

SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

OF 2 FEBRUARY 2007

Mr Delsaux, Director for the Free Movement of Capital, Company Law and Corporate Governance Directorate, DG Internal Market and Services chaired the twenty-fourth meeting of the Accounting Regulatory Committee and the first meeting of the Contact Committee in 2007.

VOTES OF THE ARC

VOTES ON PROPOSALS FOR COMMISSION REGULATIONS ON: IFRS 8 *OPERATING SEGMENTS*; IFRIC 10 *INTERIM FINANCIAL REPORTING AND IMPAIRMENT*; IFRIC 11 *IFRS 2 - GROUP AND TREASURY SHARE TRANSACTIONS* IN ACCORDANCE WITH REGULATION (EC) NO 1606/2002 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 19 JULY 2002 ON THE APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS

Result of the votes on Proposals for Commission Regulations 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 IFRS 8 *Operating Segments*, IFRIC 10 *Interim Financial Reporting and Impairment* and IFRIC 11 *IFRS 2 - Group and Treasury Share Transactions*.

All three draft Regulations were accepted unanimously. Part of Recital 2 of the 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 IFRS 8 *Operating Segments* was removed.

DISCUSSION AT THE MEETING

I. APPROVAL OF MINUTES OF THE MEETING OF 24 NOVEMBER 2006

The Minutes were approved after taking into account two amendments proposed by Member States.

II. VOTES ON PROPOSALS FOR COMMISSION REGULATIONS ON: IFRS 8 OPERATING SEGMENTS; IFRIC 10 INTERIM FINANCIAL REPORTING AND IMPAIRMENT; IFRIC 11 IFRS 2 - GROUP AND TREASURY SHARE TRANSACTIONS IN ACCORDANCE WITH REGULATION (EC) NO 1606/2002 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 19 JULY 2002 ON THE APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS

IFRS 8 Operating Segments

The Chairman gave EFRAG the opportunity to present its positive opinion on endorsement of IFRS 8. Having considered the issues involved, including some concerns expressed by some smaller listed companies, EFRAG concluded that adoption was in the interest of the vast majority of stakeholders in Europe and unanimously recommended its adoption.

The Chairman, in view of the concerns raised by some of these smaller listed companies, invited ARC members to consider adding the following recital to the draft Regulation: *"The Commission will closely follow the evolution in the area of financial reporting, including taking into account of international developments in this field. Accordingly, the Commission will review the applicability of IFRS 8 in the EU at the latest by 31 July 2009, and, if applicable, submit a proposal amending this Commission Regulation."*

Views from Member States

Review

One Member State was surprised by this proposed additional recital and explained that, among its stakeholders, IFRS 8 has full and clear support. This Member State would therefore not welcome the additional recital which could create a sentiment of doubt surrounding IFRS 8.

Another Member State asked the Commission to clarify the nature of concerns regarding IFRS 8. The Commission explained that this related to fears from small listed companies that the provisions of IFRS 8 would require them to disclose sensitive information regarding their business activities.

Another Member State explained that in view of a general review clause in the IAS Regulation there is no need to make an additional reference to 'review' in the legal instrument endorsing a particular standard. The Commission agreed that the general review provision covered all IFRS and IFRIC which have been adopted, and thus, if adopted, would include IFRS 8 as well.

Effective date and early application

One Member State raised the issue of Article 2 of the draft Commission Regulation, which concerns the effective date of IFRS 8. According to this Member State, the wording "commencement date of its 2009 financial year" was not clear enough as regards the possibility for early application. This was especially the case for companies whose reporting year does not start on 1 January. This Member State explained that it has understood the wording of Art. 2 as meaning early application would be allowed, beginning with interim reporting at the end of first quarter of 2007. This Member State found the wording of Art. 2 in need of improvement and so recommended the Commission to find a more appropriate wording for future legal acts.

The Commission explained that the wording in Art. 2: "at the latest" implicitly allows early application of IFRS 8. Furthermore the Commission explained that the wording used in Art. 2 is the standard wording which has always been used in these Commission Regulations. However, the Commission is willing to look at improving the wording if Member States so desired.

