

SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

19 JUNE 2008

Mr Delsaux, Director for the Free Movement of Capital, Company Law and Corporate Governance Directorate, DG Internal Market and Services chaired the thirty-second meeting of the Accounting Regulatory Committee and the third meeting of the Contact Committee in 2008. During his absence, the meeting was chaired by Mr Linder, Deputy Head of Unit, "accounting".

VOTES OF THE ARC

Result of the vote on a proposal for a Commission Regulation on replacing and repealing Regulation (EC) no 1725/2003 ("consolidation") 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 (document ARC/04/2008)

This draft Regulation which consolidates into one single legal text all IFRSs and IFRICs adopted by the EU as at 31 December 2007 was accepted unanimously.

I. MINUTES OF THE MEETING OF 20 MAY 2008

The Minutes were approved with one amendment.

II. FORMAL VOTES ON PROPOSALS FOR COMMISSION REGULATIONS ON: IAS 23 (REVISED) – BORROWING COSTS; IFRIC 14 - IAS 19: THE ASSET CEILING: AVAILABILITY OF ECONOMIC BENEFITS AND MINIMUM FUNDING REQUIREMENTS

Some Member States expressed that some redrafting of the draft proposals would be necessary in order to avoid legal ambiguity with the proposal for the consolidation of IFRS and IFRIC adoption by the EU into one single text (agenda item III).

After some discussion it was agreed to postpone the votes on these two measures until the next ARC meeting

III. FORMAL VOTE ON A PROPOSAL FOR A COMMISSION REGULATION ON REPLACING AND REPEALING REGULATION (EC) NO 1725/2003 ("CONSOLIDATION")

The Commission explained that under the proposal for a Commission Regulation on replacing and repealing Regulation (EC) no 1725/2003 ("consolidation"), all IFRSs endorsed as at 31 December 2007 will be published as one package. The publication is scheduled for October 2008. It will enable (constituents) to refer to only one updated Regulation. The new Regulation also takes into account the comments that Member States have given earlier on the translations. The Commission Services have sent the language versions of the consolidated standards to the Member States prior to the meeting. Language versions of the Regulation texts were still outstanding and some of the language versions of the standards may need further revision. Therefore, the Commission Services explained that after the voting the Member States will have the possibility to make comments on the language versions where necessary.

Result of the vote on a proposal Commission Regulation on replacing and repealing Regulation (EC) no 1725/2003 ("consolidation")

All Member States (=345 votes) voted in favour of the draft Commission Regulation on replacing and repealing Regulation (EC) no 1725/2003 ("consolidation").

IV. EFFECT STUDIES ON FORTHCOMING ENDORSEMENTS

The Commission Services, together with EFRAG, presented effect studies on IFRS 2 Share-based Payment (revised), IFRIC 12 Service Concession Arrangements and IFRIC 13 Customer Loyalty Programs. The intention was to have a first discussion but no formal vote.

Views from Member States

Regarding the effect studies on IFRS 2 (revised) and IFRIC 13, which are mainly based on work conducted by EFRAG, there were no comments from Member States.

With regard to IFRIC 12 some Member States commented that the study was useful since it covers all arguments pro and con endorsement. On balance, two Member States expressed that – although not perfect in all respects – the benefits of endorsing IFRIC 12 would outweigh the costs.

Other Member States commented that there was insufficient time to consult on national level and therefore an in-depth discussion was not possible at this meeting.

The Commission Services informed that a further discussion is planned during the meeting of 11 July and a potential formal vote is foreseen for 1 October.

V. EQUIVALENCE: IFRS AND THIRD COUNTRY GAAPs

Further to the discussion at the last meeting, the Commission Services presented the two proposals on 6 June. The Commission also explained that over the coming months, the question of whether to also include Indian GAAP and Taiwanese GAAP may arise.

Views from Member States

One Member State raised the question about how to deal with financial statements presented by a third country issuer, using a GAAP acceptable under our proposals, but in a non-Community language. Several Member States reiterated the need to keep in mind the issue of reciprocity with the third country concerned. However, a satisfactory reform of the IASB governance including proper public oversight would help to counter-balance those concerns. One Member State suggested granting the acceptance of third country GAAPs within the EU for a fixed period only, for example for 5 or 6 years. Two Member States explicitly supported the content of the proposals.

