

SUMMARY RECORD

MEETING OF THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE OF 8 JULY 2005

M. Delsaux, Acting Director for Company Law & Corporate Governance, DG Internal Market and Services chaired the sixteenth meeting of the Accounting Regulatory Committee.

1. VOTES OF THE ARC COMMITTEE

VOTE ON A DRAFT REGULATION RELATED TO IAS 39 THE FAIR VALUE OPTION

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 an amendment to International Accounting Standard (IAS) 39 and with the consequential amendments to previously endorsed IFRS 1 and IAS 32. Upon the request of one Member State the penultimate sentence in recital 7 of the proposal was deleted. After comment by a Member State, the Chairman also suggested that the following sentence be added at the end of recital 9.

“The Commission will therefore monitor the future effects of IAS 39, the fair value option, and examine its application within the scope of the review described at Article 10 of Regulation (EC) No 1606/2002.”

All Member States present in the meeting voted in favour of the draft Commission Regulation proposing the endorsement of an amendment to International Accounting Standard (IAS) 39 and with the consequential amendments to previously endorsed IFRS 1 and IAS 32.

2. DISCUSSION AT THE MEETING

The Chairman, on behalf of all Member States, expressed his solidarity with and sympathy to the UK regarding the terrorist attack in London.

1. APPROVAL OF MINUTES OF THE ARC MEETING OF 20 MAY 2005

The minutes were approved without any amendments.

2. POSITIONS OF THE MEMBER STATES CONCERNING THE PROPOSAL FOR A COMMISSION REGULATION RELATED TO IAS 39

The Chairman noted that the vote was on the English version only of the draft Commission Regulation due to the exceptional nature of the circumstances surrounding the adoption of IAS 39 and the importance for business to have the new standard adopted as soon as possible. In November 2004, the ARC voted for the removal of two parts of IAS 39, the so-called “carved out” sections, relating to the fair value option and interest rate margin hedging. This

draft Regulation removes the carve out for the fair value option and amends IAS 39 to include a principles based fair value option. The vote on the English version only was not a precedent for the future. Three Member States underlined this.

One Member State wanted to delete the penultimate sentence in recital 7 of the proposal as it was not necessary to include this point in the recital. The Chairman agreed to delete the text. Another Member State asked the Commission to clarify whether the amended fair value option was compatible with Article 42(a) of the Fourth Directive. He also suggested a review of the operation of IAS 39. The Chairman stated that the amended fair value option is compatible with the requirements of the Fourth Directive because Recital (9) of the IAS Regulation states that, subject to respecting the “true and fair view”, there does not need to be “*a strict conformity with each and every provision of those Directives*”. Nevertheless, the Chairman recognised that this was an important issue. It would be addressed in the Press Release-FAQ, as was done at the time of the carve-out. The Chairman also confirmed that the Commission would prepare a paper for the next ARC meeting. Finally, as regards a review, the Chairman suggested, with the agreement of other Member States, that the following sentence be added to the end of recital 9 of the draft Regulation.

“The Commission will therefore monitor the future effects of IAS 39, the fair value option, and examine its application within the scope of the review described at Article 10 of Regulation (EC) No 1606/2002.”

One Member State considered that a company should be able to restate its 2004 comparatives using the fair value option. The Chairman responded that for legal reasons the Commission could not adopt the standard with a date of application earlier than 1 January 2005.

3. REPORT BY THE COMMISSION TO THE ARC ABOUT THE STATUS OF IFRIC 3 EMISSION RIGHTS

A representative of the Commission stated that the IASB, at its Board meeting on 23 June 2005, withdrew IFRIC 3 *Emission Rights*. The Board decided to reconsider the accounting for cap and trade emission right schemes itself, over the next few months. Consequently, the Commission no longer needs to decide upon the endorsement of IFRIC 3.

Following questions, the Chairman stated where a transaction or event was not specifically addressed in IFRS, that IAS 8 *Accounting policies, changes in accounting estimates and errors*, as endorsed by the Commission Regulation (EC) 2238/2004, gives guidance on what companies should do in this situation. It was also underlined the importance for users of financial statements of proper and complete disclosure in relation to transactions involving emission rights, in line with the applicable framework.

4. PERFORMANCE REPORTING

EFRAG gave a presentation regarding the joint IASB/FASB performance reporting project. A Joint International Group (JIG) working group has been formed to give feedback on issues arising from the project. EFRAG will also establish a working group as an exposure draft on “Segment A” of the project is expected before the end of 2005 and a discussion paper on “Segment B” of the project is expected sometime in 2006.

Some Member States found the proposals for a single statement of comprehensive income unacceptable.