Another Member state proposed the following wording: "Each company shall apply IFRS 8 as set out in the Annex to this Regulation **at the latest** as from the commencement date of **the first financial year starting on or after the 1st of January 2009**". Another Member State supported this suggestion.

Another Member State was opposed to parts of Recital 2, which explains that IFRS 8 is a result of a joint short-term convergence project with US Financial Accounting Standards Board and that it is in line with the segment reporting in the US. According to this Member State, this information is not necessary and is misleading.

Conclusion

The Chairman summarized the discussion. The proposed recital regarding a possible future review of the Commission Regulation will not be included in the draft Regulation. In accordance with the request from one Member State as regards Recital 2, it was agreed to delete the last three sentences in that recital.

The Commission agreed to reflect and propose at the next ARC meeting a new wording for the "effective date clause" which would be used in future draft Regulations. However, that wording as it stood in today's texts would not be changed as that would risk delaying their adoption.

The Regulation adopting IFRS 8 *Operating Segments* (without the recital on review and with the last three sentences in Recital 2 deleted) was then accepted unanimously.

IFRIC 10 Interim Financial Reporting and Impairment

The Chairman gave EFRAG the opportunity to present its positive opinion on endorsement of IFRIC 10. EFRAG recommended the adoption of IFRIC 10 with one EFRAG member expressing a dissenting view.

The Commission explained that after careful consideration of all relevant aspects it had decided to propose adoption of IFRIC 10.

Views from Member States

One Member State stated that it considers IFRIC 10 as not being an appropriate solution, because in its view a clarification within IAS 34 would have been a better solution, emphasizing the principle that the frequency of interim reporting should not have an impact on the reported results. Therefore this Member State would have preferred an amendment to IAS 34.28 instead of this interpretation, i.e. clarifying in an additional sentence inserted after sentence two that the principle in sentence two prevails over the principle in sentence one in case of conflict. However, this Member State did not find the issue as being of such significance as to warrant a vote against the proposal.

The Commission confirmed that it would forward this message to IASB. EFRAG mentioned that it too would write to the IASB asking for the standards involved to be amended.

The Regulation adopting IFRIC 10 *Interim Financial Reporting and Impairment* was then accepted unanimously.

IFRIC 11 Group and Treasury Share Transactions

The Chairman gave EFRAG the opportunity to present its positive opinion on endorsement of IFRIC 11.

The Commission recommended adoption of IFRIC 11.

The Regulation adopting IFRIC 11 *Group and Treasury Share Transactions* was accepted unanimously.

III. IFRIC 12 SERVICE CONCESSIONS

IFRIC 12 was issued in November 2006. It addresses how service concession operators should apply existing IFRSs to account for the obligations they undertake and rights they receive in service concession arrangements. The Commission invited EFRAG to give a detailed presentation on the accounting consequences of IFRIC 12. Member States were asked for their preliminary views. IFRIC 12 was not proposed for a vote.

Views from Member States

One Member State indicated that these were only preliminary views. This Member State remarked that it is clear that IFRIC 12 is very complex and it seems as if some of the resulting accounting treatment may not always be fully satisfactory. Therefore it needs to be discussed in detail.

Another Member State gave a clear message that it believes the application of IFRIC 12 would lead to undesirable results. The service concession industry is a very important industry which is still growing, and not only in this Member State. The application of IFRIC 12 would result in reporting big losses at the beginning and big profits towards the end of the long-term contracts, which are in most cases profitable over the total period. Therefore IFRIC 12 does not properly reflect economic reality and does not provide a true and fair view because it distorts the presentation of profit and loss. On a more detailed basis some areas in IFRIC 12 are not sufficiently well developed. For example:

- distinguishing the dividing line between the two models (Intangible Asset Model and Financial Asset Model) due to a lack of research made to discover the full implications of demand risk and the different treatment of revenues, and
- the treatment of expenditure under the two models for contracts that are, in substance, very similar.

Based on these arguments this Member State does not believe that IFRIC 12 meets the criteria for endorsement in by the EU.

Another Member State agreed and especially so with regard to the revenue recognition issues under the Intangible Asset Model. A solution needs to be found.