The Commission Services assured that they took full note of the issues raised, especially the governance of the IASB and strengthening of the European voice through EFRAG.

The Commission Services invited Member States to submit their comments on the two draft legal measures in writing within 2 weeks, i.e. by 3 July.

VI. GOVERNANCE

The Chairman introduced the two subjects covered under this heading: the **reforms of the IASCF's governance** and the **enhancement of EFRAG's role** towards the IASB.

IASCF Governance

On the first point, the Chairman outlined the ongoing discussions about the first phase of the IASCF's constitutional review process, which focuses on the establishment of a body to ensure the public accountability of the IASCF and on the expansion of the IASB's membership. There is now an agreement in principle to establish such a Monitoring Body, on the fact that it should include public authorities, in particular those responsible for the adoption or recognition of accounting standards in their respective jurisdiction (although other aspects of the body's membership are still under discussion) and on the fact that it should have the final say over the appointment of the IASCF Trustees. The

precise role of the body in relation to the selection of Trustees and to the possibility to influence the IASB's work programme, remain to be agreed. The Commission's position is that the body should play an active role in the selection of candidates for Trustee positions and that it should have the possibility to refer sensitive issues of broad public interest to the IASB for consideration.

The other issue to be addressed as part of the 1st phase is the expansion of the IASB's membership from 14 to 16 members. The Chairman explained that while the introduction of a geographical dimension was welcome, technical competence will remain a primary consideration. The IASCF's proposal is that 4 IASB members should be appointed from each of Europe, North America and Asia-Pacific. The remaining members could be appointed from any region. This allows some flexibility to appoint additional European members.

As regards the second phase of the IASCF's constitutional review, the Chairman explained that while the IASB's due process has improved during recent years – demonstrating that ECOFIN has had an impact – there is still room for improvement. There is no agreement yet about the content of the second phase, but the Commission has identified the following issues as important:

- the role of SAC, including its size, composition and powers; and
- further enhancements to the IASB's due process, in particular the possible mandatory use of impact assessments at an early stage of the standard-setting process.

Views from Member States

One delegation commented on the importance of ensuring consistency between the forthcoming ECOFIN conclusions and the comment letter that the Commission will submit in response to the IASCF's forthcoming consultation document. He highlighted three key political messages: the need for real public oversight over the IASCF; the importance of taking into account prudential considerations; and the urgency of strengthening the EU's voice (EFRAG) towards the IASB. On a more technical level, the representative of the same Member State noted that it was essential that the Monitoring Body participates in the selection of candidates for Trustee positions and that it should be able to make an input to the IASB's work programme. He further stated that the IASB's membership should reflect the EU's role as the largest user of IFRS.

A representative from another Member State intervened to present his preliminary position. He welcomed the launch of the reform process and the Commission's efforts to ensure a co-ordinated position of the EU. The same representative agreed that the EU should take an ambitious approach, while also being realistic about the eventual outcome. On the expansion of the IASB, while the increase from 14 to 16 members is acceptable, this should not lead to a run-away process. The same speaker representative also expressed concerns that the outcome of this reform would be to reduce the number of IASB members from the EU. In relation to the Monitoring Body (MB), he pointed out the need to achieve a reasonable equilibrium to ensure that the MB has sufficient influence. While the question of the EU's representation (1 or more seats) was still open, he agreed that the Commission should ensure that the EU presents a co-ordinated position including the views of other European institutions and bodies.

The Chairman responded by highlighting two messages. First, the importance that the EU should present a united front in relation to the Monitoring Body. The Commission's

position is that it should represent the EU given its responsibility for adopting IFRS, while recognising the need to consult in order to take into account views from all interested parties, including Member States and other European institutions and bodies. Second, that while the number of IASB members from the EU is important, their quality is even more so.

One representative raised the possible participation of CESR in the Monitoring Body, given its role in enforcing IFRS. The possibility for the Monitoring Body to influence the IASB's work programme was also flagged as important by the same representative.