5. LINKS BETWEEN STATISTICS AND ACCOUNTING

This item was removed from the Agenda.

6. CONVERGENCE OF INTERNATIONAL ACCOUNTING STANDARDS AND THE CONSTITUTIONAL REVIEW OF THE IASCF

The Chairman welcomed Sir David Tweedie, Chairman of the IASB, and Max Kley, Trustee of the IASC Foundation to the meeting. Sir David gave a speech on the IASB's work on the convergence of international and national accounting standards. Max Kley gave an update on the completion of the constitutional review. Several Member States asked Sir David questions.

- 6.1 One Member State asked how the decision is made as to which standard (IFRSs or US GAAP) is better. Sir David responded that the decision is taken by looking at the definitions of assets and liabilities in both Conceptual frameworks to determine which standard better fits each framework. So far, the IASB has 3 issues which have been converged to US GAAP and the FASB has 5 issues it has converged to IAS. The future projects will be completed as joint projects whereby a single team is used, with project managers from both sides of the Atlantic participating. Both Boards will then debate the issues at the same time, so any resulting standard will be new to both Boards. One Member State asked how the IASB will ensure that new standards do not become rule based. Sir David responded that the IASB will need to convince the FASB that using principles is better.
- 6.2 Two Member States asked about the **timetable for convergence** and why did there need to be so much change in the next few years. Sir David responded that accounting is in flux at present because there is still bad accounting by companies however; much of this is caused by bad accounting standards that need to be amended. Whilst the draft timetable shows projects continuing until 2009, the SEC has stated that the requirement for a reconciliation to US GAAP could be dropped earlier than that, if the two Boards can demonstrate that the convergence process is well underway. Completion of a project was not essential. Also the implementation dates for any new standards will be 1 January 2007 at the earliest. One Member State asked how individual projects can progress when there is also an ongoing project on the conceptual framework. Sir David responded that if an individual project affects the conceptual framework the work of the framework will be done in conjunction with the project. The framework is a living document and where an issue comes up that identifies problems in the framework, the Board try to address both at the same time. For example; the liability-equity project started because of the co-operative banks issue whereby these banks show no equity under the current equity and liability definitions.
- 6.3 One Member State asked that if Europe developed a structure to enable it to proactively deliver common, high quality positions on accounting issues, would the IASB refer to it rather than the current situation where there are several European bodies. Sir David responded that at present the IASB meets with several different European organisations and it would be easier to visit just one group rather than several groups.

Sir David added that the performance reporting project's tentative decision to have one performance statement [i.e. a "Statement of earnings and comprehensive income"] reporting all non-owner changes in equity for the period had not been finally

decided upon. So that a final decision on whether to have 1 or 2 performance statements [i.e. an “Income statement” and a separate statement of “Other comprehensive income”] has not yet been taken by the Board.

- 6.4 One Member State asked Max Kley whether the Trustees had resolved the IASB’s funding issues. Max Kley responded that they had not, although many sponsors, including German companies, had pledged their continuing support.

Sir David also suggested that the Commission should agree a memorandum of understanding with the SEC to guide the future work programme of the IASB-FASB convergence programme. He also considered it would be immensely helpful for the IASB to speak to a single European interlocutor on EU issues, since the IASB sometimes received conflicting messages.

The Chairman stated that in future Sir David could be invited, on a more regular basis, to ARC meetings so that Member States are kept more up to date on the IASB’s activities. The Chairman invited Member States to send comments on the IASB’s work programme to the Commission, by the end of July.

7. CONSISTENT APPLICATION OF IFRS

The Commission presented a working document on the consistent application and enforcement of IFRS in the EU. CESR and Member States, of course, have the lead roles in relation to enforcement. However, two preliminary meetings have been held, to discuss how best to achieve consistent application. The participants included a broad range of stakeholders, including the Commission, IASB/IFRIC, CESR, EFRAG, FEE, the Big Four, national standard setters and preparers. The conclusion of these meetings was that CESR’s work could be usefully complemented by the establishment of some Roundtable involving all relevant stakeholders. There was broad agreement on the added value of a Roundtable which could:

- allow players to rapidly discuss important accounting issues, thereby minimising the risk of different players interpreting IFRS differently across Europe;
- act as an early warning mechanism for contentious accounting issues; and
- facilitate cross-border consensus-building, thus minimising subsequent enforcement risks for EU issuers.

However, the Roundtable will need to have an informal structure not involving staff or budget. It should not compete with IFRIC in giving interpretations. Rather it might act as a kind of filter mechanism, thus allowing IFRIC to concentrate its resources on key issues and accelerate its work by drawing on the Roundtable’s prior analysis. It could also provide helpful guidance to national enforcement bodies when discussing enforcement issues under the aegis of CESR.

