

## **SUMMARY RECORD**

### **MEETING OF**

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

**6 NOVEMBER 2008**

#### **I. APPROVAL OF THE MINUTES OF THE ARC MEETINGS OF 1 OCTOBER AND 15 OCTOBER**

The Minutes of the meetings of 1 October and 15 October were approved with one amendment.

#### **II. VOTES ON PROPOSALS FOR COMMISSION REGULATIONS**

Votes were taken on the following issues:

- 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"
- Endorsement of the Annual Improvements to IFRSs

The Commission Services described the endorsement process concerning the above-mentioned amendments to IFRS and the Annual Improvements to IFRSs. The Commission received positive endorsement advice from EFRAG concerning all of these. SARG examined EFRAG's advice and concluded that each was well-balanced and objective. In the previous ARC meeting, the Commission Services and EFRAG presented effect studies on these amendments and Annual Improvements and then followed by a discussion with Member States. At this ARC meeting formal endorsement votes would take place.

*Views from the Member States*

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

Some Member States expressed the need to have some time to make linguistic comments to the Regulations and the Annexes.

The Chairman replied that all Member States will have some days to send their linguistic comments to the Commission Services.

**All Member States voted in favour of the draft Commission Regulations endorsing the Amendments to IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate", Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation" and the Annual Improvements to IFRSs.**

### **III. VOTE ON A PROPOSAL FOR A COMMISSION REGULATION ON IFRIC 12 - SERVICE CONCESSION ARRANGEMENTS**

The Commission Services described the endorsement process concerning IFRIC 12. The Commission received positive endorsement advice from EFRAG. SARG also examined EFRAG's advice and concluded that it was well-balanced and objective. At the ARC meeting of June 12 the Commission Services presented in detail the effect study on this Interpretation. The effect study and the Interpretation were discussed again at the meetings of 11 July and 1 October. Member States were invited to express their final views, to explain their position and to provide suggestions if necessary. Finally, a formal endorsement vote for the Interpretation would take place at this ARC meeting.

#### *Views from the Member States*

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

One Member State proposed an amendment to the endorsement Regulation. The amendment consisted in replacing in Article 2 of the Regulation related to the application date the wording "after 31 December 2008" by "after the date of entry into force of this Regulation". In addition, this Member State asked the Commission to send a letter to the IASB expressing concerns raised during the discussions on the Interpretation.

Another Member State confirmed its opinion that the Interpretation was insufficient to appropriately analyse the issue of service concession arrangements and address their accounting treatment. This Member State thought that in particular the intangible asset accounting model included in IFRIC 12 was fundamentally flawed. This Member State considered that a standard was definitively needed to address this issue. The Member State concluded therefore that for these reasons it will not be able to support the endorsement of the Interpretation. The Member State supported the idea of sending a letter to the IASB to express the current concerns and the need for the IASB to work on this area.

The Chairman replied that the amendment proposal, if supported by other Member States, was feasible. Concerns raised by the other Member State could not be currently resolved, but a letter could be sent to the IASB on concerns raised.

Another Member State stressed the fact that the IASB is currently already under pressure to work urgently on items linked to the current turmoil. In this sense, the letter should take this into account.

Another Member State expressed the need to make it very clear in the wording of the Regulation that companies can already voluntarily apply or continue to apply this interpretation and that the amendment proposal will only permit to postpone the mandatory application. This Member State proposed to add a recital to the Regulation in this respect.

Another Member State wondered which reference to accounting framework should be used when using (or not using) an interpretation which is adopted but not yet mandatory.

The Chairman answered that during the period where the Interpretation will not be mandatory, it would be considered as optional and can be used (or not used) within the framework of IFRS as endorsed by the EU.

Another member state had a critical view on creating de facto transitional measures such as postponing the mandatory application of the Interpretation. This Member State considered that in any case this should remain an exceptional case.

The Chairman replied that the text of the draft Regulation will be amended to include a new recital that makes clear that companies can apply or continue to apply IFRIC 12. An amendment to article 2 of the Regulation will also be done. Entities will be required to apply IFRIC 12 only from the commencement date of their first financial year starting after the date of entry into force of the Regulation. The Commission will write to the IASB expressing concerns on IFRIC 12 and the need to review the current accounting framework for service concessions in order to achieve appropriate accounting treatment for this activity. The letter will take into consideration in terms of time schedule for working on this issue the fact that the IASB is currently under high pressure due to the financial turmoil.