The Chairman replied that the situation in the US and in the EU were not comparable: in the EU the adoption of IFRS and their enforcement is the responsibility of two different bodies (respectively, the Commission and CESR), whereas the US SEC combines both roles. The members of the Monitoring Body should primarily be those authorities responsible for endorsing accounting standards. He repeated that the Commission would consult both Member States and relevant European institutions/bodies in order to ensure that a co-ordinated European position is presented in the Monitoring Body. The Chairman agreed that the possibility to submit issues for consideration by the IASB is important, but noted that this would not be an easy objective to achieve since it will be perceived by some stakeholders as undermining the IASB's independence.

One representative agreed that the Monitoring Body could raise important issues for consideration by the IASB, but warned that it should not become involved in technical aspects of standard-setting. He supported the Commission's position concerning the composition of the Monitoring Body, as it would be unrealistic to seek two seats for the EU. Concerning the future membership of the IASB, the same representative considered that 4 members from the EU would be acceptable given the increasing international acceptance of IFRS; the IASB's voting thresholds may however need to be adjusted.

CESR's representative raised the composition of the Monitoring Body and referred to a letter from CESR's Chairman to the Chairman of the IASCF Trustees, which has been circulated to the Committee before the meeting. CESR considers that it is important that aspects related to the enforcement of IFRS are reflected in the IASB's agenda-setting process.

EFRAG

Turning to the enhancement of EFRAG's role towards the IASB, the Chairman explained that the changing international context implies an urgent need to strengthen the EU's ability to provide input into the IASB agenda- and standard-setting processes. The needs and interests of EU stakeholders have to be taken into account and represented effectively. This should be based on three key principles. First, all stakeholders should be represented, especially by strengthening the participation of investors, national standard-setters (NSS) and public policy representatives. Second, EFRAG's advisory role concerning IFRS endorsement should continue but its pro-active role towards the IASB should be developed. Third, EFRAG should mobilise more resources than it does today.

The Chairman reported that following several meetings between the main interested parties, an agreement has been reached concerning the overall structure and governance of a reformed EFRAG. This includes a more representative and balanced Supervisory Board; a largely unchanged role for the Technical Expert Group; and the creation of a new committee, tentatively named the Planning and Resources Committee (PRC) responsible for defining Europe's priorities related to pro-active input to the IASB and

corresponding allocation of resources for pro-active work. The PRC would include senior representatives from NSS.

EFRAG is expected to launch a consultation process before the summer break about these proposals.

In order to ensure that EFRAG has sufficient resources, the Commission may put forward a proposal for a legal basis to co-finance EFRAG. Work is currently ongoing to draft this legal text.

Overall, the Chairman highlighted that the agreement reached on the reform of EFRAG is a very positive development to reinforce the EU's "voice" towards the IASB. There were no comments from Member States.

VII. MISCELLANEOUS

The Commission Services gave a new update of the events taking place in the accounting world as a reaction to the current turmoil in the financial markets.

The next meeting was scheduled for 11 July 2008.

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 19 June 2008

PARTICIPANTS' LIST

Austria

Financial Market Authority (FMA)

Ministry of Finance

Ministry of Justice

Belgium

FOD Economie

Bulgaria

Cyprus

Permanent Representation

Czech Republic

Ministry of Finance

Denmark

Ministry of Economic and Business Affairs

Estonia

Permanent Representation

Finland

Ministry of Employment and the Economy

France

Permanent Representation

Germany

Bundesministerium des Justiz

Greece

Ministry of Economy and Finance

Hungary

Ministry of Finance

Ireland

Dept. Enterprise, Trade and Employment

Italy

CONSOB

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Luxemburg

Ministry of Justice

Malta

The Netherlands

Ministry of Justice

Poland

Ministry of Finance

Portugal

CNC

CMVM

Romania

Ministry of Public Finance

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

Banco de Espana

ICAC

Sweden

Ministry of Justice

United Kingdom

Department of Business, Enterprise and Regulatory Reform

OBSERVERS

Iceland

Ministry of Finance

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)

Standards Advice Review Group (SARG)

Commission

DELSAUX Pierre, Director, "Free movement of capital, company law and corporate governance"

LINDER Ulf, Deputy Head of Unit F3 "Accounting"

CROCI Remo, Secretary to the ARC/F3

BIEBEL Reinhard/F3

DECKERS Alain/F3

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LEPPILAHTI Arto/F3

MONZON Angel/F3

TONNE Knut/F3

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