Another Member State argued that the scope of IFRIC 12 is insufficiently clear, e.g. regarding the question as to which type of infrastructure would fall under its scope. Furthermore, IFRIC 12 raises questions regarding the application of IAS 18 and IAS 11. The argument was also made that interpretations, like standards, should also be principles based. When considering adoption of IFRIC 12 it is important to take the degree of acceptance on an EU wide level into account.

Another Member State argued that so far there is no guidance available on accounting for service concession arrangements. IFRIC 12 fills a gap in the accounting literature, which is a good thing. It is not regarded as a perfect solution but it can be helpful to an important, but still young and growing industry.

The Commission concluded that there will be a further discussion on IFRIC 12 at the next ARC meeting in March. In the meantime the Commission will stay in contact with stakeholders and decide whether the IFRIC 12 should be proposed for endorsement after these deliberations.

IV. CONSISTENT APPLICATION – ROUNDTABLE

The Commission gave an overview of the discussions which took place at the meeting of the Roundtable on 26 January. Two of the new issues raised (*Regulatory Assets and Liabilities* and *IAS 17 Leases – exercise of renewal/extension options*) will be developed into Technical Papers for a further discussion at the next Roundtable meeting.

CESR referred to the discussion at the Roundtable on IFRIC rejections and described the contents of the joint document (by CESR-FEE-BUSINESS EUROPE) which had been the focus of that discussion. This document itself reflected the conclusions from an earlier meeting (between representatives of these three organisations and affiliates) which had taken place. Based on the working assumption that an accounting policy applied in the financial statements issued prior to an IFRIC rejection note had been based on a reasonable interpretation of the relevant standards, the proposal is that – at least for a transitional period – there should not be an explicit distinction between treating such restatements as a change in accounting policy or as a correction of an error. Sufficient disclosure of the facts would nevertheless be necessary.

The approach being taken by the SEC in reviewing the financial statements of European issuers listed in the US had also been discussed. Major areas of focus were the presentation and disclosure of information in general and the information provided in cash-flow statements.

The Chairman noted that at the Roundtable meeting, several National Standard Setters (of Member States) were not present. The active involvement at meetings and bringing new issues for discussion by all Roundtable participants was essential for the Roundtable to maximise its contribution to the consistent application of IFRS.

Views from Member States

Regarding the IFRIC rejections paper, one Member State thought that there was a risk that this paper could enhance the status of rejections by IFRIC over other forms of guidance (e.g. by National Standard Setters). Three Member States stressed that IFRIC rejections should not carry any legal status. The Commission agreed to look deeper into this matter and come back to this matter later on in the year.

Some concerns were raised by one Member State on the SEC taking decisions on IFRS financial statements without the proper involvement of CESR. The Commission recognised the importance of this element and stressed that the need to respect the Agreement between the SEC and CESR was of critical importance. This point will be regularly emphasised at its meetings with the SEC.

The Commission agreed to the request from a Member State to present a report on the Roundtable's work and notably the current status of each issue raised by participants in the first three meetings.

V. FUTURE ENDORSEMENT PROCEDURE (INCLUDING THE STANDARDS ADVICE REVIEW GROUP)

The Commission gave a presentation on the envisaged future changes in the procedure for endorsing IFRSs and IFRICs into EU. The new procedure will be adopted through an amendment to the IAS Regulation.

The draft amendment will next be discussed on 23 February 2007 in the Council Working Group on Company Law. It is envisaged that the new procedure would enter into force around May/June 2007.

The key changes are:

- The Council will also be consulted in cases where the proposal has received a favourable vote in the ARC.
- The role of both the EP and the Council will be widened so that they will also scrutinise whether the proposed draft Regulation "*exceeds the implementing powers provided for in the basic instrument or that the draft is not compatible with the aim or the content of the basic instrument or does not respect the principles of subsidiarity or proportionality*".
- The period for scrutinising the proposals by the EP and Council will be three months. This period will start after the ARC vote providing the draft proposals in all EU official language have been transmitted to the EP and Council. If this is not the case the period will only start once the last linguistic version of the proposal has been transmitted.

