

SUMMARY RECORD

MEETING OF
THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE
OF 17 FEBRUARY 2006

M. Delsaux, Acting Director for Company Law & Corporate Governance, DG Internal Market and Services chaired the nineteenth meeting of the Accounting Regulatory Committee and the first meeting of the Contact Committee in 2006.

VOTES OF THE ARC

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 Amendment to IAS 21 and IFRIC 7.

The draft Regulation was accepted unanimously. One amendment was made to Article 2.

DISCUSSION AT THE MEETING

I. APPROVAL OF MINUTES OF THE ARC MEETING OF 8 NOVEMBER 2005

The minutes were approved without any amendments.

II. APPROVAL OF MINUTES OF THE ARC MEETING OF 30 NOVEMBER 2005

The minutes were approved after taking account of certain amendments proposed by Member States.

III. FORMAL VOTE ON PROPOSAL FOR A COMMISSION REGULATION ADOPTING IAS 21: THE EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATES IN DECEMBER 2005 AND IFRIC 7: APPLYING THE RESTATEMENT APPROACH UNDER IAS 29 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES IN ACCORDANCE WITH REGULATION (EC) No 1606/2002 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 19 JULY 2002

One Member State stated that the wording of Article 2 regarding the commencement date was confusing. It was agreed to amend the sentence to make it clearer.

Several Member States noted that only the English version of the draft Regulation had been sent, although all language versions of the Annex have been sent. The Chairman stated that all language versions would be sent out after the meeting. One Member State stated that if there were problems with its language version of the draft Regulation then they would need time to change the Regulation before it is published in the Official Journal. The Chairman recalled that after the vote in the ARC but before the final formal endorsement and publication in the Official Journal, proposals by ARC members for linguistic amendments can still be incorporated into the texts.

Another Member State stated that they were prepared to vote on the English version of the draft Regulation but that this should not be seen as a precedent for the future. The Chairman agreed that it was not a precedent and that all language versions would be provided before the meeting in the future.

This Member State asked whether the wording in Recital 4 was new as the wording is very vague. The Chairman responded that it was standard wording and that in future Regulations this wording would be made clearer.

The Regulation adopting the following: an amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation* and International Financial Reporting Interpretations Committee (IFRIC) Interpretation 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* was accepted unanimously.

IV. CONSISTENT APPLICATION

The Commission presented a revised working document on the creation of an informal Roundtable to contribute to consistent application of IFRS in the EU. The latest paper took account of comments received since the last ARC meeting. The only remaining issue is that a few delegations had requested increasing the number of National Standard Setters among the participants. This new paper endeavoured to accommodate these requests whilst recognising at the same time that we have to limit the overall number of participants for the Roundtable to be manageable.

The Commission proposed that 5 National Standard Setters including 2 rotating among a total participation of 19 would be reasonably representative. In determining the 2 participations on a rotating basis, priority should be given to the National Standard Setter from the Member State which currently holds the Presidency of the EU and the National Standard Setter from the Member State which will hold the next Presidency of the EU. In addition, in the paper it was proposed that the participating 5 National Standard Setters should liaise with the others and identify and collate common views and present these at Roundtable meetings. National Standard Setters which are not participants but are confronted with the issue in question would always be invited as observers.

Views from Member States

Participation

Two Member States supported the Commission's proposal on the composition of participants. One of these also thought that the proposal for rotating the representation of National Standard Setters was a very good compromise and should be accepted.

However, some other Member States did not agree with the proposed composition. One Member State thought that proposing a fixed composition for an informal grouping was paradoxical. Together with another Member State they took the view that restricting participants would impair the function of the Roundtable. They both explained that as one of the key functions of National Standard Setters is to deal with issues of application of IFRS it was essential that all National Standard Setters should feature among the participants. One of these Member States also thought that, when their respective sectors are being discussed, CEBS and CEIOPS should participate as well. Two other Member States also thought that participation of National Standard Setters should be increased. Another two Member States went further and agreed that all National Standard Setters should feature among the participants. One Member State explained that its request would not necessarily result in a significantly increased presence in practice as only those National Standard Setters which had a clear issue to raise would actually attend. The CEBS representative (who was speaking also on behalf of CEIOPS) welcomed the possibility for these two organisations to participate at meetings where issues with which they were directly concerned would be discussed. He recalled the complex discussions over IAS 39.

