

SUMMARY RECORD

MEETING OF THE ACCOUNTING REGULATORY COMMITTEE OF 21 NOVEMBER 2003

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

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

The minutes (ARC/2003-04-10/4) of the ARC meeting of 16 July 2003 were adopted.

Agenda point 2 – IASB governance and strengthening of EFRAG

At the beginning of the meeting, the Chairman distributed 2 additional documents to the audience: (i) a letter sent on 11 November 2003 from Commissioner Bolkestein to Mr. Paul Volcker, Chairman of the Board of Trustees about the review of the governance of the IASC Foundation and the need to improve the IASB's "due process" and (ii) the text of a speech by Sir David Tweedie ("Report by the IASB Chairman") addressed on 20 November 2003 to the Standards Advisory Council (SAC).

Strengthening of EFRAG

The discussion about the structural reform of EFRAG was attended neither by its Chairman nor by its Secretary General.

Referring to the conclusions of the ECOFIN Council of 15 July 2003, the Chairman said that the Commission had been closely monitoring and had contributed to the reform process of EFRAG that was initiated by its Founding Fathers. The Chairman thanked the ARC members for their comments and contributions and indicated that the Commission intended to take a position on this process in the coming weeks. The Chairman then reported about the main orientations of the reform as outlined by EFRAG's Supervisory Board at its meeting of 20 November 2003, which would consist in:

- (1) the creation of an Advisory Forum composed of high level experts able to assess the economic impact of IAS in the EU;
- (2) an increase of the technical resources of the Technical Expert Group (TEG), through the nomination of a full-time Chairman of the TEG and a closer involvement of national standard setters;
- (3) a strengthening of EFRAG's working relationship with the IASB (p.m. EFRAG has been granted the status as liaison standard setter by the IASB and has now access to the working papers of the IASB Board);
- (4) a reduction in size of the Supervisory Board of EFRAG and a clearer delineation of the roles of the Board and of the Technical Expert Group.

The Chairman added that EFRAG was looking towards the Commission to provide some funding. The Chairman indicated that EFRAG's Supervisory Board intended to finalise its Reform Action Plan before Christmas and to submit it to a public hearing in January next year. The Chairman reminded Member States of EFRAG's main tasks: (i) to provide expert advice to the European Commission on international accounting matters and (ii) to contribute pro-actively as upstream as possible to the international accounting standard setting process led by the IASB, in furthering European views on existing or future IASB projects. The Chairman added that EFRAG needed to be strengthened to acquire the required technical capacity to influence positively the accounting debate within the IASB.

Thereafter, the Chairman opened the floor for comments and views of Member States on the reform of EFRAG.

A discussion took place on the role of EFRAG (technical vs. political perspective); the relationship between EFRAG, the Commission, national accounting standards setters and the IASB; the funding of EFRAG and the role of the Commission in this respect. Many Member States called for a clearer definition of the institutional role of EFRAG and a formalisation of its relationship with the Commission. Whilst many Member States insisted on the need for EFRAG to remain an independent consultative technical committee for the Commission, free of political interference, many other Member States acknowledged that it was difficult to draw a clear line between the technical and the political levels in the current context of international accounting standard setting. One Member State underlined the need for a good cooperation between the Commission and EFRAG with a view to achieve more European influence at the IASB. Another Member State added that for EFRAG to have an authoritative opinion, national bodies needed to be closely involved.

Member States concurred on the need for EFRAG to have top class experts, more financial resources and be able to draw on existing expertise, notably that of national standard setters.

The Chairman thanked the Member States for their contribution, concluding that there was convergence about the need to clarify and strengthen the triangular relationship between the Commission, EFRAG and the national accounting standard-setters. Many suggested that the Commission should seriously consider partial financing of EFRAG. The Chairman was of the opinion that the pro-active as well as advisory role of EFRAG could be better defined and that any redefinition of the role of EFRAG should be assessed against the yardstick of the influence that this organisation could gain in the international accounting standard setting process. In particular, EFRAG should be at the heart of a European accounting network. The Chairman concluded that there was a clear need for EFRAG to become an ambitious and robust organisation and that this required the commitments of all to succeed.

