

**SUMMARY RECORD**

<b>MEETING OF THE ACCOUNTING REGULATORY COMMITTEE OF 10 APRIL 2003</b>
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M. David Wright, Director at the Internal Market DG, European Commission, chaired the third 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/2003-02-14/3) of the ARC meeting of 14 February 2003 were adopted.

**Agenda point 2 – Feedback on the IASB Roundtables on IAS 32 & 39**

The Chairman reported upon the Roundtables organised by the IASB in London and Brussels in the week of 10 March on IAS 32 & 39. Attendance was high. The Commission services, as an observer, attended a majority of the nine sessions. Representatives of CESR and of the Banking Advisory Committee also participated.

The Chairman said that the IASB Roundtables have been useful both for the IASB and its constituents in providing the opportunity for a real dialogue on complex issues of particular importance for the European banking and insurance industries. The Roundtables have sensitised the IASB to the importance of thorough due process.

The Chairman added that the IASB had demonstrated willingness to consider at least some of the most significant concerns of the European banks and insurance companies in the revision process of IAS 32 & 39. The IASB was confident that satisfactory solutions could be found concerning the issues of derecognition, loan loss provisioning and the debt/equity distinction. The key issue for banks is the ability to apply macro-hedging to interest rate risk. For the IASB, the key issue in this respect is the definition and measurement of effectiveness in a macro-hedging environment. At the Roundtables, the IASB has agreed to hold further working sessions with representatives of the European banking industry to examine technical proposals on macro-hedging. A technical meeting will take place on 28 April. The IASB is expected to adopt conclusions on revised IAS 32 & 39 at its Board meeting of end of May and possibly re-expose parts of IAS 39. According to the IASB tentative timetable, revised IAS 32 & 39 will be finalised at best by December 2003 and at the latest by March 2004.

Many Member States were satisfied by the IASB's commitment to extend its due process regarding IAS 32&39 as well as by the results of the IASB Roundtables and expressed the wish that a balanced and reasonable solution be found to the practical problems faced by the European banking and insurance industries.

The Chairman underlined the importance to provide certainty to preparers as soon as possible and indicated that a Commission proposal setting out draft implementing measures would be issued around mid-May for a vote to take place at an ARC meeting

mid- or end July at the latest. The Chairman stressed the importance of moving forward in a consensual way, particularly regarding the first endorsement decisions. The Chairman added that many Ministers of Finance and central bank governors had expressed concerns about IAS 32 & 39 at the informal ECOFIN of 4 & 5 April in Athens. The Chairman stated that the main issue related to what should be included or not in the Commission's endorsement proposal. The Chairman explained that the Commission was faced with three possible options in this respect:

- Option A - to proceed with "en-bloc" endorsement of all existing IAS including IAS 32 & 39 around July 2003, and to adopt subsequently revised IAS 32 & 39 as soon as available (i.e. beginning of 2004);
- Option B - to proceed with a split endorsement, i.e. endorse all existing IAS except IAS 32 & 39 around July 2003, and to endorse later the revised IAS 32 & 39 as soon as available (i.e. beginning of 2004);
- Option C - to wait until revised IAS 32 & 39 have been issued by the IASB and then proceed to an "en bloc" endorsement.

The Chairman invited comments from ARC members on these three options.

Not all Member States were in a position to indicate their preferences at this stage. However, four Member States expressed a preference for **Option A**, i.e. immediate "en bloc" endorsement, while three other Member States said that it would be very difficult for them to proceed with Option A. The Chairman mentioned that CESR had written to the Commission in favour of an early "en bloc" endorsement.

The IASB timetable to issue final IAS 32 & 39 was a determinant in the choice of a number of Member States between Options B & C. **Option C** was not generally supported as it would significantly delay the whole endorsement process.