Involvement of ARC

One Member State thought that the section in the document referring to the linkage with the ARC could be further developed. This same Member State suggested that the discussions at the Roundtable could feature as a fixed agenda item at every ARC meeting. It was important that the information received by the ARC on Roundtable discussions was not limited in any way. Another Member State thought that the ARC should be informed but not have any further role to play in this area.

Another Member State thought that the ARC should monitor the whole system of how requests for interpretation are processed (Roundtable and IFRIC).

One other Member State thought that the ARC should also be informed of issues which the Roundtable had rejected the need for interpretations and receive the reasons for the rejections.

Output

One Member State felt that in the current proposal we were not adequately responding to the needs of European companies. There will be a need for clear guidance in cases where, despite having been asked to do so by the Roundtable, IFRIC does not issue interpretations. This Member State also reminded everyone that in its 3 year existence IFRIC had only issued 7 interpretations and rejected 120 other requests for interpretations. Along with another Member State both thought something had to be done to provide guidance to help European companies in such cases. Another Member State took the view that such matters had to be resolved directly with IFRIC and we should not try to formulate interpretations at the Roundtable. Another Member State agreed that the Roundtable should not give interpretations.

One Member State asked what would happen if the Roundtable did not agree to refer a matter to IFRIC. There would still be the need (at least for the preparer in question) for an interpretation.

The Chairman closed the discussion in this area by recalling that the purpose of the Roundtable was to identify and collate only those issues where there was a general consensus on the need for IFRIC interpretations and to filter out the rest. It is not there to embark on interpretations itself.

Temporary nature

Two Member States were pleased that the Roundtable will only be temporary, diminishing in need as experience with IFRS builds up over time. Two other Member States both thought that a 'sunset' clause would be useful. After some discussion it was agreed that the functioning of the Roundtable would be reviewed should it still be in existence in three years time.

Conclusion

The Chairman concluded the discussion on this area with the following points.

He recalled that Member States and Parliament had clearly accepted that interpretations of IFRS would be solely done by IFRIC, an international private body.

He recalled that it was not the role of the ARC to get involved in discussions of technical matters. Hence the ARC should only be concerned with the general process of how interpretations are being dealt with and not get involved in the interpretations themselves.

The sensitivity of the composition of the Roundtable had become very clear. A new paper will therefore be drafted indicating that, in addition to the three National Standard Setters which are to be permanent members, all other National Standard Setters wishing to participate at a given Roundtable meeting could do so. However, each organisation could only send one

representative to the meeting. CEBS and CEIOPS will also receive all material related to Roundtable meetings and will be able to attend after having signalled their intention to do so to the secretariat.

A new paper will be sent to ARC members within the next two or three weeks. The Commission will take account of any further comments received from Member States when arranging the first Roundtable meeting in May.

V. EQUIVALENCE BETWEEN IFRS AND THIRD COUNTRY GAAP, IN PARTICULAR US GAAP

The Commission reported to the ARC on Commissioner McCreevy's recent visit to the US. The related press releases had already been sent to ARC members. The important messages are:

- SEC has reaffirmed its commitment to the roadmap;
- a specific level of convergence is not a condition for eliminating the reconciliation requirement, it would be sufficient to have 'measurable progress';
- SEC is willing to cooperate with CESR in order to help regulators avoid conflicting conclusions in relation to European companies applying IFRS and filing in the US.

The issue of equivalence and the Commission orientation towards postponement of the equivalence Decision until 2009 has been discussed on earlier occasions. At today's meeting this issue was an information point. The next step is that the Commission will prepare a proposal which will be transmitted to the ARC, as well as to the ESC which has the formal responsibility for the proposal.

Views from Member States

One Member State welcomed the general commitment for mutual recognition. However, this Member State also identified a weakness in that there are no guarantees that a final positive decision will be taken by the US in 2009. The EU should not just take a defensive stance. Instead the EU should establish its own roadmap to set out the conditions on which the US GAAP would be accepted as equivalent in EU in 2009. This Member State indicated that one should not forget that there are weaknesses in US GAAP and we should be monitoring the development of these issues over the coming period. The Chairman replied that although there is no firm commitment from the US (to end the reconciliation requirement), there is a clear political will. Moreover, the EU needs time to get experience on the IFRS implementation. Such experience is necessary in order for a complete comparison and assessment of IFRS – US GAAP to be made in practical terms.