Governance of the IASB

In his introduction, the Chairman indicated that the IASC Foundation had posted on its website an issue paper on its Constitutional review -including that of the IASB- for comments by 11 February 2004. The Chairman said that it was the Commission's intention to contribute to this review process –it had already handed out to the Board of Trustees of the IASC Foundation a series of concrete recommendations to improve the IASB's due process- and to attempt to define a common European position in this

respect. With this in mind, the Commission services will prepare a draft paper that will be discussed at the next ARC meeting on 3 February. The Chairman stressed that the Commission had identified 5 key objectives, which should be addressed by the IASB reform:

- 1) the need for a more balanced European representation on the Board of the IASB. Five Board positions are open for renewal in 2004;
- 2) the opening of the IASB Board to a wider range of job specifications for its members, in order to allow the appointment for example of a regulator and/or an economist;
- 3) the need to reform the Standards Advisory Council to become a sounding board for the IASB and provide robust economic analyses to the international accounting standard setting process;
- 4) the need to reform the IASB's "due process" to bring about transparency at all stages of the accounting standard setting process. The IASB should abide by a "due process" charter that should guarantee full transparency for each standard drawn up. The need for field testing and discussion papers was underlined.
- 5) A serious improvement of the IASB's communication. The IASB needs to better explain what it is doing and why it is doing it. This should help find and build consensus on forthcoming standards.

The Chairman also informed ARC members of a letter addressed by Commissioner Bolkestein to Ministers of Finance of the EU inviting them to identify top class European people for both present and future vacancies at the level of the IASB as well as of the Board of Trustees.

Member States were very supportive of the objectives outlined by the Commission, notably regarding the need to improve the IASB's transparency and due process. One Member State suggested that the IASB should take advantage of modern technology, by providing for instance Internet web-casting of its meetings as this would guarantee a wide access to interested parties. Whilst there was widespread support for the IASB to acquire and reflect a better understanding of the economic impact of its standards, one Member State voiced a word of caution regarding both the timing and scale of such an exercise, which should not delay the adoption of the March 2004 package of IAS/IFRS that EU companies will have to apply from 1 January onwards. Another Member State stated that the current convergence process undertaken by the US FASB and the IASB between US GAAP and IAS should remain balanced.

The Chairman concluded that there was a good degree of convergence on what needed to be remedied to improve the IASB's governance, due process and transparency, that there was support for balanced and broader representation at the Board level, for economic impact assessment to be provided within the structure of the IASCF, for a stronger and independent Standards Advisory Council. In this context, the Chairman said that a coordinated reply of the Commission and the Member States could be drawn up at the next meeting of the ARC and sent to the IASCF.

Agenda point 3 – Joint presentation by the Commission and EFRAG of Draft Commission Regulation of adopting IFRS 1 *First time adoption of IFRSs*

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 new IFRS 1 on first time adoption of International Financial Reporting Standards, aimed at facilitating the take-up of IAS and IFRS.

IFRS 1 supersedes SIC 8 interpretation that required first-time adopters of IAS to indulge in lengthy and cumbersome accounting retreatments as if companies had always been under IAS. IFRS 1 represents a marked progress for companies that will switch-over to IAS in 2005.

The Chairman indicated that the Commission intended to come forward very rapidly with a proposal for a draft Commission Regulation to endorse IFRS 1 into Community law. EFRAG has already given a positive technical opinion in this respect and EU companies are eagerly awaiting this new standard. Members of the ARC concurred that IFRS 1 was uncontroversial and its rapid adoption welcome. The Chairman announced that the ARC was expected to provide an opinion on this draft Commission Regulation at the ARC meeting of 3 February 2004. Members of the ARC agreed with this objective, being understood that translations of IFRS 1 into all official languages of the Community will be available.

Agenda point 4 - State of play in respect of IAS 32 and IAS 39

The Chairman invited M. Paul Rutteman, Secretary General of EFRAG's Technical Expert Group, to provide an overview about the state of play regarding IAS 39. EFRAG's presentation focused on the issue of macro-hedging that had been the subject of an exposure draft from the IASB. EFRAG indicated that the IASB and European banks were pursuing their bilateral dialogue between on two main issues: the measurement of macro-hedging effectiveness and core deposits. EFRAG said that whereas a solution seemed within reach in respect of the measurement of effectiveness, the qualification of the swaps covering core deposits as fair value hedges remained a bone of contention between the IASB and the European banks.

The European Central Bank informed the members of the ARC that it has undertaken a study on the introduction of Fair Value Accounting and its impact on the banking industry as well as on the stability of financial markets. This study, yet to be finalized, will be published in the first quarter of 2004.

