

SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

11 JULY 2008

I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 19.06.2008 (DOCUMENT ARC/07/2008)

The Minutes were approved with one amendment.

II. FORMAL VOTES ON PROPOSALS FOR COMMISSION REGULATIONS ON:

**II.1. IAS 1 (revised) - Presentation of Financial Statements (Document
ARC/09/2008);**

II.2. IAS 23 (revised) – Borrowing costs (Document ARC/05/2008);

**II.3. IFRIC 14 - IAS 19: The Asset Ceiling: Availability of Economic Benefits
and Minimum Funding Requirements (Document ARC/06/2008);**

**II.4. IFRS 2 (revised) - Share-based Payment: Vesting Conditions and
Cancellations (Document ARC/08/2008);**

II.5. IFRIC 13 – Customer Loyalty Programmes (Document ARC/10/2008)

One Commission representative described the endorsement process concerning the above-mentioned standards and interpretations. The Commission has received positive endorsement advice from EFRAG concerning all the above-mentioned standards and

interpretations. SARG had also examined EFRAG's advice and concluded that they were well-balanced and objective. On this point, the Commission proposed to include in the draft regulations a reference to the opinions issued by SARG. In the two previous ARC meetings, the Commission Services and EFRAG presented effect studies on these standards and interpretations, followed by discussion with Member States. At this ARC meeting formal endorsement votes for the standards and interpretations would take place.

Prior to the vote, the chairman invited Member States for comments, and the following remarks were made.

One Member State expressed material concerns with IAS 1, but stated that it will anyhow support endorsement.

Another Member State remarked that paragraph 7 of IAS 1 was ambiguous as it was not clear whether "IFRS" referred to "full" IFRS or "IFRS as adopted by the EU". A Commission representative explained that the reference must be seen in the light of the IAS Regulation and the legal requirement for EU companies to apply "IFRS as adopted by the EU".

Several Member States had comments on the translations of certain Regulations and Annexes and some noted that some translations were missing. The Member States in the former group said that they would submit amendments, the Member States in the latter group introduced scrutiny reservations.

The Chairman replied that all missing language versions will be sent to Member States as promptly as possible and asked Member States to submit any comments on the translations as soon as possible but preferably before the end of July.

All Member States voted in favour of the draft Commission Regulations endorsing the standards IAS 1, IAS 23, IFRS 2, IFRIC 13 and IFRIC 14.

III.EFFECT STUDY ON IFRIC 12 - SERVICE CONCESSION ARRANGEMENTS

The Commission Services presented in detail the Effect Study on IFRIC 12 at the ARC meeting of 19 June 2008. At this time some Member States expressed the wish to have more time to analyse the Effect Study and be able to discuss it at the next ARC meeting. Consequently, the Commission invited Member States to comment on the Effect Study during this meeting.

Views from Member States

One Member State expressed a general agreement on endorsing IFRS 12 after having analysed the Effect Study.

One Member State expressed some reservation – without rejecting IFRIC 12 "en bloc" - considering that companies could face some difficulties in applying the Interpretation. For this reason, this Member State expressed the need for a transitional period in the application of the Standard.

One Member State expressed general doubts and reservations on this Interpretation that the Effect Study did not dissipate. From its point of view, there are two fundamental problems:

- IFRIC 12 distinguishes between two accounting models (the financial asset model and the intangible asset model) which will result in very different representations of similar contracts depending on the analysis of the type of guarantees included in these contracts. This does not provide a true and fair view of the economic reality in its view, contrary to the objective of the IAS Regulation.
- The application of the intangible asset model would result in a timing mismatch between revenues and expenses that does not reflect the true and fair view of the activity developed under a service concession. Companies operating service concession contracts would be obliged to recognise significant losses in the first years of the concession followed by significant profits in the last years. This will also affect the solvency and the distributions of dividends of these companies.

This Member State considered that the Effect Study has not shown any evidence about the potential impact of the Interpretation on the way entities finance service concession, as well as the effect of the application of the financial asset model on public administrations' budgets.

