

SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

20 NOVEMBER 2007

Mr Hooijer, Head of the Accounting Unit, DG Internal Market and Services chaired the twenty-ninth meeting of the Accounting Regulatory Committee and the sixth meeting of the Contact Committee in 2007.

I. MINUTES OF THE MEETING OF 1 OCTOBER

The Minutes were approved without any amendments.

II. IFRS 8 – OPERATING SEGMENTS

The Commission Services explained that on 14 November the European Parliament adopted a resolution in favour of adopting IFRS 8. The Commission Services also explained that under the same resolution a review of the standard will need to be carried out in due course. In addition, as regards future endorsements, studies of potential impacts will be required beforehand. This might lengthen the timeframe for the endorsement process. The Commission Services advised that the Commission Regulation for endorsing IFRS 8 had inadvertently already been published in the Official Journal on 17 November and this was ahead of its formal adoption by the Commission, which was due to take place on 21 November. This would be corrected¹.

III. IFRIC 12: SERVICE CONCESSION ARRANGEMENTS

The Commission Services explained that in line with the new requirements of the European Parliament on impact assessments they will be preparing, with the assistance of EFRAG, an effect analysis of IFRIC 12. The results are expected to be presented in March 2008 and an endorsement decision to be taken by mid 2008.

Two Member States explained that IFRIC 12 posed problems for their service concession industries and thus welcomed the effect analysis and asked for any decision to be delayed until after the results are available. One of these Member States also pointed out that IFRIC 12 still needs to be improved and should only be considered as a temporary solution to the problem of accounting for service concession arrangements. The Commission and this Member State should liaise with the IASB to examine how to find an acceptable agreement.

¹ This was subsequently corrected and IFRS 8 was duly published again in the OJ on 22 November, after its formal adoption. Thereafter IFRS 8 became applicable to EU companies under the Regulation 1606/02 (the "IAS Regulation").

Another Member State took the opposite view and argued for a quick adoption of IFRIC 12. In its view an impact assessment was unnecessary and not required by the European Parliament.

The Commission Services referred to the Resolution of the European Parliament and explained that therefore it carries out an impact assessment on IFRIC 12. In the longer term, the IASB should on its own account carry out impact assessments and at an earlier stage in the development of new standards and interpretations. The Member State with particular concerns on IFRIC 12 should continue its discussions with the IASB.

IV. DIRECTIVE 2006/46/EC AND IAS 24 – RELATED PARTY TRANSACTIONS

A question had arisen on whether the transposition of the material content of IAS 24 directly or indirectly into national law would be compliant with the requirements of the 4th Directive. The issue arises because the 4th Directive requires information about "material" transactions and transactions not concluded "under normal market conditions" whereas IAS 24 is silent on these elements. The Commission view is that the use of IAS 24 on a national level for companies not within the scope of the IAS Regulation would still be compliant with the requirements of the 4th Directive.

Two Member States basically agreed with the interpretation but one of these stressed that this should not set a precedent whereby any IFRS could be used instead of the 4th and 7th Company Law Directives. The two Directives had to prevail. One Member State stated that it had initially reached the opposite conclusion as IAS 24 does not require specific information about transaction not concluded under normal market conditions. The Member State did, however, not reject the Commission's interpretation.

It was concluded that those Member States which wanted to implement IAS 24 in this context could do so, but there was no obligation.

V. REVIEW OF THE OPERATION OF REGULATION 1606/2002

The Commission is due to report to the Council and the European Parliament on the implementation of the IAS Regulation and Directive 2001/65/EC (the "Fair Value Directive"). In order to prepare such a report, the Commission Services asked the Institute of Chartered Accountants of England and Wales (ICAEW) to carry out a detailed study, the main findings of which had been presented at the previous ARC meeting. The report, which will be presented in January 2008, will comprise findings on the IFRS implementation and an assessment of the endorsement process. As regards the implementation of the Fair Value Directive, it appears too early to draw definite conclusions but some observations can still be made.

Four Member States asked that ARC members be given the opportunity to comment on the report before it is finalised. Two Member States thought that it was important to fully recognise that the implementation of IFRS had been successful. One of these indicated that the quality of translations was a problem but that the Commission was actively working on resolving this. The report will be an opportunity to discuss the ongoing usefulness of the "Fair Value" Directive when IFRS are now in force. Furthermore it can discuss the difficulty of ensuring the consistency between the Directive's provisions on fair value and those in IFRS. Another Member State noted that the impact of the "Fair Value" Directive is significant in terms of compulsory disclosure of fair value figures for companies that do not apply fair value measurement in their accounts.

Another Member State would like the report to consider in more detail whether companies wishing to apply IFRS early have had problems due to the length of the endorsement process.

The SARG representative thought the report should recognise that SARG has put procedures in place in order to prevent prolonging the endorsement process. Another Member State thought that the report should avoid signalling that the endorsement process is lengthy unless there are proposals to shorten it.

Another Member State believed that the report should discuss ways to improve the organisation and coordination of European constituents' proactive input in the standards development cycle.

One Member State expressed surprise that the problem of the carve-out was taking so long to resolve. EFRAG explained that there had been many meetings between the IASB and the EBF. EFRAG has also met the IASB on this issue. Another Member State thought that the carve-out issue illustrated the difficulties of European authorities to proactively solve potential problems.

The Commission Services concluded that Member States' comments were very welcome and would provide useful input for the drafting the formal report. The report will be sent to ARC members by mid-January 2008 for comments within a very short period (five working days).

