

SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

3 DECEMBER 2008

I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 06.11.2008

The Minutes of the meeting of 6 November were approved.

II. EFFECT STUDIES ON FORTHCOMING ENDORSEMENTS

The Commission Services, together with EFRAG, presented the effect studies on Business Combinations (IFRS 3 & IAS27), Amendments to IAS 39 Eligible Hedge Items, IFRIC 15 Agreements for the Construction of Real Estate, and IFRIC 16 Hedges of a Net Investment in a Foreign Operation. The intention was to have a first discussion, while the formal vote will follow in the January ARC meeting.

On IFRIC 15, the Commission Services concluded that companies in some Member States will need more time to adapt their accounting to IFRIC 15. The Commission clarified that they will propose that the interpretation will be applicable for the first financial year starting after the adoption (1 January 2010).

Views from the Member States

One Member State welcomed the work done by the Commission Services and EFRAG. However, this Member State mentioned that there is some lack of clarity in the effect studies, for example, on what are the respective roles of EFRAG, the IASB and the European Commission or how the effect studies are done (quantitative and qualitative analysis). In general, this Member State would like to have a view in global terms rather than only an effect study standard by standard. Furthermore, it would be useful to know if the new standards and interpretations are converging or diverging with US GAAP.

On Business Combination, this Member State mentioned that an option for fair value does not seem to be the better way to move forward.

The same Member State mentioned that there was no specific concern with the two documents presented in the meeting on hedge accounting, but that in general there was a need to look in a constructive way at hedging accounting rules.

Another Member State noted the need to study the effects of new standards and interpretations on the economy as a whole. On Business Combinations, it mentioned that fair value forms part of these transactions.

The Commission Services clarified that effect studies are done at the request of the European Parliament, but that there is no legal requirement to do them. Ideally, the IASB should do impact assessments early in the process of elaboration of new Standards and Interpretations but in the meantime EFRAG is doing these effect studies.

III. IASB GOVERNANCE, EFRAG ENHANCEMENT

The Commission representative described the current state-of-play concerning the IASCF constitutional review (Monitoring Board, IASB membership, phase II), explaining that the latest proposals were in line with the approach set-out in the ECOFIN conclusions of 8 July. One Member State representative questioned whether this was the case.

EFRAG briefly summarized the main achievements of the enhancement process. A new Planning and Resource Committee (PRC) will be set up. The composition of the Supervisory Board (SB) will change and a new Governance and Nominating Committee will be set up for the purpose of appointing the members of the PRC and the SB. CESR will be invited as an observer to the SB's and the Technical Experts Group's (TEG) meetings. National Standard Setters will be closely involved in EFRAG's work at several levels. The funding of EFRAG will be increased: the private sector is envisaged to increase its present funding level and the Commission is planning to finance up to 50% of EFRAG's cash budget. The Commission confirmed that the draft funding Decision is being prepared and the proposal is scheduled to be adopted by the Commission in January 2009 at the latest.

EFRAG informed the Member States that in response to the public consultation document issued in July 2008, they received 35 letters with comments from a wide range of stakeholders. All commentators supported the aim and the direction of the enhancement with one respondent being hesitant regarding the funding of the EFRAG. The finalised enhancement document will be published in the first weeks of December and the reform is planned to be in place during the first half of 2009.

IV. EQUIVALENCE: IFRS AND THIRD COUNTRY GAAPs

The draft comitology measures: a new level 2 Decision on the basis of the Transparency Directive 2004/109/EC and a Regulation amending the level 2 Prospectus Regulation 809/2004

The Commission Services summarized the main developments in the areas of equivalence of accounting standards. The EP plenary adopted on 23 October a resolution on the Commission's proposals on equivalence. Compared to the original Commission's proposal, the changes comprise in particular the following: Indian GAAP has been added to the GAAPs accepted within the EU during the transitional period ending no later than December 2011 (together with Canadian, Chinese, and South Korean GAAPs). An Article on the monitoring of convergence/adoption of IFRS progress in the third countries conducted by the Commission was added, while the Commission shall submit a report on progress made in this regard to the ESC and to the EP during 2009. An Article encouraging changeover to IFRS was added. The ESC approved in a vote during its 14 November meeting these two legal drafts on the determination of equivalence of third country national GAAPs. Before the ESC vote, a new explanatory recital on the Article

on changeover to IFRS, and a new sentence in the Article on monitoring of convergence/adoption of IFRS progress in the third countries were added. Out of 26 Member States present in the ESC meeting, 25 Member States voted in favour of the proposals and one Member State abstained. Currently, the proposals are being scrutinised by the Council and the EP (under the comitology regulatory procedure with scrutiny). The Commission Services expect the agreements of both the Council and EP to be delivered to the Commission in the coming days which shall allow the Commission to adopt the texts and publish them in the OJ by the end of 2008.

There was no discussion regarding this agenda item. The Commission services will keep the Member States informed about the developments regarding the "droit de regard" of the EP and of the Council, and the adoption and publication of the draft legal measures.

V. ACCOUNTING ISSUES LINKED TO THE CRISIS

Update on general developments

The Commission Services gave an overview of accounting developments relating to the crisis since the last ARC meeting. The representative informed that the IASB had issued an amendment to the IAS 39 change from October. This amendment will be dealt with at a future meeting.

