

## **SUMMARY RECORD**

### **MEETING OF**

### **THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE**

**20 MAY 2008**

Mr Hooijer, Head of the Accounting Unit, DG Internal Market and Services chaired the thirty first meeting of the Accounting Regulatory Committee and the second meeting of the Contact Committee in 2008.

#### **I. MINUTES OF THE MEETING OF 10 MARCH 2008**

The Minutes were approved with one amendment.

#### **II. EFFECT STUDIES ON FORTHCOMING ENDORSEMENTS**

##### *IAS 23 Borrowing Costs*

The Effect Study on IAS 23 has been prepared by the Commission Services with input from EFRAG. The structure is broadly the same as for IFRS 8.

The Commission Services issued a questionnaire for public consultation on 7 December 2007. Based on this consultation and other sources of information, the report aims at analysing the potential effects of introducing the revised IAS 23 in the EU. The Effect Study concludes that the revised IAS 23 will have a positive cost-benefit effect and that it should therefore be endorsed.

##### *IAS 1 Presentation of Financial Statements*

The Commission Services thanked EFRAG for its Effect Study on IAS 1. This Effect Study incorporates a cover note from the Commission Services with an introduction about effect studies, some background about the presentation of financial statements and the conclusions drawn from the effect study prepared by EFRAG.

EFRAG gave an overview of the Effect Study on IAS 1. EFRAG explained the process followed in the Effect Study and concluded that the benefits from applying the amendments included in IAS 1 (Revised) would outweigh the costs.

##### *IFRIC 14 – The limit on a defined benefit assets – Minimum funding requirements and their interaction*

The Commission Services thanked EFRAG for its Effect Study on IFRIC 14. This Effect Study incorporates a cover note from the Commission services with an introduction about effect studies, some background about the interpretation and the conclusions drawn from the effect study prepared by EFRAG.

EFRAG gave an overview of the Effect Study on IFRIC 14. EFRAG explained the process followed and concluded that the benefits from applying the IFRIC 14 would outweigh the costs.

#### *Comments by Member States*

One Member State highlighted the need to have all legal texts for endorsement well in advance of the ARC meeting in order to proceed with national consultations and procedures. The Commission Services explained that legal endorsement texts would be sent to Member States as soon as they were ready and translated.

Another Member State asked about the situation of the Effect Study on IFRIC 12. The Commission Services explained that the Effect Study is almost finalised and will be sent out as soon as possible in order to be discussed at the next ARC meeting.

### **III. EQUIVALENCE: IFRS AND THIRD COUNTRY GAAPS**

The Commission Services introduced this point by saying that the issue of equivalence of third country GAAPs should be seen in the general context, including encouraging foreign jurisdictions to move to IFRS either directly or by a process of converging their national standards, the reform of the governance of the IASB, and strengthening the EFRAG pro-active input to the IASB's agenda-setting process.

As regards the determination of equivalence as such, the Commission will table two proposals: a new level 2 Regulation on the basis of the Transparency Directive and a Regulation amending level 2 Prospectus Regulation. Having agreed with CESR's advice, the Commission will propose to recognise US GAAP and Japanese GAAP as being equivalent to IFRS. As regards Chinese GAAP, South Korean GAAP and Canadian GAAP the Commission will propose accepting these for a transitory period, ending no later than on 31 December 2011 (more detailed reasoning is contained in the Working document ESC-4-2008). The Commission Services are awaiting CESR's advice as regards India. CESR explained that the timing will also depend on how quickly the Indian authorities can provide all the necessary information and material.

As for the timeline, the Commission will formally present the two Regulation proposals (by the beginning of June). These proposals will be discussed with Member States and with the EP and the formal vote of the ESC is envisaged to take place in the autumn. The measures need to be adopted by the Commission and published in the Official Journal of the EU before the end of 2008.

