

**SUMMARY RECORD****MEETING OF****THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT  
COMMITTEE****1 OCTOBER 2008****I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 11.07.2008 (DOCUMENT  
ARC/11/2008)**

The Minutes were approved without amendments.

**II. EFFECT STUDIES ON FORTH COMING ENDORSEMENTS:**

The Commission Services, together with EFRAG, presented effect studies on Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 27 *Consolidated and Separate Financial Statements* "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate", Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements* "Puttable Financial Instruments and Obligations Arising on Liquidation" and Annual Improvements to IFRSs. The intention was to have a first discussion but no formal vote.

*Views from the Member States*

One Member state expressed the need to have the translations on time.

**III. IFRIC 12 - SERVICE CONCESSION ARRANGEMENTS**

The Commission Services noted that IFRIC 12 has regularly been discussed at ARC meetings for more than one year. The Effect study was presented on 12 June 2008 and again discussed on 11 July 2008. Considering that Member States were given time to make up their mind on this subject, the Commission Services provided a Commission working paper on a draft endorsement proposal with an application date at 1<sup>st</sup> January 2009 for discussion. They asked Member States to express their views on the endorsement of IFRIC 12, the reasons for their position and solutions they suggest. The proposal would not be subject to a vote at today's meeting but discussion should pave the way for a vote to be taken at the next ARC meeting on 6 November 2008.

*Views from the Member States*

Several Member States declared that they supported endorsement of IFRIC 12, considering that the advantages of an endorsement outweighed its inconveniences. Some of them highlighted that this endorsement was urgent.

One Member State reminded that it was opposed to IFRIC 12 because of the implementation of two accounting models that would create inconsistencies, especially the intangible asset model which misrepresents real economic performance. This Member State also had concerns on potential economic impacts and potential differences in the application. It considered that appropriate analysis of the contractual terms, especially on guarantees, has to be made. Finally, the Member State considers that the scope of IFRIC 12 is unclear and proposed that IFRIC12 be amended for a transitional period until a standard becomes available.

Another Member State stated that it has still some questions on how to interpret and apply IFRIC 12. As there are many types of service concessions contracts, the economic impact could be very different from one concession to another, confusing investors. This Member State raised the issue of the effective control on the infrastructure subject to the concession, especially when the duration of the concession is very long. It wonders if a transitional solution could be by which IFRIC 12 would not apply to concessions existing at the date of its implementation, as it will bring dramatic changes in their accounting treatment.

The Commission Services replied that IFRIC 12 should be seen in the perspective of the principles based IFRS accounting framework. This means that analysis should be made contract by contract taking into account all contractual terms and the resulting business model. It may be that some concession contracts could be considered as out of the scope of IFRIC 12, especially if the infrastructure could be considered as being controlled by the operator. A component approach could also be used if a service concession contract could be considered as corresponding partly to the financial asset model and partly to the intangible asset model, especially when analysis of guarantees are concerned. IFRIC 12 provides flexibility to appropriately reflect the substance of the contract. Transitional measures may be envisaged, but it seems at first sight that it would not be possible from a legal standpoint to allow a different accounting treatment between existing and future service concession arrangements.

#### **IV. EQUIVALENCE: IFRS AND THIRD COUNTRY GAAPs**

The Commission Services briefly summarized the main developments in the area of equivalence of accounting standards. The Commission appreciates the current development in the U.S., namely the consultation regarding the use of IFRS for U.S. domestic companies. The EP started to discuss the two draft legal measures and the EP's ECON Committee will be voting on its notion for a resolution on 7 October. In an optimistic scenario, the EP's plenary could then vote on a resolution at the end of October. Furthermore, the Commission highlighted two possible changes to the draft legal measures. First one being the addition of India in the list of countries whose national GAAPs shall be accepted within the EU until the end of 2011; the Commission awaits CESR's technical assessment and shall keep Member States informed. The second possible change is introduction of a monitoring mechanism into the proposals with an obligation of the Commission to report on developments to the ESC and to the EP at the end of 2009.

