

SUMMARY REPORT

MEETING OF
THE ACCOUNTING REGULATORY COMMITTEE
OF 30 NOVEMBER 2004

M. Wright, Director for Financial Markets, DG Internal Market chaired the twelfth meeting of the Accounting Regulatory Committee.

1. VOTE ON A DRAFT REGULATION RELATED TO THE IMPROVEMENT PROJECT

Result of the vote on a Proposal for a Commission Regulation amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards International Accounting Standards (IASs) Nos 1, 2, 8, 10, 15, 16, 17, 21, 24, 27, 28, 31, 33 and 40 with the consequential amendments to other previously endorsed IASs and SICs.

All Member States (= 321 votes) voted in favour of the draft Commission Regulation proposing the endorsement of IASs Nos 1, 2, 8, 10, 15, 16, 17, 21, 24, 27, 28, 31, 33 and 40 with the consequential amendments to other previously endorsed IASs and SICs.

2. VOTE ON A DRAFT REGULATION RELATED TO IFRSs 3, 4, 5 AND IASs 36 AND 38

Result of the vote on a Proposal for a Commission Regulation amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards International Financial Reporting Standards (IFRSs) Nos 3, 4 and 5, International Accounting Standards (IASs) Nos 36 and 38 with the consequential amendments to other previously endorsed IFRS, IASs and SICs.

All Member States (= 321 votes) voted in favour of the draft Commission Regulation proposing the endorsement of IFRSs Nos 3, 4 and 5 and IASs 36 and 38 with the consequential amendments to other previously endorsed IFRS, IASs and SICs.

3. VOTE ON A DRAFT REGULATION RELATED TO IAS 32 AND IFRIC 1

Result of the vote on a Proposal for a Commission Regulation amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards International Accounting Standard (IAS) No 32 and the interpretation by the International Financial Reporting Interpretation Committee (IFRIC) No 1.

All Member States (= 321 votes) voted in favour of the draft Commission Regulation proposing the endorsement of IAS 32 and IFRIC 1.

4. POSITIONS OF THE MEMBER STATES CONCERNING THE THREE PROPOSALS FOR COMMISSION REGULATIONS

a) In general

- Some Member States requested clarity about when would adopted Commission Regulations definitely enter into force taking into account the January 2005 deadline for the “stable platform” to be respected. The Chairman replied that the Commission will look further into this issue and report back at the next meeting on 20 December.
- One Member State insisted on inserting into all three proposals for Commission Regulations the same paragraph stating “This Regulation shall be binding in its entirety and directly applicable in all Member States”. The Chairman agreed to this proposal.

b) Draft Regulation adopting IFRSs N° 3, 4 and 5, IASs 36 and 38

- Two Member States asked about the relationship between the impairment test for assets in IAS 36 and the rules under the Accounting Directives. Another Member State recalled that the Contact Committee previously took the view that no conflict exists.
- One Member State stressed that the next phase following the adoption of IFRS 4 (phase II) must be duly monitored to achieve a high quality standard for the insurance industry in the future.

c) Draft Regulation adopting IAS 32 and IFRIC 1

- The Chairman explained that the treatment of co-operative shares has now been clarified by a new interpretation on 25 November. As the IASB recently issued IFRIC 2 on “Members’ Shares in Co-operative Entities and Similar Instruments”; it was agreed to update recital 3 in the proposal for a Commission Regulation on endorsing IAS 32 at the request of some Member States. The new text would therefore read as follows: “A final interpretation, IFRIC 2 [*Members’ Shares in Cooperative Entities and Similar Instruments*] was published in final form on 25 November 2004. The effective date of application of this interpretation is the same as that for IAS 32. IFRIC 2 will be considered for endorsement by the European Commission as soon as possible in 2005.”

- One Member State expressed concerns about the new disclosure requirements for equity under IAS 32 as this poses a problem not only for cooperatives but for partnerships as well. As a consequence, before extending the scope of application of the IAS Regulation, the Commission should ask the IASB to solve the issue of those financial instruments. Moreover, the Commission should follow closely the IASB project “IASs for SMEs” in this respect.

5. OTHER AGENDA POINTS

Agenda item 1 – Approval of the agenda and the minutes of the ARC meeting of 8 September and 1 October 2004

The minutes of the meetings were adopted after the comments from two Member States were taken on board for the minutes on 1 October.

Some Member States regretted that IFRS 2 “Share-based Payment” had been removed from the agenda of this meeting. The Chairman explained that this was due to the changeover to the new Commission, but that there was an expectation it would be brought forward for a vote on 20 December.