#### *Views from the Member States*

Some Member States acknowledged the work done by the Commission and CESR and expressed their satisfaction with the progress. Furthermore they reiterated the need to resolve the issue of the carve out in IAS-39, the importance of further monitoring of compliance of the financial statements with the respective third country GAAP, especially during the transitional period and also the importance of achieving the existence of genuine global accounting standards, without regional variations. One Member State stressed the need of monitoring the compliance especially with regard to China, where there is currently insufficient evidence of successful implementation. Two Member States stressed the issue of reciprocity which seems to be missing in the Commission's Working document. According to these Member States, the EU risks losing influence by unilaterally recognising a third country GAAP. This particularly concerns the U.S. and the issue of carve out in IAS-39. As regards the governance of the IASB, one MS regretted that the EU does not have a body comparable to U.S. SEC at its disposal and that we should

therefore think about reconsidering and restructuring the current lay-out and create a strong European voice to provide proactive input upstream i.e. at the point when the IASB begins working on a new standard.

The Commission Services made it clear that they would take account of the issues raised including the requests for careful monitoring of application of third country GAAPs. This includes taking account of the ongoing work in the audit equivalence area. As regards China, the Commission Services explained that they visited China recently and could confirm that China has made a big effort and substantially converged its national accounting rules with IFRS, however as there is no practical evidence of application of these new standards, the Commission Services will continue monitoring and discussing enforcement issues with the Chinese authorities. The Commission Services stressed the importance of solving the issue of the IAS 39 carve-out as soon as possible; there is currently a discussion between IASB and EBF aiming to solve this issue in progress. No less important issue is the governance of the IASB, in this respect, also the EP has a important role to play.

#### **IV. GOVERNANCE**

The Chairman reminded participants that the Commission views the ongoing initiatives to reform the IASCF's governance and to enhance EFRAG's capacity to influence the accounting debate at international level as integral elements of its broader strategy to promote IFRS as the single set of globally accepted accounting standards. As already mentioned under the previous point, these initiatives are also important in the context of the forthcoming decisions about the equivalence of third country GAAPs.

##### **IV.1. Enhancements to EFRAG**

The Commission Services introduced a discussion paper setting out in general terms possible reforms of the European Financial Reporting Advisory Group (EFRAG). These reforms are intended to strengthen the EU's input to the International Accounting Standards Board's (IASB), especially pro-active input to the IASB's agenda-setting process. By way of introduction, the Commission representative highlighted the Commission's support for EFRAG's efforts to enhance its ability to influence the IASB and the related reforms of its governance, as well as expressing his conviction that good progress is being made towards an overall agreement on the content of those reforms. The Commission representative emphasised that the Commission's proposed financial contribution to EFRAG should be seen as complementary to rather than a substitute for existing funding sources. He called on public authorities to support the creation of National Funding Mechanisms (NFM) in Member States where none exist today, as well as to support the development of existing NFM; where NFM are organised by the private sector, public authorities could still play a role as facilitator.

##### *Views from the Member States*

The representative of CESR raised a question about the reference to enforcement in the discussion document. This was echoed by a few Member States. The Commission explained that it was not envisaged that EFRAG would have a role in relation to enforcement, but that it could provide a platform allowing European stakeholders to exchange information on the practical application of IFRS. This could incorporate the current role of the Roundtable.

Several Member States expressed their preliminary support for the objective of strengthening the EU's input to the IASB via a stronger EFRAG, but requested more detailed information about the objectives, tasks and structures of a reformed EFRAG before taking a definitive position. Two

Member States emphasised that EFRAG's future success would depend on the quality of its technical work and that it should not stray into other areas (political issues, enforcement). In reply to a question from the UK, the Commission representative stated that it was foreseen that Community co-financing would cover at most 50% of EFRAG's budget, which would approximately double under the new arrangements.

In his closing remarks, the Chairman emphasised the Commission's commitment to a successful outcome of the ongoing efforts to enhance EFRAG's role and noted that the Committee would return to the issue during subsequent meetings.

#### **IV.2. IASCF constitutional review process**

Turning to the governance of the IASCF, the Chairman summarised the process for the constitutional review: phase one will cover the creation of a Monitoring Board composed of regulatory authorities and the expansion of the IASB's membership, while the scope of phase two remains to be defined.