### *Views from the Member States*

One Member State opposed the proposals, claiming firstly a need of inclusion of a reciprocity clause in the proposals and secondly advocating an idea of postponing the decision on equivalence. Furthermore this Member State asked the Commission for a study on the legal implications of recital 3 of the Commission Regulation (EC) No 1569/2007 on equivalence mechanism which concerns the reciprocity.

One Member State expressed its strong support to the Commission's proposals stating that a generalised move towards IFRS is becoming globally clear.

The Commission Services highlighted that the Commission based its proposals on a technical assessment conducted by CESR which reflect the current situation in the third countries concerned: U.S. GAAP is considered as fulfilling the conditions of definition of equivalence, the same applies to Japanese GAAP. The Commission does not see any need to conduct a study on the legal implications of recital 3 of the Commission Regulation (EC) No 1569/2007 on the equivalence mechanism. As regards the question on the use of third country national GAAPs within the EU starting from 2009, the Commission confirmed, that, in this event that it would not take any decision by the end of 2008, these would not be accepted within the EU from 2009. The Commission will keep Member States informed about the developments regarding the discussions and vote in the EP and the possibility of inclusion of India in the proposal.

## **V. IASB GOVERNANCE, EFRAG ENHANCEMENT**

The Commission representative updated the Committee about recent developments since the last meeting. In particular, he highlighted ongoing discussions about the European Parliament's draft Resolution on IASCF governance. The Commission representative further informed the Committee (also in response to questions on this point from some Member States) that Member States had submitted a limited number of comments about the Commission's draft comment letter to the IASCF consultation, that these had been largely reflected in the revised draft letter, but that the Commission had delayed submitting its contribution to the IASCF in light of the ongoing discussions with the European Parliament. In summary, the Commission representative emphasised that the Commission remained committed to the overall approach set out in its comment letter.

## **VI. MISCELLANEOUS**

### **VI.1. Simplification for SMEs**

The Chairman briefed the ARC members on the recent developments in the field of simplification and burden reduction. Most prominent event was the press release from Commissioner McCreevy (29.09.2008) announcing his intention to introduce an option to the Fourth Accounting Directive on Annual Accounts to exempt "micro entities" from its scope, and to launch a general overhaul of the accounting rules in the EU with the "think small first" as guiding principle.

The Chairman explained the context of "micro" proposal, from its outset as part of the Commission Communication on simplified business environment from July 2007 to most recent positive recommendations of High Level Group of Independent Stakeholders on Administrative Burdens chaired by Dr Edmund Stoiber. He highlighted that the decision

is fresh and that Commission will inform ARC members of the follow up in a future meeting. He also invited Member States to express their views on the announcement.

A number of Member States expressed their strong support to the "micro exemption", pointing out that this option will be an opportunity to national governments to simplify and tailor made rules for the smallest companies in their countries, especially to align accounting rules with tax rules. There were also calls for swift implementation of the measure.

Other Member States contested the idea, stressing the loss of transparency, problems with access to external financing and disruptions to cross-border trade. One Member State argued that such an exemption could be against Basel II banking regulations and would contribute to increased number of bad loans granted, he also highlighted possible tensions with the Second Council Directive and protection of creditors. Other delegate pointed out the likely raise in the credit cost to "micro entities". There were however, Member States who disagreed claiming that banks use other means than financial statements to assess the solvency of "micro" clients. One Member State pointed out that there were companies not covered by the Accounting Directives and that their access to financing was not hindered as a consequence. Supporters of the measure stressed all the time that the form of option means that Member State would be able to preserve status quo.

Member states also suggested other ways of burden reduction such as "one stop shop" and e-governance which would aim to reduce the number of reports filled with the government to one and all-purpose.

One Member State had conducted a study on "micro" entities' accounting requirements that supported the exemption. Another Member State informed about its intention to conduct similar study. The Chairman called on all countries to share with the Commission the results of all their investigations into the matter.