Four Member States expressed their preference for **Option B**. Two other Member States in favour of Option A indicated that they could accept Option B, as a second best choice. Option B appeared to be an acceptable compromise to most ARC members. Member States in favour of Option B were of the opinion that it was worth waiting for revised IAS 32 & 39 before considering them for endorsement, while avoiding deferring the endorsement of other existing IAS. The Chairman explained that Option B could not be seen as European procrastination vis-à-vis any standard on financial instruments, as the European Union needed to have standards on financial instruments before 1 January 2005.

### **Agenda point 3- Presentation by Sir David Tweedie of the work programme of the IASB.**

Sir David Tweedie, Chairman of the International Accounting Standards Board (IASB) accompanied by M. Bob Garnett, an IASB Board member, gave a general, factual presentation of the work programme of the IASB, including the latest information on IAS 32/39 issues and related timetables.

David Tweedie stated that the IASB's objective was to develop a single set of high quality standards so that any transaction in the world would be accounted the same way, a philosophy supported by IOSCO that endorsed a core set of some 30 IAS in May 2000 and launched a call to the IASB for a series of short-term improvements. Sir David indicated that at present, around 70 countries in the world either permit or require the

application of IAS. By 2005, this number will increase to about 100 plus countries, including the European Union.

David Tweedie explained that the IASB's work programme was driven by the need to have a stabilised set of core standards ready for 1 January 2005, which meant that any standard issued next year, after March 2004, will have 2006 or 2007 as an effective date of application. David Tweedie presented the state of play regarding a series of key projects: improvements to IAS, first-time application, share-based payments, business combinations, insurance, convergence, review of IAS 30, performance reporting, pension accounting, revenue recognition, and accounting for SMEs. A large part of Sir David's presentation was also dedicated to IAS 32&39, and particularly to the issue of macro-hedging.

Regarding IAS 32&39, David Tweedie considered that the Roundtables had contributed to a better mutual understanding between the IASB and the banking and insurance industries. David Tweedie announced that a series of consequent changes would be brought to IAS 32&39 concerning derecognition, pass-through arrangements, debt/equity distinction, loan impairment and reversals of impairment. David Tweedie added that the IASB Board members and staff would examine with particular attention and openness the technical proposal put forward by the European Banking Federation regarding macro-hedging. Sir David insisted on the importance for any solution on macro-hedging to meet two requirements, firstly that derivatives be valued at fair value and secondly that effectiveness of macro-hedges could be properly evidenced and measured. About the IASB timetable on revisions to IAS 32&39, David Tweedie said that the first step was a technical meeting on 28 April between the IASB and the European Banking Federation. The Board would then dedicate a substantial part of its end-April meeting to the issue and should be in a position to draw up conclusions on IAS 32&39 at its end-May meeting. David Tweedie considered that a re-exposure of the IAS 39 part on hedging would be necessary. As a consequence of the IASB due process, final IAS 32&39 would not be available much before December 2003 at best. David Tweedie, without prejudging of the final position of the Board, evoked the possibility of a prospective application of IAS 39 to ease any transition in 2005.

To a question from an ARC member on the acceptance by the IASB of internal contracts for hedging purposes, M. Garnett responded that a distinction should be operated between the mechanics used to design hedging positions, between for instance a treasury department and the retail banking activity of the bank, and their accounting treatment. For the IASB, the bottom line regarding the use of internal contracts for hedging purposes was that companies could not create profits out of internal transactions. Regarding loan loss provisioning, the IASB confirmed that it was discussing the matter with the Basel Committee with a view to achieve a consistent and consensual approach to this issue. The issue of the reliability of fair value measurement (mark to market vs. mark to model) was also discussed.

David Tweedie also said, regarding the link between the revision of IAS 39 and the Insurance Phase I project, that the IASB would seek to achieve consistency between the two approaches. Sir David further explained that the Insurance Phase I project was basically designed to allow insurance companies to pursue their current accounting policies while however limiting the possibility for earnings management through a ban on both equalisation provisions and catastrophe provisions (to be replaced by a special reserve financed by profit rather than being accounted as a liability). David Tweedie added that at this stage, the IASB had no firm view on the Insurance Phase 2 project

which is a complex and longer term project that would probably not be effective before 2010.