This Member State stressed the need for an appropriate standard to solve all the problems mentioned and the need to have a commitment from the IASB to work in that direction. In its opinion, endorsement of IFRIC 12 would give an incentive to the IASB not to work on a standard in the near future.

Finally, this Member State required flexibility in the application of the current European Framework. In already endorsed IFRS there are exceptions (IFRS 4) that allow flexibility in the application of the standards. In the same way some flexibility should be provided for service concessions and one possibility is to allow using US GAAP (FAS71) as it will solve the problems faced by the industry. There is also a need for flexibility in the application of IFRIC 12.

Another Member State also criticised the intangible asset model, although it mentioned progress made when amortization of the asset is concerned. This Member State would like a solution favoured by some other Member States that would result in the capitalisation of interest expenses under the intangible asset model.

A representative of the Commission answered to the concerns expressed by Member States and explained how these concerns are addressed in the Effect Study.

The representative first recalled that listed companies have to apply endorsed IFRS since 2005 and that some application difficulties have been identified in applying endorsed IFRS to service concession arrangements. They mentioned that the Effect Study made it clear that an Interpretation is needed, as there is currently diversity in practice and uncertainty in how companies should apply the endorsed IFRS. IFRIC 12 aimed at clarifying these application issues and provides such clarification in many areas, including the way the infrastructure should be recognised and the distinction between construction and operating phases of a service concession arrangement.

The representative of the Commission noted that IFRIC 12 has perhaps not addressed all the issues and that additional work should be required from the IASB in such a respect. Pressure should be put on the IASB to work further on these issues. The Effect Study noted that the majority of European stakeholders would like a standard to address issues related to service concession arrangements, but that they are aware that such a solution will require some time for the IASB to be developed. In the meantime, IFRIC 12 will help ease the application of the endorsed IFRS and alleviate the current diversity in practice.

Concerning the particular case of the intangible asset model where there is a timing mismatch between the recognition of revenues and expenses, the representative noted that other types of activities face the same kind of situation, especially when huge initial investments are required (in the construction of production infrastructure, in research and development or in marketing expenses). These activities also have to recognise losses in the first years of their activities with the perspective of profits afterwards. But experience shows that such a business profile does not prevent investors investing in these activities, as long as appropriate information on the business model is provided in the long run.

IV. EQUIVALENCE: IFRS AND THIRD COUNTRY GAAPs

The Commission Services gave an update about the comitology process which had been started for the determination of equivalence of third country GAAPs. The related Commission proposals (of 6 June) were discussed in the June ARC meeting and in the meeting of the ESC of 10 July. The proposals have also been sent to the European Parliament (EP). The (EP's) ECON Committee will discuss these proposals in September and is expected to vote on them in October. The EP's plenary will vote on them as soon as possible after that. Consequently, the ESC's vote is scheduled for November. The measures need to be adopted by the Commission by December and published in the Official Journal of the EU before the end of 2008.

The substance of the proposals was discussed in the ARC meeting of June. In addition, the Commission Services explained that it was also possible that during the coming months, the GAAP of India, the GAAP of Taiwan and the GAAP of Mexico might be considered for inclusion in the proposals. CESR has been requested to provide technical advice on these GAAPs. As for India, the CESR has already scheduled a meeting with the Indian authorities later in July.

The Commission Services explained that the developments in other areas are closely related to the equivalence decision: Acceptance of IFRS in the US - which was achieved in November 2007, the ongoing process for improving the IASB governance and due process, and the reinforcement of the role of EFRAG in order to provide proactive input into the international standard-setting process.

Views from Member States

One Member State referred to the disagreement with the Commission proposal as regards the reciprocity. In its view the reciprocity would require the third countries to accept IFRS as adopted by the EU as such. Furthermore, the same Member State questioned the purpose of mentioning the equivalence of 'full' IFRS to IFRS as adopted by the EU in the preamble of the proposed decisions.

One Member State referred to the disagreement between some Members States about substance of the proposal and asked Commission to give further information on how it envisages reconciling the different views.

One Member State called for a new EU strategy towards IFRS.