The delegate presented main finding of his study stating that in his Member State "micro entities" rarely engage in cross border activity, and that their sources of finance are mainly own funds and retained profits, with bank loans ranked only as third. Moreover he stated that banks' decision to grant loans for "micro entities" was based on monitoring of current account rather than on financial statements, and that banks were not insisting on audit of these entities. The Commission asked to share this study with the services.

One Member State agreed with the Commission goal of simplifying environment for SME. The representative stressed however that "micro entities" should produce some sort of accounts that should be certified by auditors. The delegate also pointed out the need for rules for "limited review" of the "micro" accounts.

At the end of the discussion representative of banking supervisors (CEBS) expressed his reservations to the idea of "micro entities" exemption, in particular that institutions of public interest such as credit provider, insurers, investment organisation and those listed on stock exchanges should not be excluded from the Accounting Directives. He also pointed that harmonised accounts are useful for banks, and that they impose discipline on SME.

## **VI.2. Accounting and the current market turmoil**

In view of the current market situation, the Chairman gave a brief update on current work in the Commission and invited personal comments on the situation and the link to accounting rules.

The Chairman explained that the issue was being given serious attention inside the Commission and that discussions were still ongoing. He emphasised that there was as yet no proposal on how to take matters forward. The combined effect the current measures discussed should lead to more confidence in the financial markets.

He then invited Member States to offer their views.

Some Member States believed, to varying degrees that the system was simply not working sufficiently well. One of these Member States took the view that the problems arose from how accounting standards had been implemented in the first place. The significance of the relationship with prudential rules had not been fully considered. The other Member State stated that the financial system "seemed to be at its limits" and believed that some financial products had been created which were of such complexity that they could not be properly understood by financial institutions holding them, let alone be properly valued.

One Member State indicated that recent discussions between bankers and accountants highlighted the need for both fair value information and mark-to-model (or "frozen" market values). Bankers tended to want fair values in the notes; accountants in the main financial statement. This delegation said that this situation however left us "stuck" on what information should provide the "true and fair view".

Another Member State stated that the problem was that we simply not know the right valuation of many instruments in this situation. This makes transparency important and more information was needed.

Two Member States believed that things - at least insofar as they related to accounting standards - should be left as they are. One of these Member States argued that a "loss did not go away just by hiding it". The other explained that the discussion on reclassification of financial instruments was simply a reaction to address apparent problems of solvency which had suddenly started to appear. Would it not be better to send a clear message to the markets explaining the role of prudential filters, and that as a consequence, poor results in the financial statements would not necessarily translate into solvency problems? One Member State concluded that the consequences of any change must be analysed carefully.

One Member State stated that the current situation showed the limits of too much self-regulation in the financial markets.

## **VI.3. Transposition of Directive 2006/46**

The Commission called the attention of the Member States to the importance of communicating the transposition of Directive 2006/46. Until the day of the meeting, only 9 Member States communicated the full transposition of the Directive via the official channel (NIF database).

**VI.4. Next meeting**

The next meeting was scheduled for 6 November 2008.

**ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE**

**Meeting of 1 October 2008**

**PARTICIPANTS' LIST**

Austria

Belgium

FOD Economie

Commission normes Comptables

Bulgaria

Cyprus

Permanent Representation

Czech Republic

Ministry of Finance

Denmark

Danish Commerce and Companies Agency

Estonia

Estonian Accounting Standards Board

Finland

Ministry of Employment and the Economy

France

Ministère l'Economie

Germany

Bundesministerium des Justiz

Greece

Ministry of Economy and Finance

Hungary

Ministry of Finance

Permanent Representation

Ireland

Department of Enterprise, Trade and Employment

Italy

ISVAP

Ministry of Economy and Finance

Latvia

Lithuania

Ministry of Finance

Luxemburg

Ministry of Justice

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

Banco de España

ICAC

Sweden

Ministry of Justice

United Kingdom

Department for 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 Securities Regulators (CESR)

European Financial Reporting Advisory Group (EFRAG)

Standards Advice Review Group (SARG)

Commission

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