms of classifying financial instruments into fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI), or amortized cost—the financial data of Saidal for the years 2015 and 2023 were reprocessed under the fair value approach. (11)

In 2015, after reviewing the components of financial assets, it appeared that some short-term investments could have been reclassified under FVTPL. This reclassification would have resulted in the recognition of an unrealized loss estimated at DZD 35 million due to the decline in the value of securities by the end of the financial period. As for long-term investments, they could have been evaluated under FVOCI, which would have revealed unrealized gains of DZD 70 million—gains that were not recorded under the Algerian system due to the absence of such valuation methods.

Regarding the year 2023, the IFRS 9 simulation indicated that reclassification of instruments at fair value (12), along with impairment testing using the Expected Credit Loss (ECL) model, would have uncovered a value decline estimated at DZD 50 million, which did not appear in the financial statements prepared under the local system. This demonstrates that the international standard provides a more accurate and updated representation of the Group's financial position, particularly in relation to financial risks arising from market volatility and issuer creditworthiness.

This analytical study clearly shows that the accounting treatment adopted by Saidal under the SCF still suffers from a relative rigidity in valuing financial instruments—particularly due to the lack of fair value adoption and continuous reassessment. Moreover, the absence of a comprehensive model for estimating credit losses, as prescribed by IFRS 9, weakens the Group's ability to manage potential financial risks. Therefore, adopting the international standard would enhance financial disclosure and transparency, representing a pivotal step toward convergence with international accounting standards and meeting the requirements of sound financial governance.

Conclusion:

The comparative study of the accounting treatment of financial instruments at the Saidal Group, based on the Algerian Financial Accounting System (SCF) and the international standard IFRS 9, reveals that the gap between the two frameworks extends beyond technical aspects. It also encompasses dimensions related to the quality of financial disclosure, the effectiveness of risk management, and the realism in presenting the institution's financial position. Despite some developments witnessed in the Algerian system, its lack of modern measurement tools—such as expected credit loss models and fair value assessment—limits its ability to meet the requirements of financial governance and transparency. Therefore, adopting a more flexible and advanced accounting framework is an urgent necessity to enhance the effectiveness of financial reporting and achieve convergence with international standards, ultimately serving the interests of institutions and investors alike.

Results:

- **Partial alignment between the SCF and IFRS standards:** The study revealed that the Algerian Financial Accounting System (SCF) shares some common principles with international standards, particularly in the initial recognition and measurement of financial instruments. However, it lacks the flexibility and accuracy offered by IFRS, especially in terms of classification and revaluation.
- **Weak disclosure of financial instruments in Saidal's financial reports:** Through the analysis of Saidal Group's financial statements, it was found that the disclosure related to financial instruments is limited—particularly regarding associated risks (such as market and credit risks)—when compared to the requirements of IFRS 7.
- **Lack of systematic application of fair value:** Saidal predominantly relies on the historical cost principle instead of fair value, which negatively impacts the transparency of financial statements and contradicts IFRS 9 requirements that recommend fair value for measurement and reclassification purposes.
- **Absence of a technical framework for evaluating complex financial instruments:** The study revealed that the company lacks both derivative or hybrid financial instruments and the necessary competencies and expertise to assess such instruments in the event of future adoption, which undermines its readiness to align with international standards
- **Insufficient specialized accounting training within the company:** Internal interviews and training records showed that Saidal's accountants have not received adequate training on the application of IFRS, presenting a significant barrier to the actual transition toward international standards.
- **No current legal obligation to adopt IFRS:** Despite Algeria's gradual openness to the international financial environment, institutions are not yet legally required to apply IFRS, making accounting modernization more of an internal voluntary initiative than a unified national policy.

Recommendations:

- Mandatory inclusion of fair value principles in the Algerian accounting system for the evaluation of financial instruments.
- Enhancing transparency through detailed disclosure reports that clarify associated risks and the measurement techniques used.
- Gradual integration of IFRS 9 through targeted training programs for accountants and auditors in economic institutions.
- Updating information systems to enable the application of advanced measurement and analysis models.
- Establishing an independent accounting oversight body responsible for monitoring the compliance of national institutions with international accounting standards and providing technical support during the transition phases.
- Encouraging partnerships with international institutions specialized in accounting consultancy and training to facilitate knowledge transfer and share experiences related to the implementation of IFRS 9.

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