Views from Member States

Some Member States supported the role of a Roundtable. One Member State stated that EFRAG has an important role to play in the this domain and support the Roundtable because there are other interested parties in consistent application including CESR, CEBS and

CEIOPS and suggest that the Commission should co-ordinate efforts towards consistent application.

Whilst several Member States also supported the setting up of a Roundtable they had some reservations. One Member State was concerned as to the identity of the key players to be involved. Another Member State was also supportive, but wanted further clarity on the status of the output from the Roundtable and on the Roundtable's relationship with the rest of the world; otherwise it could confuse an already complex situation. **Also, there was a danger that any output from the Roundtable, such as decisions on issues, could be considered as rules, thereby removing some of the flexibility and advantages inherent in principle-based standards.**

Another Member State noted that the Roundtable would be sited between the opposite aspects of standard setting and enforcement and stated that the IAS Regulation does not have any provision for this type of structure and therefore would need to be changed. They also said that it was also important that, if set up, the Roundtable's role was clear otherwise it could be confusing to preparers and any output should not be binding.

Several Member States questioned the need for a Roundtable. One Member State was concerned that the concept was taking away management and auditors' judgement on how to apply standards and that this was a slippery road to box-ticking standards. If a Roundtable was set up, the Member State stated that its output should not be binding. Other Member States were yet to be persuaded of the merits of a Roundtable, but for the reason that it has not been demonstrated that there is a need for it. What is needed is more evidence that there is or will be a problem with consistent application of IFRS across Europe before setting up a Roundtable.

The Chairman of EFRAG stated that EFRAG would be publishing a paper on consistent application of IFRS next week. CESR stated that it would support the idea of an informal Roundtable fitting in the existing institutional and legislative EU framework for financial reporting, including notably (a) the international and principles-based nature of the standards, (b) the role and formal responsibilities of several actors (issuers, auditors, national competent authorities - enforcers) and (c) the sole responsibility of IFRIC to deliver enforceable interpretations. The CESR representative also presented the activities and promising start of the CESR mechanism for coordination of enforcement in the EU (EECS) and, beyond, CESR's intention to establish broader dialogue with other key actors, in line with EC's proposals. Responding to questions, CESR also clarified that there is no *legal* commitment for national enforcers to be consistent when making decisions. Such commitment is however part of a CESR Standard (No2), which is binding for its members. It notably foresees that enforcers should inform each other of decisions taken, discuss them in the group's meeting, and consider the existing decisions of other enforcers before adopting new decisions. CESR sees no role for a Roundtable to discuss actual enforcement cases. Under the current directives there are already clear responsibilities regarding enforcement cases and the value of such discussions in a Roundtable will be very limited considering confidentiality problems.

The Chairman concluded that, globally, there was sufficient support to prepare a more detailed paper for the next ARC meeting, on 7 October 2005. This would include details on the role and composition of the Roundtable, and how it would relate to the existing structure of national organisations. Draft terms of reference could be included.

8. MISCELLANEOUS

Next meeting

The next ARC and Contact Committee meeting is scheduled to take place on 7 October 2005.

ACCOUNTING REGULATORY COMMITTEE and CONTACT COMMITTEE

Meeting of 8 July 2005

PARTICIPANTS' LIST

Austria

Justizministerium

Belgium

Fod. Economie

Commissie Boekhoudkundige Normen

Cyprus

Permanent Representation to the EU

Czech

Ministry of Finance

Denmark

Danish Ministry of Economic and Business Affairs

Danish FSA

Danish Commerce and Companies Agency

France

Conseil National de la Comptabilité (CNC)

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

Finland

Ministry of Finance

Germany

Bundesministerium des Justiz

Greece

Greek Accounting and Auditing Oversight Board

Ministry of Economy and Finance

S.O.E.L

Hungary

Permanent Representation to the EU

Ireland

Department of Enterprise, Trade and Employment

Italy

ISVAP

Ministry of Economy and Finance

CONSOB

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Accounting Institute

Luxembourg

Commission de Surveillance du Secteur Financier

Ministère de la Justice

The Netherlands

Ministerie van Justitie

Ministry of Finance

Poland

Ministry of Finance

Portugal

CMVM

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

Romania

Ministry of Finance

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)

Commission

Pierre Delsaux, Director of DG Markt

Jürgen Tiedje, Head of Unit "F3: Accounting & Auditing",

Lars Vind Sorensen, Secretary to the ARC/F3

Annette Davis/F3

Thomas Scholz/F3

Arto Leppilahti/F3

Mike Thom/F3

Matthias Verbeke/F3

Jane O'Doherty/H1

Allister Wilson

Johan Debruyne/Eurostat