The Commission included a provision for an "urgency procedure" among the proposed modifications to the basic act. This would be used only in exceptional cases where there was a clear need for urgent adoption so as to avoid adverse effects on investor

understanding and thus confidence because companies would have, for a time, to continue applying earlier accounting standards or interpretations which have since become out of date. This "urgency procedure" would be applied only in exceptional and duly justified cases and on imperative grounds. It would mean that the Commission could adopt the proposed measures immediately after receiving a favourable opinion of ARC. The EP and the Council would then have one month to oppose the measure and if they do so, the Commission shall repeal it.

Standards Advice Review Group

The Commission services also gave an update on functioning and developments concerning the Standards Advice Review Group. The Group will operate as follows:

- The Commission will submit EFRAG's opinion to the Group, which shall deliver its advice to the Commission on whether the opinion of EFRAG is objective and well balanced.
- The time limit for delivery of its opinion is three weeks, which may, in exceptional circumstances, in particular when the issue is complex, be extended to four weeks.
- The Commission will publish the final advice of the Group on its website and it will also send it to ARC members. The final advice will also be presented at the ARC meeting.
- In the case where the Group identifies a particular concern regarding EFRAG's advice, the Chairman of the Group will enter into dialog with EFRAG with a view to resolving the matter before the Group issues its final advice. The Commission may also assist in the discussions between the Group and EFRAG with aim to establish a balanced solution.

The Commission Services also stated that the Commission Decision on appointment of members of the Group was adopted on 20 December 2006. This Decision was due to be published on 6 February 2007. The first meeting of new members of the Standards Advice Review Group is expected to take place at the very beginning of March. After completing administrative formalities at its first meeting, the Group will become fully functional and ready to deliver its advice to the Commission. The internal working procedures of the Group will be regulated by the Rules of Procedure, which will be adopted by the Group during its first meeting. The names of members appointed to the Group were communicated to the ARC members (Josef JÍLEK, Elisabeth KNORR, Carlos Soria SENDRA, Hervé STOLOWY, Enrico LAGHI, Jan KLAASEN, Geoffrey MITCHELL).

Views from Member States

In answer to a question from one Member State, the Commission services explained that the decision on appointment of members of the Standards Advice Review Group, including annex with the names of chosen members, had already been sent to members of the ARC and that the Rules of Procedure of the Group will also be sent to MS as soon the Group decides on their adoption.

Another Member State remarked that the number of bodies and institutions now becoming involved was excessive and doubted that this would bring any extra benefits.

VI. RELATIONSHIP BETWEEN THE IAS REGULATION AND THE 4TH AND 7TH COMPANY LAW DIRECTIVES

The Commission Services presented two documents, dealing respectively with the meaning of "Annual accounts"(Doc ARC/06/2007) and the possibility to issue annual accounts prepared in accordance with IFRS before consolidated ones (Doc ARC/08/2007). The Commission Services indicated that, since the ARC meeting on 24 November 2006, they conducted a consultation inside the Commission and have been able to finalise these two papers.

The first document was the same as the one presented at the ARC meeting of last November. The opinion of the Commission is that a parent company which is exempted from providing consolidated accounts under the 7th Company Law Directive, but prepares its annual accounts in accordance with Article 5 of the IAS Regulation, has to apply IFRS provisions only to its annual accounts. Requirements to prepare consolidated accounts as set out in the endorsed IAS 27 do not apply in such a case.

The second document was broadly the same one as presented at the November ARC meeting but with some slight modifications in order to recall the publication and filing provisions of the 7th Company Law Directive. These were already highlighted in the Commission document on the IAS Regulation issued in November 2003 and continue to be relevant for companies using IFRS for the preparation of their consolidated and/or annual accounts. The opinion of the Commission is that publication and filing provisions are outside the scope of the IAS Regulation and therefore the obligations as set out in the 4th and 7th Company Law Directives governing publication and filing remain applicable. As these Directives do not prohibit different publication or filing dates for annual and consolidated accounts, Member States may authorise annual accounts prepared in accordance with IFRS to be issued before consolidated ones.

Views from Member States

One Member State asked the Commission why the document addressing the question as to whether Article 13 of the 7th Directive could provide an exemption from the general requirement to prepare consolidated accounts for parent companies applying IFRS had not been presented today. The Commission Services answered that consultations related to this issue were still ongoing and that they hoped to be able to provide a finalised document at the next ARC meeting in March 2007.