A representative of the Commission summarised the discussion and:

- Explained that the reference to the equivalence between 'full' IFRS and IFRS as adopted by the EU is to provide legal certainty to jurisdictions applying 'full' IFRS, such as Australia, New Zealand and the Republic of South Africa.
- Emphasised the significance of the US decision to accept IFRS for third country issuers (taken in November 2007). This decision allows every European company listed in the US to use IFRS as adopted by the EU without reconciliation to US GAAP and, as such, meets the requirement of reciprocity, although the question about IAS 39 carve out remains. Moreover, the SEC acceptance of IFRS has met a lot of criticism in the US and it is not realistic to expect SEC to modify its decision in the short term.
- Explained that the Commission Services are working together with the European banks and the IASB in order to find a satisfactory solution to the IAS 39 carve out.
- Emphasised the significance of the IASB governance reform as well as the reinforcement of the role of EFRAG, and informed Member States about the related ECOFIN resolution.

V. IASB GOVERNANCE, EFRAG ENHANCEMENT

V.1. IASB

A representative of the Commission provided an update about the discussions concerning the review of the IASCF's constitution, in particular those related to governance. The representative reminded Member States that while there was an agreement in principle to establish a Monitoring Body to ensure the accountability of the IASCF towards public authorities, the details about the membership of this body and about its powers were still under discussion. The representative also highlighted the importance of achieving progress towards enhancing the transparency of the IASB's due process, in particular by carrying out impact assessments at an early stage of the standard-setting process.

The Commission Services also outlined the process for the preparation of its comment letter in response to the IASCF's forthcoming consultation document, as set out in the agenda paper circulated before the meeting. The IASCF Trustees discussed their consultation document during their meeting on 8-9 July and are expected to publish it before the end of July. After the consultation document is published, the Commission staff will draft a comment letter. It now seems likely that Member States will receive a first draft later than indicated in the agenda paper.

A Commission representative explained that, should there still be major issues outstanding in early September; an informal meeting could be held in Brussels on 10 September. However, he emphasised that this will be an informal meeting. The Commission will not reimburse travel expenses and will not be able to provide interpretation facilities. Moreover, participation should be limited to those ARC members that wish to raise major issues. It should not be a plenary meeting, as the meeting room available for the meeting cannot seat all ARC members.

Views from Member States

One Member State highlighted the complexity of estimating costs and benefits in the context of an impact assessment. Another Member State highlighted the potential role of prudential authorities in the future monitoring body and expressed disappointment with the progress achieved so far to define this body's membership and powers. Another Member State highlighted the close relation between reforms of the IASCF's governance and the enhancement of EFRAG in order to provide input to the IASB.

V.2. EFRAG ENHANCEMENT

The Commission Services summarized the main objectives to be met by the new EFRAG. EFRAG has until now accomplished its tasks well when it came to providing the Commission with endorsement advice. However, if Europe would like to gain sufficient influence at the IASB, EFRAG has to be equipped with additional resources. The private sector, audit firms and national standard setters all have to join forces and work to this end. EFRAG needs more funds in order to be able to recruit people sufficient both in number and in quality. The aim is to influence the international standard setting process at the earliest stage possible.

The Commission Services informed the Member States that the public consultation document should be published in the coming weeks with a consultation deadline likely to be set in the second half of September. The Commission Services referred to the document sent out before this ARC meeting.

EFRAG confirmed that the European pro-active input has to be reinforced. The European aspects have to be fed into the IASB's thinking and enrich the process. The European experts to be engaged in the pro-active work have to be high-level technical specialists.

Views from Member States

One Member State expressed its concerns that the reform of EFRAG seems to be a done deal and that the diagram depicting the structure of the new EFRAG is too complex.

One Member State warned that cooperation is needed in the EU also on other issues than those of the IASB. However, EFRAG should not become a European standard setter. Also, we have to be clear about what we consider to be a "good accounting standard" from a European point of view.

One Member State referred to the composition of the Planning and Resource Committee (PRC) and asked for more information concerning which four national standard setters will take part in the work of that Committee.