**All but two Member States voted in favour of the draft Commission Regulations endorsing IFRIC 12. One voted against the endorsement and another abstained.**

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

The Commission representative gave an update about developments concerning the governance of the IASCF since the last meeting. The recent adoption of the European Parliament's Resolution on IASCF governance, which in particular supports the Commission's proposals concerning the membership of the Monitoring Board was highlighted. The Commission representative explained that informal contacts continue with the IASCF and with our international counterparts towards finalising an agreement about the establishment of the Monitoring Board. He stated that while there were still some specific questions that needed to be finalised, an agreement could be reached in the near future, while taking into account the ongoing discussions about the international

financial architecture (G20). He explained that the Commission's approach was fully consistent with the ECOFIN conclusions adopted on 8 July.

#### *Views from the Member States*

One Member State disagreed with this assessment, arguing that many issues remained open and there was neither the possibility nor the need to reach an agreement in the near future, while another Member State argued that the key issue is that good progress continues to be made towards enhancing the IASCF's governance.

In response to a question from a Member State, the Commission representative explained that the Commission had held back the submission of its draft letter to the IASCF in order to avoid pre-empting the European Parliament's debate about its Resolution, which was voted on 9 October. Following this, discussions with the IASCF had continued on an informal basis.

### **V. SIMPLIFICATION/SME ACCOUNTING**

The Commission Services provided an update on recent developments on Simplification and revision of the Accounting Directives.

The Commission Services informed on the state of play of the Fast Track proposal (abolition of the formation expenses disclosure for Medium-sized companies and clarification of the relationship between the consolidation rules of the 7<sup>th</sup> Directive and IFRS) currently in the European Parliament's Legal Affairs Committee. Parliamentarians are considering introducing under the Fast Track process a Member State option to exempt so called "micro entities" from the scope of the Accounting Directives. Adoption by the Parliament is expected by the end of 2008.

Furthermore the Commission Services informed Member States about commencing the Accounting Directives revision process with the "think small first" as the guiding principle. Public consultations are expected in the first quarter of 2009 with adoption of the new directives by the end of 2009.

The Commission is expecting to include the "micro entities" exemption option into the new revised directives, unless the Parliament does this under the Fast Track action.

#### *Views from the Member States*

One Member State stressed that contrary to its name, "micro" exemption is a macro issue that will affect millions of companies in the EU. This delegate wondered why the Commission for the first time would propose to dispose of a significant part of the EU legal acquis.

This concern was shared by another Member State which asked what kind of accounting requirements will be applicable for exempted companies. The Member State was also puzzled by the Commission stance on accounting obligations, as he was receiving contradictory messages from different Directorates General.

Two Member States were surprised by the developments in Parliament concerning "micro" inclusion in the Fast Track action, and called for coordination of Member States positions vis-à-vis European Parliament. One Member State was surprised by the Parliamentarians tempering with the threshold levels for the "micro" category, but the Chairman explained that they are simply back to values proposed by the Commission.

Two other Member States expressed their disappointment that the exemption of "micro" entities may be postponed until the end of 2009, and called on the Commission to move swiftly on this issue and then continue with the revision of the Directives.

One Member States was anxious to know if there are any fixed proposals for the revision of the Accounting Directives, the Chairman explained that the process is only in its early stages and proposals are currently under development.

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

The Commission Services briefly summarized the main developments in the area of equivalence of accounting standards. The Parliament's plenary meeting voted on 23 October on its resolution on the equivalence of accounting standards. The Commission Services are satisfied with the overall outcome of the EP's vote. The Commission's proposals have by and large been upheld. The suggestions of the EP (and taken up) comprise the following:

- A recital about reciprocity following the equivalence mechanism regulation of December 2007 (Rgn. No. 1569/2007);
- Indian GAAP has been added to the GAAPs accepted within the EU during the transitional period ending no later that December 2011 (together with Canadian, Chinese and South Korean GAAPs);
- An Article on monitoring of convergence/adoption of IFRS progress in the third countries conducted by the Commission. The Commission shall report on progress made in this regard to the ESC and to the EP during 2009;
- An Article encouraging third countries to changeover to IFRS.