This Member State recalled the document it had circulated to ARC Members. According to its point of view, Article 13 could be used by all parent companies, even those applying IFRS, to exempt them from providing consolidated accounts if they control only subsidiaries considered as immaterial as a whole. Other Member States expressed their support for such a position.

VII. IASB GOVERNANCE

The Commission Services presented the report on IASCF/IASB governance sent to the Council and the Parliament in December 2006, which highlights improvements already made in the IASCF/IASB governance structure, due process with stakeholders and representation of stakeholders, as well as progress which is still awaited. This report has been discussed at the Financial Services Committee on 16 January 2007 and the Economic and Financial Committee on 18 January 2007.

The report welcomes the positive developments, but notes that further action is needed in order to better address concerns regarding public interest, including financial stability, impact assessments, feedback to comment letters, representation of preparers in the IFRIC, issues raised by the Commission Roundtable for consistent application of IFRS in the EU, consultation and due process on convergence programme with the FASB and representation of countries applying IFRS in the IASCF/IASB.

Views from Member States

One Member State congratulated the Commission for the quality and clarity of the report. This Member State noted that most highlighted improvements happened prior to the ECOFIN declaration and that the list of further enhancements awaited was detailed and significant. In this Member State's view, we have to demonstrate that improvements have been made subsequent to the ECOFIN declaration. Some progress has been recently achieved as regards the IFRIC due process, but more substantial results are still needed.

Another Member State agreed with these comments and considered that the next report on IASCF/IASB governance should include evidence of further improvements. The Commission Services explained that this first report provides a state of play and expresses remaining demands in terms of governance enhancements.

VIII. LINKS BETWEEN STATISTICS AND ACCOUNTING

The ECB and Eurostat gave a presentation on the links between statistics and accounting, in particular in the light of the situation after the IAS Regulation. A joint Eurostat/Commission-ECB task force on accounting and statistics has been formed.

The speakers highlighted that the IAS Regulation applies to consolidated accounts whereas individual accounts are normally used for statistical purposes. The speakers expressed the view that IAS/IFRS accounts provide better information and comparability across countries, and are in general more attuned to international statistical standards (e.g. fair value is an acceptable proxy of market value). There are still uncertainties as to what would happen in the SME field. The use of XBRL was also mentioned as a tool to reduce reporting burden on enterprises but its full potential still needs to be further exploited. They emphasised the need to bring all interested parties together to align reporting requirements that could serve different purposes. This would be an important contribution to the overall objective of reducing the administrative burden, while also contributing to better macro-economic statistics.

Furthermore, contacts with the IASB would also be necessary to ensure consistency between IFRS and statistical reporting.

Views from Member States

One Member State found the presentation very interesting and believed that the task force was a useful initiative.

Another Member State stressed the need to consider the purposes of different types of reporting. The different functions of financial and statistical reporting may not only make convergence difficult within a short term perspective, but beyond that, not desirable at all, as it is essential to retain different tools adapted to different aims. It is furthermore important that simplification efforts in accounting do not reduce the input for statistical purposes. This Member State also remarked that the upcoming IFRS SME standard is unlikely to lead to mandatory rules in the EU.

Another Member State emphasised the aspect of SME simplification in this regard, and that considerations have to be made on tax accounting. A certain flexibility for SMEs to present accounts that are aligned with tax reporting would be needed.

The Chair concluded that the Committee may be kept informed of progress made.

IX. UPDATE ON DEVELOPMENTS SINCE THE LAST ARC MEETING

- Simplification of accounting rules for small and medium-sized enterprises - possible revision of the 4th and 7th Directives

The Commission gave a short update on the ongoing work concerning simplification of the administrative burden for SMEs in the accounting area. Since the last ARC meeting, the Commission has had initial discussions on the project with business organisations. In general there is support for the exercise, but it is important that the project should focus on reducing the administrative burden in general (and not be limited to the accounting area only).