Answering issues raised by the Member States, the Commission representative confirmed that EFRAG will not become a European standard setter. High quality input is needed and expertise has to be gathered from all Europe. The Commission also emphasised that the agreement on the new EFRAG is not a done deal yet and the consultation document should be published shortly. However, we are under time pressure and the consultation should be preferably done during the summer. There are still discussions about the representatives of the four national standard setters in the PRC. There will be a selection process based on objective criteria.

The Commission Services confirmed that there should be a link between the IASB and EFRAG. In order to make this possible EFRAG should have sufficient resources. The Commission Services emphasised that this requires both Community co-financing and stronger funding from the National Funding Mechanisms. Answering the issue raised by SARG, the Commission representative pointed out that the diagram of the new EFRAG's structure focuses on the new elements and therefore SARG was not included.

One Member State raised the question whether CESR as an observer and enforcement body should also be included in the document and the diagram. Another Member State suggested that EFRAG's financing should be raised gradually in line with the implementation of the reforms.

In its reply the Commission Services confirmed that CESR will continue to be involved in the new EFRAG and it will continue to take part in its procedures. It is important to take all stakeholders on board. The Commission Services also stated that the implementation of the new EFRAG structure and the financing will be linked.

EFRAG informed the Member States that its Supervisory Board will approve the consultation document at its meeting of 16 July. They would prefer a long consultation period, however the time pressure has to be taken into account. Therefore, the consultation would end sometime in September.

The Commission Services clarified that the document sent to ARC members was prepared by the Commission and the consultation document to be published by EFRAG will be more detailed.

VI. MISCELLANEOUS

VI.1. CONSOLIDATION PACKAGE

The Commission Services explained that although the vote on endorsing the consolidated IFRS was made at the last ARC meeting, it is still possible to make comments on the language versions where necessary. Member States had been asked to indicate (by 9 July) if they expect to have comments on the language versions. As for two language versions, some of the translations are still under review. Additionally, five other Member States had indicated that there are comments for the language versions.

Due to time restriction given by the comitology process and also the logistical constraints, it is important to finalise the language versions as soon as possible,

preferably well before September. Therefore, the Commission Services requested Member States to send their comments on translations by the end of July.

VI.2. DIRECTIVE 2006/46/EC

The Commission Services reminded Member States that the transposition deadline of Directive No. 2006/46 will expire on 5th September. Only a few Member States had notified the Commission about the transposition before today's meeting. Therefore, Member States were kindly asked to comply with their legal obligations and upload their transposition notices in the NIF (Directives and Infringements) database. The transposition itself is not sufficient; the notification also has to be sent.

VI.3. NEW OBSERVERS

The Commission Services asked ARC members whether participation as "observer" could be opened for representatives of the countries that are candidates for accession to the European Union. ARC members raised no objections.

VI.4. NEXT MEETING

The next meeting was scheduled for 1 October 2008.

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 11 July 2008

PARTICIPANTS' LIST

Austria

Financial Market Authority (FMA)

Ministry of Finance

Belgium

FOD Economie

Bulgaria

Cyprus

Permanent Representation

Czech Republic

Ministry of Finance

Denmark

Ministry of Economic and Business Affairs

Estonia

Ministry of Finance

Permanent Representation

Finland

Ministry of Employment and the Economy

France

Ministry of Finance

Permanent Representation

Germany

Bundesministerium des Justiz

Greece

Ministry of Economy and Finance

Hungary

Ministry of Finance

Permanent Representation

Ireland

Department of Enterprise, Trade and Employment

Italy

CONSOB

Ministry of Economy and Finance

Latvia

Lithuania

Ministry of Finance

Luxemburg

Ministry of Justice

Malta

The Netherlands

Ministry of Justice

Poland

Ministry of Finance

Portugal

CNC

CMVM

Romania

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 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"

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

LINDER Ulf, Deputy Head of Unit F3 "Accounting"

MAJOROS Dora, Deputy Secretary to the ARC/F3

BIEBEL Reinhard/F3

DECKERS Alain/F3

LEPPILAHTI Arto/F3

MONZON Angel/F3

ZUGO Liliana/F3