One Member State considered that the promises from the US needed to be stronger and had to take the form of guarantees. This Member State pointed out the absence of firm commitment from SEC and added that such guarantees were also missing with regard to cooperating with CESR. Guarantees of the positive US decision would be needed. This Member State pointed out that more 'fortune 500' companies were using IFRS than US GAAP. This Member State expressed deep concerns on the risk that the SEC could start requiring restatements of accounts of European companies using IFRS which was tantamount to making interpretations of IFRS. This Member State thought that the SEC's press statement did not give assurance that this would not be the case. This Member State believed that the option proposed by the Commission was a "jump into the unknown" which would lead to competitive disadvantages for European companies vis-à-vis US ones. This Member State also emphasised that they were alternative options, based on earlier discussions on this matter, including a real

negotiation of the European objectives as was the case in comparable EU-US discussions in other sectors. This would not mean an approach of conflict but rather one with the objective of securing mutual effort towards the same goal. This Member State therefore urged the Commission to take advantage of future meetings with the US, which had already been scheduled, to re-discuss the issue. This Member State believed that the SEC's timetable for reviewing the accounts of European companies' accounts (for the year 2005) meant there was still some time for the Commission to raise these issues with the SEC.

Another Member State found the proposal imbalanced because it only focuses on (SEC) review of the IFRS. Moreover, the EU needs to define what it will do if the US does not accept the equivalence (of IFRS) in 2009.

Another Member State supported the idea of postponement to 2009. This Member State pointed out that the decision must be taken as soon as possible so that companies have sufficient time to prepare.

Another Member State called for a more proactive approach. The cooperation on enforcement should be more clearly defined.

Another Member State put forward the idea of a standing CESR/SEC committee on enforcement. It was not supported by other delegates.

CESR explained that they are pursuing their efforts to reach an agreement on operational cooperation with SEC. As a centralised body, SEC has more resources and can muster them more effectively than CESR which is a committee composed of 27 enforcement agencies. . This cooperation with the SEC would not be limited to the equivalence issue. Although cooperation was important in the deliberations on equivalence, CESR explained that there were other issues which needed to be considered as well.

EFRAG pointed out that SEC has become much more positive towards the roadmap. Under the US institutional arrangements SEC cannot, however, provide guarantees at this stage.

The Chairman then concluded the discussion on this section with the following remarks:

- Due to legal constraints SEC cannot give a firm commitment now, but there is a clear political will.
- As things *currently* stand the situation is not symmetrical: EU companies registered in the US cannot leave the marketplace. By contrast, US companies listed in a regulated market in the EU can move to a non regulated market in the EU or to a market outside the EU with relative ease.
- A joint work programme to achieve mutual recognition is important because there will be no identical accounting standards in the short/medium term.
- There is a need for ongoing cooperation between SEC and CESR on enforcement. A mechanism has to be set up.
- The Commission will be closely monitoring developments in the US over the period leading up to 2009.
- Commission will prepare the draft proposal during March. It will be sent to members of ARC and ESC.

VI. IASB WORK PROGRAMME

The Commission provided an update on the work programme of the IASB. It has been provided with a draft for a Roadmap for Convergence between IFRSs and US GAAP that should form the basis for a **Memorandum of Understanding between FASB and IASB**. Both the Commission and the SEC have been asked to review the document. The Commission Services have made a detailed analysis of the draft work programme and a work note was circulated to Member States in December. FASB/IASB is currently redrafting the Memorandum of Understanding and this version will be made public. It was published on 27 February 2006.

The Chairman stated that it is important that there is a period of relative stability in which preparers and users can get used to new accounting standards. It is very important that care is taken to ensure that companies are not overloaded in the future. He stated that whilst service concession arrangements were one of Europe's priorities, it won't appear in the joint work programme, but should be in the IASB's work programme. He also stated that the fair value measurement project needs to be linked to the conceptual framework project.

Views from Member States

One Member State stated that the IASB's work programme was basically the work programme for the ARC and therefore the political aspects need to be discussed at the ARC. The Chairman stated that a political choice was made by Member States and the ARC when we adopted the IAS Regulation which meant that accounting standards would be set by an independent body. We have passed on comments from the ARC to the IASB and all major points are reflected in the IASB's work programme. This Member State asked the Commission to provide details of its recent comments which it had sent to the IASB as well as any discussions held.

VII. IASB financing

The Commission presented the general background and preliminary thoughts of this issue.

As IFRS are now applied by listed companies in the EU, the IASB work has a significant impact on the European accounting regulation. So the EU has an interest in the IASB structure to function properly, which implies stable and sustainable funding arrangements.