Stakeholders have reacted positively to the fair value guidance issued by the IASB on 31 October. The Commission has issued a press release in which it welcomes the guidance and concludes that it is in line with earlier guidance from the SEC, FASB and IASB, as well as from the 3 EU committees of supervisors.

Twenty international standard setters have expressed support for the due process of the IASB in a recent letter. A broad range of stakeholders in the IASB Standards Advisory Committee gave the same message.

The G20 summit declaration requests immediate and medium-term actions on accounting issues – fair value guidance, balance sheet commitments, disclosures on financial instruments and risk exposures, IASB governance, best practices on hedge funds, convergence of standards and consistent application and enforcement.

The IASB Board and staff are also assessing the accounting issues mentioned in the letter from the Commission dated 27 October. The IASB Board held an education session on the issues on 20 November, and the Board discussions will continue in December. The need for the IASB to work together with the FASB was particularly highlighted. The IASB/FASB have organised Roundtables in London, the US, and Japan on issues related to the crisis. The Commission Services are in contact with the IASB concerning the follow-up on the issues.

Views from the Member States

The Chair invited Member States for comments on these developments. One Member State commented that reactions in the press to the reclassification change in October had

primarily been negative. The Chair responded that there had been different reactions in different markets.

Another Member State started by stating that the Roundtables and the letter from the Commission should be seen as separate strands of work. The three issues in the Commission letter are linked to the amendment in October and are needed for consistency reasons. Otherwise there is a risk that different types of financial institutions are treated differently. There must be a focus on what issues are important for the EU, rather than depend too much on the work conducted by FASB for the US. Possible changes to EU rules must come timely and the ARC must be kept informed of this work.

Consistency was highlighted by another Member State. This Member State emphasised that international inconsistencies must be avoided, and it is therefore important that changes are done by the IASB. Any changes to the reporting rules must be very carefully thought through.

The Chair concluded the discussion and stated that we are in a very sensitive situation and that we have challenging times in front of us. The Member States and the EU institutions have shown – as we did in October - that we can act quickly if necessary.

Procyclicality

The Commission Services advised that an EFC working group on procyclicality had been initiated by the Presidency at the Informal ECOFIN in Nice in September in order to "assess the range of policy responses that might help to mitigate undue potential procyclical effects". This could cover financial reporting issues as well. The group is deliberating as to which steps should be taken, by whom and when, and in the case of any changes in financial reporting, whether these should be enacted at the accounting or the prudential level. These will feature in the Group's Interim Report. This is due to be finalised and transmitted to the EFC in time for its next meeting in January.

VI. MISCELLANEOUS

VI.1. Transposition of Directive 2006/46

The Commission informed the ARC members that infringement procedures for non-communication have been initiated against 15 Member States. The Commission asked these Member States to provide information about the reasons for non-communication and to complete the transposition procedure as soon as possible.

The 12 complete communications received are being examined and the findings of this examination will be communicated by the end of January. The Commission encouraged the Member States to facilitate its work by including a concordance table in the communications.

VI.2. "Micro entities"/SME Accounting/Simplification

The Chairman gave a brief update on the Communication from the Commission to the European Council: European Economic Recovery Plan¹ from 26 November 2008

¹ http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf

pointing out that one of the measures announced under topic 4 on reduction of administrative burdens and promotion of entrepreneurship concerned exemption of the "micro entities" from the scope of the Accounting Directives.

The Chairman informed that the Commission Services are now working on a proposal, and mentioned that the exact timing is still under internal consideration.

The Commission official gave a short update on the developments of the Fast Track action in the Parliament, concerning two small amendments to the 4th Directive (removal of disclosure requirement of formation expenses for medium companies) and 7th Directive (clarification of the relationship between consolidation rules in this Directive and in the IFRS).

The official informed that initially Members of Parliament in the Committee on Legal Affairs suggested a number of amendments to the Fast Track proposal in line with recommendations of the High Level Group on Administrative Burden Reduction², but have subsequently settled for minor changes. The timing of the vote is still uncertain and expected somewhere in December or early January.

VI.3. Consolidation

The chairman informed ARC members that a consolidated version of Regulation 1126/2008 of 3 November 2008 adopting certain international accounting standards³ was published in the Official Journal on 29 November 2008 in 22 EU languages.

The chairman congratulated the staff on the effort they put in preparing this enormous regulation and informed that the Commission Services are contemplating ways and means on how to produce future consolidated versions of adopted standards.

VII. NEXT MEETING

The next ARC meeting was scheduled for 30 January 2009.

² http://ec.europa.eu/enterprise/admin-burdens-reduction/docs/080710_hlg_op_comp_law_final.pdf

³ <http://eur-lex.europa.eu/JOHtml.do?uri=OJ:L:2008:320:SOM:EN:HTML>

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 3 December 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 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

Lithuania

Ministry of Finance

Luxemburg

Commission de Surveillance du Secteur Financier

Ministry of Justice

Malta

Accountancy Board Ministry of Finance

The Netherlands

Ministry of Justice

Ministry of Finance

Poland

Ministry of Finance

Portugal

CNC

Romania

Ministry of Public Finance

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

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Sweden

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United Kingdom

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European Institutions/Committees

European Central Bank (ECB)

Committee of European Banking Supervisors (CEBS)

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

KOSMIDIS Michelle/F3

LEPPILAHTI Arto/F3

MAJOROS, Dora/F3

MONZON Angel/F3

ZUGO Liliana/F3

BANAS Piotr/F3