The Commission summarised the comments received on the five types of alternative measures identified in the discussion paper for the last ARC meeting. *Raising thresholds* was not believed to reduce the administrative burden to a great extent in many countries. *Extending exemptions* for small and medium sized companies could be a way forward, but it is critical that we avoid creating further accounting differences between Member States. One specific example mentioned was the possibility to mandatorily require an exemption for subsidiaries from preparing separate financial statements in cases where 1) they are included in consolidated financial statements and 2) the parent company guarantees its liabilities. *Amending and/or removing options* could be explored, but further options, for example, regarding the layouts of the balance sheet and the profit and loss account were not seen as really reducing the administrative burden. However, many commentators referred to the area of tax accounting, where they could see new possibilities for aligning tax reporting and financial reporting requirements. Commentators generally supported efforts to *reduce disclosure requirements*.

As requested by Member States at the last ARC meeting, a short overview was given on current work in DG TAXUD on tax accounting. At the moment use of the

so called Common Consolidated Corporate Tax Base (CCCTB) is envisaged to be optional for Member States.

The next steps will be to analyse and summarise the answers to the questionnaire sent to Member States which is due to be completed and returned by 16 February. The Commission will proceed with drafting the Consultative Communication covering the whole field of company law. The accounting elements of this paper will be discussed with Member States at the next ARC meeting in March. Commission approval of this Communication is foreseen for May, and the document will subsequently be extensively discussed with Member States and stakeholders before proposing changes to the Directives. The intention is to present a formal Commission proposal in spring 2008.

Views from Member States

One Member State commented on a lack of coordination between different parts of the project. This Member State explained that the fact that the Commission consults with associations at the same time as national soundings were being made at the Commission's request in Member States disrupts the smooth running of the process and distorts what everyone understands from the views of market participants. The linkage between tax accounting and financial reporting could make a reduction of administrative burden in accounting more difficult. In any case, it would be unclear whether there was currently a mandate to proceed with further harmonisation in tax accounting.

The Commission confirmed that the Member States will have an important role in the process of this simplification initiative. However, the Commission is free to gather views of other stakeholders. The Chairman furthermore highlighted that there were no plans to address tax harmonisation in the current simplification project, only to see whether changes could be made in financial reporting that could simplify matters for those Member States wanting a closer alignment between tax and financial reporting. The Chairman concluded that this was only a first exchange of views, and that the substantial and detailed debate would take place at the next ARC.

– IFRIC due process

The Commission described recent developments on the IFRIC due process also following up on the comment letter submitted in October 2006. The key decisions are:

- To integrate the function of the agenda committee into the public meeting of IFRIC. This will not be a decision making session, and will not require a quorum of members to be present. The meeting will be open to observers, but would not be webcast.
- To increase the representation on IFRIC of preparers of IFRS financial reports. This will be achieved by increasing the number of IFRIC members to 14. As this will require appropriate due process to change the constitution, this will only be approved towards the end of 2007. In the meantime, the invitation for new IFRIC members to replace those

retiring at the end of June will place special emphasis on selecting two individuals from the corporate community who are responsible for the preparation of financial accounts according to IFRSs (and two individuals with senior experience from an accounting firm).

- Regarding IFRIC rejection notes the Board concluded in December that they have a similar status as Bases for Conclusions and Implementation Guidance, and therefore are not authoritative. Nevertheless, they provide useful guidance, which entities should not ignore. Similarly, a decision taken by the IFRIC after public discussion and consultation would inevitably carry weight in view of the knowledge and expertise of that body.

The changes agreed by the IASCF Trustees were generally regarded as going in the right direction from a European view and are in line with the expectations regarding IASB governance. Further improvements are still expected and the Commission promised to continue monitoring and reporting back on developments.

Views from Member States

In relation to the IFRIC due process, one Member State said good progress was made, but clarification was needed on the majority voting, on the means to ensure transparency throughout the process, and the need to see short statements in the case of rejections (and thus avoid long jurisprudence-making documents ending to be tantamount to guidance and not challengeable by anybody once published).

– IFRS "branding"

The Commission presented the IFRS "branding" issue that has been debated by IASB and SAC. The IASCF/IASB see the risk that the IFRS "brand" and reputation as high quality standards will be deteriorated due to the fact that more and more jurisdictions worldwide introduce accounting frameworks, which are "more or less" in compliance with IFRS and entities complying with such requirements referring in their accounting policies to "IFRS as adopted in country XYZ". The consequence would be that practically a number of different country-specific versions of IFRS would be created.