Most Member States insisted on the importance for the European Union to have an accounting standard on financial instruments in 2005. Many too stressed the need for the IASB to devise good practical rules in this respect. One Member State said that IAS 32 and 39 should be practical, not at odds with the business model of European banks and should not threaten financial stability, adding that the European Union should look for alternatives if the IASB failed to deliver.

The Chairman confirmed that the European Commission had committed to obtain the best possible standards and to endorse them as soon as possible. The Chairman stated that efforts should be made by all interested parties to better align economic and banking supervisory best practices with the accounting logic underpinning IAS 39. The Chairman said that the Board of the IASB was likely to adopt a final position on the macro-hedging

provisions of IAS 39 at its meeting of end January 2004. The objective of the IASB is to issue final IAS 39 by 31 March 2004 at the latest.

Agenda point 5 – IASB forthcoming standards and interpretations

With the agreement of ARC members, the discussion of this topic, due to lack of time, was postponed to the next ARC meeting.

Agenda point 6 – Translations of International Financial Reporting Standards

The Chairman invited the delegates from the Acceding Member States to report about the situation in their countries regarding the existence and availability of translations of IAS/IFRS in their official languages. The Chairman stressed that translations of standards and interpretations endorsed by the European Commission prior to 1 May 2004 were of the responsibility of Acceding Member States. From 1 May 2004 onwards, translations of future standards and interpretations into the language of the Acceding Member States will most likely be covered by the framework contract between European Commission and the IASC Foundation which will need to be extended to EU-25. It appeared from the tour de table with translations of IAS already exist in all Acceding Member States, although many will need to be updated and/or extended to cover the latest improvements to existing standards or new standards.

Agenda point 7 – Miscellaneous – Transposition of Fair Value Directive into Community law

ARC members were invited by the Chairman to provide information about the state of play of the transposition of the Fair value Directive (2001/65/EC). The Chairman reminded the members of the ARC that this Directive basically enabled Member States through options to permit or require certain classes of companies to measure at fair value some categories of financial instruments, notably derivative instruments. The only mandatory provision of the Fair Value Directive concerns disclosure requirements. In response to the questions raised by some Member States regarding the implementation of this provision against the backdrop of the uncertainty surrounding the endorsement of IAS 39, the Chairman said that the technical issues related to the implementation of this Directive would be specifically at a meeting of the Contact Committee of the EU Accounting Directives that will be held on 20 January 2004.

The Chairman announced that the next ARC meeting will take place on 3 February 2004. Further indicative dates were given for future ARC meetings for next year, i.e. 30 April, 8 July, 28 September and 30 November 2004.

ACCOUNTING REGULATORY COMMITTEE

Meeting of 21 November 2003

PARTICIPANTS' LIST

Austria

Bundesministerium für Justiz

Finanzministerium

Finanzmarktaufsicht

Belgium

Commission des Normes Comptables

Ministère des Affaires Economiques

Denmark

Danish Commerce and Companies Agency

Finland

Finnish Insurance Supervisory Authority

Ministry of Trade and Industry

France

Conseil National de la Comptabilité

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

Germany

Bundesministerium der Justiz

Permanent Representative of Germany at the EU

Greece

Ministry of Economy and Finance

Ireland

Institute of Chartered Accounts in Ireland

Enterprise, Trade and Employment

Italy

Ministry of Economy and Finance

Luxembourg

Commission de Surveillance du Secteur Financier

Netherlands

Ministerie van Justitie

Portugal

CMVM

CNC

Spain

Banco de España

ICAC

Sweden

Ministry of Finance

Ministry of Justice

United Kingdom

Department of Trade and Industry

OBSERVERS

Czech Republic

Ministry of Finance

Estonia

Ministry of Finance

Estonian Accounting Standards Board

Hungary

Financial Supervisory Authority

Ministry of Finance

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Poland

Ministry of Finance

Slovakia

Slovenian Accounting Standards Board

Slovenia

Slovenian Institute of Auditors

Norway

Kredittisynet

Ministry of Finance

European Central Bank (ECB)

Banking Advisory Committee (BAC)

Committee of European Securities Regulatory (CESR)

**Committee of European Insurance and Occupational Pensions
Supervisors (CEIOPS)**

European Financial Reporting Advisory Group (EFRAG)

Commission

David Wright, Chairman of the ARC

Philippe Pellé, Secretary to the ARC

Mikael Lindroos

Thomas Scholz

Alice Zoppe, Eurostat