The IASCF Trustees were expected to publish a consultation document in the near future setting out their proposals for phase I (*the IASCF published a draft consultation document for discussion during a Roundtable on 30 May<sup>1</sup>*). This phase will be concluded in October 2008 and corresponding changes to the IASCF constitution will be implemented after January 2009.

As regards the powers of the Monitoring Board, the Chairman explained that the Commission considers that it must play a active role in the selection of Trustees and must have the final say over their appointment. It would not be sufficient if the Monitoring Board were only to intervene at a late stage, in effect rubber stamping the selection made by the Trustees, as that would merely perpetuate the self-selection procedure currently in force.

In addition, while the Chairman recognised the importance of the IASB's independence as a standard-setting body, he explained that it should promptly address any matters referred to it by public authorities via the Monitoring Board. A good example would be the FSF/G7 recommendations concerning fair value accounting and consolidation. The Monitoring Board would in such cases provide an effective mechanism to engage with the IASB and ensure that it delivers the necessary outputs.

Turning to the composition of the IASB, the Commission considers that the "European" members should reflect the EU's role as most important jurisdiction applying IFRS. In practice, the 4 European members should therefore be from the EU. Other European jurisdictions could be included in the group of "representatives from any area". However, the Chairman warned that attempting to obtain more than 4 EU representatives on the grounds that the EU is currently the largest jurisdiction applying IFRS is likely to be both unrealistic and counterproductive.

The Chairman outlined some preliminary considerations about the second phase of the constitutional review. The latter's scope has not yet been decided. While the Commission does not see a need to comprehensively change the IASCF's constitution, it has identified a number of issues that could usefully be addressed in order complement the creation of the Monitoring Board. These include:

- increasing the transparency and procedural guarantees concerning the IASB's agenda-setting process. This would imply broadening the IASB's obligation to consult about changes,

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<sup>1</sup> <http://tinyurl.com/5ayr8h>.

additions or deletions to its work programme, including by strengthening the role of the Standards Advisory Council.

- formalising the role of impact assessments as an integral part of the IASB's due process.
- possible changes to the terms of service of the IASB. This needs to strike a careful balance between, on the one hand, avoiding excessive turnover that could destabilise the IASB's standard-setting process and, on the other hand, excessively long terms of office that prevent the infusion of new thinking.
- it may also be necessary to look into the IASCF's funding. The 2006 ECOFIN mandated the Commission to review the funding of the IASCF after three years. There has been some progress towards diversifying the IASCF's funding base. Nevertheless, the Commission's last report on the IASCF's governance pointed out that questions remain about the current funding arrangements. This is especially so given the Foundation's reliance on voluntary donations from some stakeholders that are directly affected by its standards.

Before opening the floor for discussion, the Chairman emphasised that the Commission views about the second phase are very much preliminary and that he would welcome input from Member States.

#### *Views from the Member States*

The French representative expressed his general support for the Commission's approach towards the membership of the Monitoring Board and the composition of the IASB. He emphasised that the Monitoring Board should have a strong role both in relation to the nomination of Trustees and to the oversight of the IASB's work, including its responsiveness to the views of public authorities. Two Member States raised questions concerning the EU's representation in the Monitoring Board and the need to ensure adequate co-ordination among the European bodies with an interest in financial reporting, including the potential role of the Committee of European Securities Regulators (CESR). The German representative supported the suggestion to revisit the Standard Advisory Committee's role in the IASB's standard-setting process, but considered that it was too early to take a position about possible reforms of the IASCF's funding arrangements.

Following a number of questions concerning the future membership of the IASB, the representative of EFRAG and of the Commission highlighted that this should be seen in the light of the growing international adoption of IFRS. The current arrangements reflect the fact that the EU remains the largest jurisdiction applying IFRS. However, with several large jurisdictions moving towards adoption of IFRS, the EU may in future come under pressure to reduce its representation on the IASB. The proposal to allocate 4 IASB members to Europe would therefore provide some stability and ensure that European perspectives are adequately represented in the Board.