The current funding arrangements are based on voluntary contributions mainly provided by major accounting firms and large companies. This may raise potential conflicts of interests and uncertainty about stable funding. And this funding is secured only until end of 2007.

The Trustees have already got in touch with the Commission to envisage new funding schemes. The main idea is to make the funding basis consistent with the IASB stakeholder basis. Then, the EU may contribute to around one third of the IASB funding needs.

The Commission's staff has begun to explore three main options and their respective merits:

1. Direct funding by the EU budget raises legal and practical difficulties. The EU lacks a legal basis to fund private institutions, which imply opening a co-decision procedure difficult to reconcile with the 2008 deadline. It also implies to respect strict rules related to grants and regular inspections to assess the appropriate use of the funding.

2. Funding by Member States has already been used to fund other trans-national bodies. But it may also raise some legal or practical issues, depending on national contexts. Member States are especially invited to express their views on this issue.
3. Funding by listed companies is an interesting option, as they could easily bear an annual contribution between €500 and €1000 per company, providing that already existing funding collection system implemented by either securities supervisors or stock exchanges could be used to ease practical implementation.

Views from Member States (first reactions)

One Member State pointed out that the same kind of discussion happened during last week's meeting of the EGAOB. New funding systems should be implemented for both PIOB/IAASB and IASB, and perhaps EFRAG, even if not the same. The debate should be widened.

The Commission highlighted that the situation is not exactly the same: the number of audit standards' users is much larger than the IFRS' one whereas amounts to be funded are lower. But, it agreed to widen the debate and informed Member States that a conference on the IASB financing will be organised with the Deutsches Aktieninstitut in Frankfurt, on 30-31 March 2006.

Another Member State agreed on the need to provide funding to the IASB and on the difficulty to implement it on a European or national level. This Member State saw even more uncertainty to apply it at a national level, which would imply a more lengthy process. Funding by companies and collection by securities supervisors or stock exchanges may be envisaged. But in any case, there is a need for a European legal act to implement it. Legal issues and users' needs must be investigated further.

The Commission agreed that a common solution is needed, but implementation at European level raises questions on the creation of a European "tax" and of time constraints if a Directive should be adopted and then transposed. It also repeated that providing grants through the European budget is subject to very strict rules.

Another Member State agreed with the previous Member State's comments. The funding system should ensure the independence of the IASB. Further discussions are needed and the document should be completed on several issues: Who is benefiting from their application (also non listed companies, others users...)? What would be the appropriate geographical allocation (is one third for the EU too much)?

Another Member State was against the idea of funding the IASB before having a conclusive debate on the objectives of this funding and the governance of the IASB. On the latter subject, the recent revision of the IASCF Constitution did not provide satisfactory results.

Another Member State highlighted that the solution which emerged from the discussions within the EGAOB was funding at European level. Funding needs for the IASB, the IAASB and the PIOB might be pooled and funded through companies' global contribution.

Another Member State had very preliminary views. It is important that Europe participates in the funding of the IASB, but the funding solution should be simple, using existing collection systems in each country. So some flexibility may be given to Member States to implement it.

Another Member State was against funding provided by Member States.

Another Member State wondered why the Commission should let Member States implement the funding system while trying to enhance its position within the IASB. The funding system should be simple, considering the modest amounts concerned.

Another Member State wondered if other (potential) contributors outside the EU had been approached. Funding by Member States or companies may raise political problems and funding by Member States or the EU may question the apparent independence of the IASB.

The Commission confirmed that there is a need for funding the IASB, but the independence of the IASB must be preserved. The funding should be discussed with other stakeholders on an international basis, but the Commission and Member States must already have a better idea of what they agree on in terms of a European funding scheme, having in mind that Europe wants to have high quality accounting standards and interpretations.

Finally, another Member State gave preliminary thoughts about the difficulty to concentrate funding efforts on listed companies while non listed companies are using IFRS. How should the scope of the funding system be defined?

VIII. SME ACCOUNTING

Commission described the current situation as regards the SME accounting: While the EU accounting regime requires listed companies to prepare their consolidated accounts using IFRS, all the other companies – including SMEs apply 4th and 7th Directives. The Commission has taken active interest in the IASB's SME project to see whether it would be suitable for EU SMEs. The Commission is planning to have a discussion with ARC members on the fundamental issue of the future role of the Accounting Directives later this year and the IASB's SME project will be important for these deliberations.