VI. EQUIVALENCE: IFRS AND THIRD COUNTRY GAAPs ; PROPOSAL FOR THE EQUIVALENCE MECHANISM

The Commission Services recalled the SEC decision, of 15 November, which abolishes the requirement to reconcile to US GAAP for companies using IFRS. Any European company listed in U.S. which is using the carve-out will henceforth have to perform the far less onerous reconciliation to full IFRS for a two year transitional period. This decision is welcomed by European industry. As regards future standards, the Commission Services intend to address the whole issue of governance of the IASB jointly with the SEC, Japanese Financial Services Authority and IOSCO and have already (7 November) issued a joint statement to this effect.

One Member State expressed dissatisfaction that the Commission's comment letter (dated 27 September) on the SEC proposal to remove the reconciliation requirement was not on the Commission's website. The same Member State criticised the Commission for issuing a press release in response to the SEC decision without having seen the actual wording of the (SEC) decision.

One Member State generally welcomed the SEC decision but asked for more clarity of the issue. This Member State also raised the issue of further developments in the area of EU's equivalence mechanism and determination of equivalence of third country GAAPs with respect to the current SEC decision. This Member State also regretted that Member States had not been consulted prior to issuing the joint statement of the Commission, SEC, JFSA and IOSCO on IASB governance and stressed the need to involve Member States in this issue.

The Commission Services agreed that EU oversight over IASB needs to be improved as the EU is the main user of the IASB's products. The joint statement (of the Commission, SEC, JFSA and IOSCO) points in this direction. The Commission Services invited Member States to present ideas in this respect, as regards both the emerging debate on governance of the IASB and the need to strengthen the ability of EU to influence IASB decisions. The Commission Services also agreed that attention must be given to resolving the issue of IAS 39 carve-out during the two year transitional period.

Equivalence mechanism

On 14 November European Parliament adopted the resolution on the draft Commission Regulation for a mechanism to determine the equivalence of third country GAAPs. The

Commission Services are currently finalising the text and it will be distributed to Member States shortly.

One Member State reiterated its strong concerns regarding the inclusion of the reciprocity requirement in the recital 3 of the draft regulation which risks damaging EU financial markets i.e. by US companies currently present delisting. The reciprocity requirement is also very unfortunate in relation to its linkage to "EU IFRS". According to the Member State this reciprocity also risks undermining global convergence. In contrast other Member States emphasized the importance of the reciprocity requirement. One of these Member States also stressed the importance of ensuring the possibility for Member States to review the suitability of a financial reporting standard or interpretation which has, after all, been issued by a private body. According to this Member State, the EU is very fragmented and does not possess the necessary counterweight to U.S., which will wish to influence the standard setting in the IASB; it is desirable that the EU improves this aspect from the institutional point of view.

As regards the determination of equivalence, CESR explained that work on technical assessment is already in progress. CESR intends to publish the draft papers on China, U.S. and Japan in mid December 2007 allowing a 6 week period for public consultation. It plans to finalise its advice to the Commission at the end of February / beginning of March 2008.

VII. UPDATES

Roundtable for consistent application of IFRS

A meeting of the Roundtable took place on 18 October. It was agreed to refer the issue of *Regulatory assets and liabilities* to IFRIC for an interpretation.

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

The Commission Services gave an overview of the preliminary results on the consultation of the communication. There seems to be some support for the introduction of a new category of "micro-entities".

Comitology

The EP adopted its position on the comitology package during its plenary meeting on 14 November. The amended IAS Regulation encompassing the new regulatory procedure with scrutiny, now without the urgency procedure, could enter into force at the beginning of 2008.

VIII. MISCELLANEOUS

Transposition of Dir 2006/46/EC (the Modernisation Directive)

The Commission Services reminded Member States of the approaching transposition deadline of the Modernisation Directive, amending in particular the 4th and the 7th Company Law Directives, whose transposition needs to be completed by 5 September 2008. The Commission Services stressed the need to take appropriate steps at the national law level to ensure successful and timely implementation and to contact the Commission Services in case of need to consult any particular issue regarding the transposition. The Commission Services offered the possibility of organising a transposition meeting in the first half of next year. If so Member States would be invited well in advance.

Next meeting

The next ARC meeting is scheduled for 5 February 2008.

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 20 November 2007

PARTICIPANTS' LIST

Austria

Financial Market Authority

Belgium

Fod Economie

Commission normes comptables

Bulgaria

Cyprus

Czech Republic

Ministry of Finance

Denmark

Danish Commerce and Companies Agency

Danish FSA

Estonia

Estonian Accounting Standards Board

Permanent Representation to the EU

France

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

Finland

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

Ireland

Department of Enterprise, Trade and Employment

Italy

**Ministry of Economy and Finance
CONSOB**

Latvia

Lithuania

Ministry of Finance

Luxembourg

**Commission de Surveillance du Secteur Financier
Ministry of Justice**

Malta

Accountancy Board, Ministry of Finance

The Netherlands

Ministry of Justice

Poland

Ministry of Finance

Portugal

CNC

Romania

Ministry of Public Finance

Slovakia

Ministry of Finance

Slovenia

Spain

ICAC

Sweden

Ministry of Justice

United Kingdom

Department of Business, Enterprise and Regulatory Reform

OBSERVERS

Iceland

Liechtenstein

Norway

Ministry of Finance

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

Jeroen Hooijer, Head of Unit F3: "Accounting",

Ulf Linder, Deputy Head of Unit F3 "Accounting"

Remo Croci, Secretary to the ARC/F3

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