### *Views from the Member States*

One Member State opposed the proposals on equivalence, stressing the need for reciprocity and advocating an idea of postponing the decision on equivalence. According to that Member State there are not sufficient guarantees on the part of the countries to which the EU intends to grant equivalence and the current proposals, as currently drafted, discourage U.S. from adopting IFRS. Furthermore, this Member State expressed an opinion that a decision on a higher political level is necessary.

One Member State expressed its strong support to the Commission's proposals stating that the EU cannot afford any more delay. Another Member State supported this view, claiming that by the end of this year the current transitional measures come to term.

The Commission will keep Member States informed about the developments, a vote in the ESC is scheduled for 14 November.

## **VII. ACCOUNTING ISSUES LINKED TO THE CRISIS - FEED BACK FROM STAKEHOLDER MEETING OF 21 OCTOBER 2008**

A representative of the Commission described accounting developments linked to the crisis since the last ARC meeting.

IASB - FASB announced creation of high level advisory group to identify critical accounting issues in view of the turmoil (20 Oct.). Public IASB – FASB Roundtables were scheduled in this respect on 14 November (in London), 25 November (in the US) and 3 December (in Japan).

Level 3 European Committees of supervisors (CESR, CEBS, CEIOPS) issued common statements (21 Oct.) confirming that earlier guidance by the IASB.

Commission held said stakeholder meeting on 21 October. Following the discussion at the meeting, the Commission wrote to IASB on 27 October. Issues were: guidance in the application of fair value in illiquid markets; reclassification of Fair Value Option; clarification of whether synthetic CDOs include embedded derivatives; and impairment of Available for Sale items.

IASB published the guidance on fair value when markets become inactive (31 Oct.). The publication included two documents: a Staff Summary and the Expert Panel Report. Commission published a press release welcoming the IASB guidance on fair value (5 Nov.).

### *Views from the Member States*

The Chairman invited Member States to comment on these developments. One Member State highlighted the importance to deal with issues crucial for EU stakeholders, whether or not these are linked to IASB-FASB convergence. It is important to create a level playing field, but solutions in US GAAP and IFRS do not need to be identical. The Chairman confirmed that in some situations convergence is not enough: both the IASB and FASB may need to do changes.

Another Member State congratulated the IASB for its speedy work and expressed a preference for global solutions. One further Member State agreed.

One Member State stated that the letter from the Commission to the IASB is important step, but solutions should be in place before the end of the year.

One Member State asked for a detailed analysis of the recently issued IASB fair value guidance.

The Commission stated that the first reactions on the fair value guidance were positive.

**VIII. MISCELLANEOUS****Consolidation**

The Commission informed the Member States that the consolidated text of IFRS regulations was adopted on 3 November. This consolidation was one of the items for DG MARKT on the Commission's Work programme for 2008. It is seen as an important contribution to the overall simplification exercise.

The consolidated version puts together all IFRS endorsed up to date, including the latest modification that was endorsed on 15. October 2008. It will enable constituents to refer to only one single legal document. All cross-references and subsequent amendments have also been updated. At the same time, the Commission has carried out a complete overhaul of linguistic versions, which ensures high quality and consistency of all 22 language versions.

The English text can be consulted on the Internal Market website. The regulation will be published in the Official Journal by the end of November according to the planned schedule.

**IX. NEXT MEETING**

The next ARC meeting was scheduled for 3 December 2008.

**ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE**

**Meeting of 6 November 2008**

**PARTICIPANTS' LIST**

Austria

Ministry of Justice

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

Ministry of Social Affairs and Health

France

Ministère des Finances

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

ISVAP

Ministry of Economy and Finance

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Luxemburg

Commission de Surveillance du Secteur Financier

Malta

The Netherlands

Ministry of Justice

Ministry of Finance

Poland

Ministry of Finance

Portugal

CMVM

CNC

Romania

Ministry of Public Finance

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

ICAC

Sweden

Ministry of Justice

United Kingdom

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European Central Bank

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European Financial Reporting Advisory Group (EFRAG)

Standards Advice Review Group (SARG)

Commission

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