Agenda item 5 – Information about the state of play on IAS 39 (full fair value option and interest rate margin hedge)

The Chairman informed that IAS 39 as agreed in the ARC-meeting on 1 October was formally adopted by the Commission on 19 November 2004. The two carve outs included in the technical annex are both exceptional and temporary. All the stakeholders are pushed to a final solution (full adoption of IFRS):

- As for a revised fair value option, the Commission expects a solution from the IASB in December 2004;
- The provisions relating to hedge accounting should be amended by the IASB in 2005;

The latest developments on the full fair value option:

- There are now substantial discussions between IASB, ECB, Basle Committee and banks and the Commission has understood also between the IASB and Denmark. However, the timetable would be as follows :

1. Discussion at the level of the IASB in December

2. Public roundtable in order to allow parties concerned (in particular more banks) to give their views – January 2005
3. Final agreement by IASB in February/March 2005

The latest developments on the hedging provisions:

- European Banking Federation and IASB met on 18 November in London. EBF explained further its interest rate margin hedge model.
- Both parties considered the meeting as constructive and helpful. The IASB was more interested in what the banks proposed on the effectiveness test. The banks seemed to have accepted to bring their model closer to the cash flow hedge. The next steps are :
 1. The IASB will send a list of questions before 15 December 2004
 2. The banks will respond by 15 January 2005
 3. A further meeting will take place at the end of January 2005.

Agenda item 6 – Miscellaneous

6.1. Service Concessions

One Member State brought up the important issue of “Service Concessions” for which a working group has been established under EFRAG. IFRIC intends to launch an exposure draft in January 2005 on this subject. The applicability of the interpretation is of great importance, since it should be applicable from 2005 and not from 2006.

6.2. IASC Constitution Review

The Chairman mentioned that there is a new consultation paper from the IASCF on the Constitution Review. The Commission will draft a response to the Constitution Review and will discuss this with Member States in order to table a strong European response. The deadline to respond is 23 February 2005.

The Chairman announced that the next ARC meeting would take place on 20 December. The agenda would possibly be:

- a) Vote on the adoption of IFRS 2
- b) The relationship between the impairment test for assets in IAS 36 and the Fourth and Seventh Company Law Directives
- c) The Constitution Review of the IASCF
- d) Service Concessions
- e) Date of application of new IFRSs and IFRICs after 2005

ACCOUNTING REGULATORY COMMITTEE

Meeting of 30 November 2004

PARTICIPANTS' LIST

Austria

Justizministerium

Finanzministerium

Finanzmarktaufsicht

Belgium

Commission des Normes Comptables

Fod. Economie

Cyprus

Ministry of Trade and Industry

Czech

Ministry of Finance

Denmark

Ministry of Economic

Danish FSA

Danish Commerce and Companies Agency

Estonia

Estonian Accounting Standards Board

France

Conseil National de la Comptabilité (CNC)

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

SGCI/Premier Ministre

Finland

Ministry of Finance

Ministry of Trade and Industry

Germany

Bundesministerium der Justiz

Bundesministerium für Wirtschaft und Arbeit

Greece

Ministry of Economy and Finance

S.O.E.L.

Hungary

Permanent Representation to the EU

Ireland

Institute of Chartered Accountants in Ireland

Dept. Of Enterprise, Trade and Employment

Italy

CONSOB

ISVAP

Ministry of Economy and Finance

Banca d'Italia

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Accounting Institute

Luxembourg

Commission de Surveillance du Secteur Financier

Ministère de la Justice

Malta

Accountancy Board

Ministry of Finance

The Netherlands

**Ministerie van Justitie
Ministry of Finance**

Poland

Ministry of Finance

Portugal

CMVM

CNC

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

**Banco de España
ICAC**

Sweden

Ministry of Justice

United Kingdom

Department of Trade and Industry

OBSERVERS

Iceland

Ministry of Finance

Norway

Financial Supervisory Authority of Norway

European Institutions/Committees

European Central Bank (ECB)

Committee of European Banking Supervisors (CEBS)

Committee of European Securities Regulatory (CESR)

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

European Financial Reporting Advisory Group (EFRAG)

Eurostat

Commission

David Wright, Director of DG Markt

Jürgen Tiedje, Head of Unit "G5: Accounting & Auditing",

Mikael Lindroos, Secretary to the ARC/ G5

Thomas Scholz/G5

Arto Leppilähti/G5

Mike Thom /G5

Justyna Rejmak/G5

Allister Wilson, Adviser to the European Commission