EFRAG updated ARC members on the IASB's SME project and the work of its joint working group with FEE. EFRAG had written to the IASB to express its concerns about a number of aspects of the project. The main concern is that the level of simplification is not sufficient and the resulting standards will not be appropriate for SMEs. One Member State which is closely following the work of the IASB supports EFRAG's views that this project is not on the right track.

One Member State gave a presentation on its SME accounting standard which has been specifically written to contain all the accounting requirements for small companies in its jurisdiction. This Member State stated that it had been hoping that the IASB SME project could replace this standard but this will depend on the outcome of the project.

Views from Member States

While most comments agreed with the importance of the topic, they were also very concerned about the level of complexity. One Member State pointed out that unless the IASB's project can be put on the right track (i.e. achieve a considerably higher level of simplification) it cannot be implemented in the EU. One Member State did not see how such a project could be adopted in the EU.

Another Member State stated that it was a priority to have a plan to extend IFRS to other companies because of the options it took when adopting the IAS Regulation. This Member State asked whether there was a timetable regarding the publication of a standard for SMEs. EFRAG stated that the expected date of the exposure draft was mid-2006, with a standard expected to be published in mid-2007.

This Member State asked whether the standard will include a size requirement. The Commission replied that it would not.

This same Member State asked whether the standard will be suitable for individual financial statements rather than consolidated financial statements. This Member State is concerned regarding the compatibility of IFRS individual financial statements with the law regarding the distribution of dividends law under the Second Directive. If the standard is for individual financial statements it needs to be practicable and workable. Two other Member States shared these concerns. Another Member State stated that there was an urgent need for the Second Directive to be reviewed. The Chairman replied that there had been a call for tender to investigate alternatives to the current requirements in the Second Directive last year. However, there had been no response to the tender. The Commission will be republishing the tender within the next few weeks with an increased budget.

An observer asked whether there is a possibility that the standard could be adopted under the IAS Regulation. The Commission replied that any decision taken at an EU level would need a separate legal measure or a revision of the IAS Regulation. Member States, the European Parliament and the ARC members would be consulted.

One Member State asked whether the Commission had its own views on what to do with the standard once published. This Member State also asked what implications any adoption of the SME standard would have on the Fourth Directive. Another Member State asked what the alternatives to this project were for Europe. Another Member State also asked the Commission to give an indication of its thinking in this area. The Commission replied that we are planning to have a discussion with ARC members on the fundamental issue of the future role of the Accounting Directives later this year and the IASB's SME project will be important for these deliberations. The timing of the discussion will depend on the publication of the IASB's Exposure Draft.

IX. LINKS BETWEEN STATISTICS AND ACCOUNTING

This item was removed from the agenda.

X. MISCELLANEOUS

The Chairman explained that a note would be sent to ARC Members which would give an update on the latest developments in the relationship between the Commission and EFRAG.

The next ARC meeting was scheduled for 24 April.

Meeting of 17 February 2006

PARTICIPANTS' LIST

Austria

Ministry of Justice

Belgium

Commissie Boekhoudkundige Normen

FOD Economie

Cyprus

Permanent Representation to the EU

Czech Republic

Ministry of Finance

Denmark

Ministry of Economic and Business Affairs

Estonia

Estonian Accounting Standards Board

France

Conseil National de la Comptabilité (CNC)

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

Finland

Ministry of Trade and Industry

Germany

Bundesministerium des Justiz

Greece

Hungary

Ministry of Finance

Hungarian Financial Supervisory Authority

Ireland

Department of Enterprise, Trade and Employment

Institute of Chartered Accountants in Ireland

Italy

Ministry of Economy and Finance

CONSOB

Bank of Italy

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Luxembourg

Ministère de la Justice

Commission de surveillance du secteur financier

Malta

Accounting Board

Ministry of Finance

The Netherlands

Ministry of Justice

Ministry of Finance

Poland

Ministry of Finance

Portugal

CMVM

Slovakia

Ministry of Finance

Slovenia

Spain

Banco de España

ICAC

Sweden

Ministry of Justice

United Kingdom

Department of Trade and Industry

OBSERVERS

Iceland

Ministry of Finance

Liechtenstein

Norway

Ministry of Finance

Romania

Ministry of Public Finance

Bulgaria

Ministry of Finance

European Institutions/Committees

European Central Bank (ECB)

Committee of European Banking Supervisors (CEBS)

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

Committee of European Securities Regulators (CESR)

European Financial Reporting Advisory Group (EFRAG)

Commission

Pierre Delsaux, Acting Director, DG Internal Market and Services

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