

SUMMARY RECORD

MEETING OF
THE **ACCOUNTING REGULATORY COMMITTEE**
OF **14 FEBRUARY 2003**

M. David Wright, Director at the Internal Market DG, European Commission, chaired the second official meeting of the Accounting Regulatory Committee ("ARC"). No implementing measures featured on the agenda of this meeting.

Agenda point 1 - Approval of the minutes of the previous ARC

The minutes (ARC/2002-11-06/4) of the ARC meeting of 6 November 2002 were approved.

Agenda point 2 - Translations

The Commission reported that the translation of IAS extant at 1 September 2002 has been contracted out to the IASC Foundation, for delivery by the end of March 2003. Texts have already been received for 6 official languages of the Community and addressed to the relevant ARC delegations and the Translation Service of the Commission for comments to the IASCF by the end of February. Under the terms of the contract with the IASCF, copyright on translations belonged to the European Communities. However, non-exclusive rights for IASB to publish them would be granted.

The need to already prepare for the next steps was underlined by the Commission, i.e. the translation of the forthcoming improvements to existing IAS as well as of the future IFRS, while ensuring that existing IAS will also be translated into the official languages of the 10 Acceding Countries.

Agenda point 3- Endorsement of existing standards - State of play.

The Commission referred to its press release issued before Christmas, which stressed the importance for the Commission to have high quality translations of IAS in all Community languages in order to be in a position to submit a proposal for endorsement. The Chairman added that as translations will be available by the end of March, draft implementing measures could be ready 2/3 months later for a conclusion of the endorsement process regarding existing IAS before the end of summer. The Commission insisted on the need to progress swiftly in this regard, as companies need to know exactly what to prepare for, in advance of the 2005 IAS entry date.

The Commission representative reported that, in conformity with the decision taken at last ARC meeting, the Commissioner and senior officials had several meetings with Sir David Tweedie, Chairman of the IASB, to encourage a thorough, open due process on all major problems arising from IAS 32 & 39. The Commission added that, pending the outcome of the IASB March roundtables on the IAS 32 & 39 improvements project, there was no intention to re-open at this stage the debate on "en bloc" endorsement including IAS 39 vs. a staged approach (all standards but IAS 39, with a revised IAS 39

at a later stage). It was reported that the European Banking Federation is working on the practical problems concerning IAS 32 & 39, notably regarding hedging (macro-hedges and internal hedges), and will try to come up with a technical solution in line with the IASC Framework. FEE (Federation of EU auditors) had offered a platform to gather the views of the bank and insurance industries, the audit profession and EFRAG on these matters. The Commission insisted on the need for a common European technical approach to the main issues. The Commission as an observer on the IASB's Standards Advisory Council will have the opportunity on 24 & 25 February to provide additional input.

The Commission stated that the IASC Board of Trustees had granted EFRAG liaison status at the IASB. This attests of the IASB readiness to listen to the voice of the European Union.

The Commission indicated that the IASB, having received some 150 comment letters on the IAS 32 & 39 improvements project, has already indicated that they are open to make changes if technically justified. The IASB may decide at its April or May Board meeting to expose some changes for a short comment period, so that revised standards could be adopted soon after summer.

One of the observer bodies stressed the importance of the IASB public hearings for developing practical adaptations to IAS 32 & 39. It indicated that it would attend the IASB roundtables as an observer. This body also underlined the need to send a clear endorsement signal as soon as possible, as companies -notably banks and insurance companies- need to be able to adapt their systems for the 2005 change-over to IAS.

While one Member State advocated an early "en bloc" endorsement of all existing IAS without waiting for the revisions to IAS 32 & 39, lest this would delay the whole endorsement process into 2004, another Member State stated that there was no contradiction between having a realistic timetable and a practical revised IAS 32 & 39.

The Chairman concluded by announcing that endorsement would be discussed again at the April meeting of the ARC. What was important was for all Member States to move forward together - strengthening the IASB and the EU's external position in the process.

Agenda point 4- Presentation by EFRAG of current IASB's projects.

The Chairman invited MM. Van Helleman, Chairman of the Technical Expert Group of the EFRAG (the "European Financial Reporting Advisory Group") and M. Paul Rutteman, Secretary General of EFRAG, to provide an overview of the IASB projects on business combinations (Phase I) and share-based payments as well as the corresponding comment letters from EFRAG.

Regarding the IASB share-based payments project, comments were made by some Member States as to the need for the provision of detailed information in the notes to the accounts on the assumptions applied to determine the cost of share-based payments, due to their potential impact on the profit and loss account of companies -as such cost will be expensed- and because of the freedom left to companies to choose their valuation model. EFRAG explained that a major difference between the US and the IASB approaches concerned measurement of share-based payment and in particular the absence of regular intermediary corrections of assumptions (absence of regular "truing up") used to measure the cost of share-based payments, which could lead to temporary overshooting. A consensus in favour of "truing up" for estimates but not for the value of the options

(which should be fixed at grant date) emerged amongst the Member States and observers who took the floor. Whilst EFRAG's comment period on this project is over, the IASB comment period ends on 7 March 2003.

Discussions on the IASB business combination project focused on the impairment of goodwill and the need for any impairment test to be both reliable and not unduly complex, if it is to successfully replace the current practice of systematic amortisation of goodwill over its expected useful life. EFRAG's comment period on this project is open until 7 March and the IASB's until 7 April 2003.

Agenda point 5 - Participation of Accession Countries

The Chairman indicated that from 16 April 2003 (date of signature of the Accession Treaties) to 1 May 2004 (effective date of accession), the 10 acceding countries (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) will be granted observer status in all committees, including "comitology" committees. The Chairman welcomed the future arrival of acceding countries' delegations to the ARC.

Agenda point 6 - Relationship between the ARC and external parties

Member states supported the Chairman's proposal to post on the Commission's web-site the lists of organisations composing Member States' delegations to the ARC, the rules of procedure of the ARC, summary records of meetings and agendas thereof, after the relevant meeting.

Agenda point 7 - Miscellaneous

The Chairman indicated that next ARC meeting was planned on 10 April 2003, i.e. after the completion of the March IASB roundtables on IAS 32 & 39.

In response to a Member State's question on the rules of procedure (adopted unanimously at the previous ARC meeting), the Chairman indicated that the existence of Article 9(2) which allows any Member State to request termination of a possible written procedure initiated under Article 9(1) meant that Article 9 could not be applied to the detriment of Article 3. *Ceteris paribus*, the written procedure permitted by Article 9(1) was to be considered as a facility to formally finalise decisions that would already have been taken in respect of Article 3, but where some minor action, for instance proof-reading, would still be necessary.