David Tweedie concluded his presentation by indicating that in the future, the IASB was likely to make further selective use of roundtables particularly for complex standards. The Insurance Phase 2 project appeared as an obvious candidate in this respect.

#### **Agenda point 4- Presentation by EFRAG of the IASB performance reporting project.**

The Chairman invited M. Van Helleman, Chairman of the Technical Expert Group of the EFRAG (the "European Financial Reporting Advisory Group") to provide an overview of the IASB performance reporting project.

M. Van Helleman warned that his presentation did not represent EFRAG's position as the Performance Reporting project has not yet reached the Exposure Draft stage and has therefore not yet been debated within EFRAG. This project will be the subject of field testing with companies in May and June before the Exposure Draft is finalised.

In response to a question from an ARC member as to whether the layouts foreseen under the Performance Reporting project would apply to all types of companies, including banks and insurance companies, M. Van Helleman said that different layouts were foreseen for financial institutions.

#### **Agenda point 5 – IAS Translations**

The Chairman (M. Van Hulle) indicated that a joint Commission-IASCF was organised on 15 April in order for all involved in the translation and revision process regarding existing IAS to share experience. This meeting will be attended by some ARC members who were part of the Review Committees set up by the IASCF to ensure proper revision of the IAS translations.

The Chairman explained that it was the intention of the Commission services to forward IAS translations as soon as possible to the Office for Publications in order to ensure their early publication in the Official Journal of the European Union, and therefore improve access to the standards by preparers and any parties interested. The Chairman added, in response to a question from an ARC member, that although the IASB's Conceptual Framework would not be published in the OJ L series along with the standards, it would be publicly available through other means.

The Chairman agreed with an ARC member on the need for a short explanatory note in the Appendix to the implementing measures explaining that the Annexed being referred to in the standards will not be published.

**ACCOUNTING REGULATORY COMMITTEE**

**Meeting of 10 April 2003**

**PARTICIPANTS' LIST**

**Austria**

**Bundesministerium für Justiz**

**Finanzministerium**

**Finanzmarktaufsicht**

**Belgium**

**Commission des Normes Comptables**

**Ministère des Affaires Economiques**

**Denmark**

**Danish Financial Supervisory Authority**

**Danish Commerce and Companies Agency**

**Finland**

**Ministry of Trade and Industry**

**Ministry of Social Affairs and Health**

**France**

**Conseil National de la Comptabilité**

**Ministère de l'Economie, des Finances et de l'Industrie (Trésor)**

**Commission des Opérations Boursières**

**Germany**

**Bundesministerium der Justiz**

**Bundesministerium für Wirtschaft und Arbeit**

**Greece**

**SOEL**

**Ministry of Economy and Finance**

**Ireland**

**Institute of Chartered Accounts in Ireland**

**Enterprise, Trade and Employment**

**Italy**

**CONSOB**

**ISVAP**

**Ministry of Economy and Finance**

**Luxembourg**

**Commission de Surveillance du Secteur Financier**

**Netherlands**

**Ministerie van Justitie**

**Portugal**

**CMVM**

**Spain**

**Banco de España**

**ICAC**

**Sweden**

**Ministry of Justice**

**United Kingdom**

**Department of Trade and Industry**

**Iceland**

**Ministry of Finance**

**Norway**

**Kredittisynet**

**Ministry of Finance**

**European Central Bank**

**Banking Advisory Committee (BAC)**

**Committee of European Securities Regulatory (CESR)**

**Insurance Committee**

**European Financial Reporting Advisory Group (EFRAG)**

**Commission**

**David Wright, Chairman of the ARC**

**Karel Van Hulle, Head of Unit "Accounting & Auditing"**

**Philippe Pellé, Secretary to the ARC**

**Eurostat**