## **V. UPDATE ON OTHER DEVELOPMENTS SINCE THE LAST ARC MEETING**

### **Simplification of accounting rules for small and medium-sized enterprises**

The Commission Services explained that a first discussion in the Council's Company Law Working Party took place on 19 May on the simplification proposals adopted by the Commission on 17 April. Several Member States reacted positively although others indicated that the proposed measures were not going far enough. One Member State made a technical comment

concerning one of the proposed disclosure measures, which the Commission was looking into. According to information from the Slovenian Presidency, the next meeting of the Working Party was planned for 18 June.

### **Consolidation and language revision of endorsed IFRS**

The Commission Services gave an update on the consolidation and language revision project.

The Commission is preparing the consolidation and language revision of the IFRS and will publish a new text including all endorsed IFRSs as at 31 December 2007. It enables will constituents to refer to all the IFRS literatures as endorsed by the EU in one sole legal text. At the same time the Commission is taking the opportunity to correct translation errors identified in the existing texts. Comments received from the Member States are taken into consideration in the revised translations.

The translation and revision exercise is being done by IASCF, who is the Commission's subcontractor for this work. After the IASCF, the texts are also reviewed by Commission's Translation DG. Thereafter, the texts are sent to Member States. The formal vote is scheduled for the June ARC meeting.

The translation and revision has taken longer than foreseen. Therefore, a number of Member States had not received the package of consolidated texts at this point of time. Most of the outstanding translations are expected by the end of May or beginning of June. Unfortunately, this does not give much time for comments before the formal adoption of the consolidated text in June.

On the other hand there is also a strict time constraint by the comitology process. As a way forward, the Commission suggested that the formal adoption of the consolidated texts is maintained for the ARC meeting of 19 June – however with the possibility for comments and further revision of translations kept open after this date. This will enable to keep the timetable for publication in October, and at the same time, allow maximum use of the time available for eventual final adjustments.

#### *Comments by Member States*

One Member State highlighted the importance of the consolidation and language revision project and expressed its support for this work. However, by the date of the publication of the consolidated text, some new standards and interpretations would have already been endorsed. This Member State thus requested the Commission to already consider the follow up work on this project.

## **VI. MISCELLANEOUS**

The Commission Services gave a brief overview of the events taking placing in the accounting world as a reaction to the current turmoil in the financial markets.

One Member state asked whether the commission would give an update on the ongoing work at the July ECOFIN. The Commission Services agreed to look into this but explained that the work on substance was being done by the IASB.

The next meeting was scheduled for 19 June 2008.

# ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 20 May 2008

## **PARTICIPANTS' LIST**

### Austria

Financial Market Authority (FMA)  
Ministry of Finance  
Ministry of Justice

### Belgium

### Bulgaria

Ministry of Finance

### Cyprus

Permanent Representation

### Czech Republic

Ministry of Finance

### Denmark

Danish Commerce and Companies Agency  
Danish FSA

### Estonia

Permanent Representation

### Finland

Ministry of Finance  
Ministry of Social Affairs and Health

### France

Permanent Representation

### Germany

Bundesministerium des Justiz

### Greece

Ministry of Economy and Finance

### Hungary

Ministry of Finance  
Permanent Representation

### Ireland

Italy

CONSOB

Ministry of Economy and Finance

Latvia

Lithuania

Ministry of Finance

Luxemburg

Malta

Accountancy Board Ministry of Finance

The Netherlands

Ministry of Justice

Poland

Ministry of Finance

Portugal

CMVM

Romania

Ministry of Public Finance

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

ICAC

Sweden

Ministry of Justice

United Kingdom

Department of Business, Enterprise and Regulatory Reform

## OBSERVERS

### Iceland

Ministry of Finance

### 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

HOOIJER Johannes Jeroen, Head of Unit F3: "Accounting",

LINDER Ulf, Deputy Head of Unit F3 "Accounting"

CROCI Remo, Secretary to the ARC/F3

BIEBEL Reinhard/F3

DECKERS Alain/F3

HRUDOVA Jitka/F3

LEPPILAHTI Arto/F3

MAJOROS Dora/F3

MONZON Angel/F3

ZUGO Liliana/F3