The IASB considers introducing an amendment to IAS 1 requiring companies to explain differences to IFRS on a qualitative basis.

One would expect that this would not create any difficulties because at least for solid and well developed markets one would expect that companies applying standards which are "more or less" in compliance with IFRS would explain the differences to full IFRS already, at least on a qualitative basis.

From a European perspective one could take the view that EU companies are required to comply with IFRS as adopted in the EU, although the underlying objective is that "EU IFRS" should not deviate from "Full IFRS". Nevertheless, the EU endorsement process should be the final decisive level to decide what standards EU companies should comply with.

Views from Member States

Three Member States argued that in practice companies should already report any divergence with IFRS and therefore this issue is not very relevant.

Another Member State was more sceptical and warned that we all should be careful not to harm the overall high quality of IFRS as an accounting framework by deviating too much from full IFRS and as a consequence require reconciliations.

Another Member State thought that the issue of transparency is important, but if this would ultimately result in further requirements for reconciliations this would create a big problem and undermine the whole objective of the IAS Regulation. Therefore it is important that this issue be further discussed in subsequent ARC meetings.

The Commission agreed that it is important to protect IFRS as a high quality framework of accounting standards and noted that further discussion of this issue would be necessary in the near future.

– IASB funding

The Commission Services gave a brief overview of the situation concerning funding of the IASCF/IASB. The IASCF Trustees adopted a country by country approach and assigned a financing target for each Member State. The funding solutions envisaged by Trustees are different in each Member State. Also the success of securing the funds for 2008 varies considerably depending on a Member State. Nevertheless, the Trustees informed us that, overall, the efforts to create a new funding system are proceeding well.

– Consolidation and language revision of endorsed IFRS

The Commission gave a brief update on the work in this area. The project for consolidation will be achieved by publication (and endorsement, following the normal due process), of a new Regulation, which will supersede the previous Regulations. This will enable constituents to refer to only one Regulation as it will contain all endorsed IFRS. During this project, the Commission will also use the opportunity to correct any translation errors

X. MISCELLANEOUS

The Commission explained that it intended to introduce a more efficient method of ensuring the transmission of ARC documents. This would involve loading ARC papers onto a special Commission Communication and Information Resource Centre Administrator (CIRCA) library and for which ARC members would be given special access to download documents at their convenience.

Next meeting

The next ARC meeting was planned for 16 March.

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 2 February 2007

PARTICIPANTS LIST

Austria

Austrian Financial Markets Authority

Ministry of Justice

Belgium

Bulgaria

Ministry of Finance

Cyprus

Czech Republic

Ministry of Finance

Denmark

Danish Commerce and Companies Agency

Estonia

Ministry of Finance

France

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

Conseil Nationale de Comptabilité

Finland

Ministry of Social Affairs and Health

Ministry of Trade and Industry

Germany

Bundesministerium des Justiz

Greece

Ministry of Economy and Finance

Greek Accounting and Auditing Oversight Board

Hungary

Ministry of Finance

Hungarian Financial Supervisory Authority

Ireland

Department of Enterprise, Trade and Employment

Italy

Ministry of Economy and Finance

CONSOB

Bank of Italy

Latvia

Ministry of Finance

Lithuania

Luxembourg

Commission de Surveillance du Secteur Financier

Malta

Accountancy Board, Ministry of Finance

The Netherlands

Ministry of Justice

Ministry of Finance

Poland

Ministry of Finance

Portugal

CMVM

CNC

Romania

Ministry of Public Finance

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

Icelandic Mission to the EU

Liechtenstein

Norway

European Institutions/Committees

European Central Bank

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, Director: Company Law & Corporate Governance

Piotr Madziar, Head of Unit F3: "Accounting",

Ulf Linder, Deputy Head of Unit F3 "Accounting"

Remo Croci, Secretary to the ARC/F3

Reinhard Biebel/F3

Philippe Bui/F3

Jitka Hrudova/F3

Martin Maxa/F3

Knut Tonne/F3

Claudia Junker/Eurostat

