

SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND THE CONTACT COMMITTEE

3 MARCH 2009

I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 30.1.2009

The Minutes of the meeting of 30 January were approved.

II. VOTES ON PROPOSALS FOR COMMISSION REGULATIONS

The following proposals for Commission Regulations were subject to a vote:

- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures* "Reclassification of Financial Assets – Effective Date and Transition"
- Interpretation 15 *Agreements for the Construction of Real Estate*

The Commission services and EFRAG had already presented the effect study on IFRIC 15 at the ARC meeting of 3 December 2008. Before proceeding with the vote, the Commission services, together with EFRAG, presented the effect study on the Amendments to IAS 39 and IFRS 7 "Reclassification of Financial Assets – Effective Date and Transition." After the presentation of the Amendments, the Commission services described the endorsement process concerning the aforementioned Amendments to IAS 39 and IFRS 7 and the Interpretation. 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.

Views from the Member States

One Member State asked for an explanation of Article 2 that was included in the Regulation endorsing the Amendments to IAS 39 and IFRS 7. The Member State's concern was that this article may create discrimination between companies.

Another Member State provided a drafting suggestion to improve the wording in Article 2.

The Commission services explained that the Amendments issued by the IASB in November ("Reclassification of Financial Assets – Effective date and Transition") were intended to clarify some ambiguity introduced in the wording of the October Amendments ("Reclassification of Financial Assets") in relation to the effective date and the transitional periods. In the European Union retroactive legislation is exceptional. Therefore, the Commission services proposed that the endorsement of the November

Amendments should be applied as from the date of the endorsed Regulation's entering into force. Article 2 has been included to clarify that companies that have already presented their financial statements in accordance with the October Amendments do not need to resubmit their financial statements.

Another Member State drew the Commission services' attention to a divergence between the numbering of the paragraph included in the October Amendments (par. 103 G) and that of the paragraph to be amended by the November Amendments (par 103H) as they were supposed to be the same paragraph.

The Commission services explained that the IASB issued on 4 November 2008 an editorial correction. Through this editorial correction, paragraph 103 G of the October amendment was deleted and substituted by paragraph 103H. Therefore, the intention was to amend the same paragraph.

Another Member State questioned the legal status of the editorial corrections and how this was going to be incorporated in EU legislation.

The Commission services explained that editorial corrections as such are not subject to a separate endorsement process but are taken into account in the course of the endorsement of the issued standards and consolidations.

Following this discussion, the Commission services proposed a minor amendment to the Annex of the Regulation endorsing the amendments to IAS 39 & IFRS 7 in order to include the editorial correction referred to by a Member State. On page 1 of the Annex, the sentence of "paragraph 103 H is amended and paragraph 103I is added" was replaced by the sentence of "paragraph 103G is deleted and paragraphs 103H and 130I are added." The new text was distributed to the ARC members present.

All Member States voted in favour of the draft Commission Regulations endorsing the Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures "Reclassification of Financial Assets – Effective Date and Transition"* and the Interpretation 15 *Agreements for the Construction of Real Estate*

III. ACCOUNTING ISSUES LINKED TO THE CRISIS

Accounting issues linked to the crisis

One of the subjects which the Commission Services had requested the IASB to address in October last year was a clarification of the treatment of certain embedded derivatives. A few days ago the IASB published a staff paper describing the accounting treatment of CDOs under IFRS. As to the corresponding treatment under US GAAP, the comment period for the FASB draft guidance issued on January had now closed. However, the FASB Board is still deliberating and therefore, it would be inappropriate to draw firm conclusions on whether there was similar treatment under both IFRS and US GAAP.

Views from the Member States

One Member State was dissatisfied with this outcome and indeed with the response of the IASB on the other two issues as well (reclassification out of the fair value option, and impairment of financial assets). This Member State insisted that as these issues had been confirmed at a political level by EU Ministers, it was not acceptable that the IASB

could procrastinate in this way. This Member State also criticised the lack of transparency of the Roundtables which the IASB had held to discuss crisis issues and the recently formed Financial Crisis Advisory Group (FCAG). This Member State believed that it was unacceptable that public access was not allowed to these events and that no minutes had been made public. This Member State found the recent Commission Services letter to the IASB (reminding the IASB of the urgent need to resolve these issues) to be far too mild and insisted that the IASB had to provide a comprehensive reply on the substance of the issues raised.

Two other Member States also believed that the IASB was not proceeding with the necessary urgency, particularly on the fair value option issue.

EFRAG explained the intricate nature of the embedded derivatives issue and two other Member States explained that the matter was not about all derivatives but only certain types.

One Member State observed that FCAG membership, agendas and minutes of all meetings were publicly available on the internet via the IASB website. The roundtables of the IASB had also been open to the public. (After the meeting this Member State checked these statements and also confirmed that meetings of FCAG are open to the public and that live webcasts of FCAG meetings can also be heard on the internet via the IASB website).

Presentations

There then followed presentations on how to deal with excessive procyclicality by the use of dynamic provisioning and economic cycle reserving. The two alternative approaches presented were:

- 1) An economic cycle reserve approach which would address financial stability concerns through enhanced prudential requirements but reflect the effects in accounting statements of financial institutions;
- 2) An accounting approach of building up loan loss provisions which would initially not be attributed to specific loans in the financial statements themselves.

Views from the Member States

One Member State believed that prudential adjustments to reflect financial stability concerns were not sufficient and urged for the introduction of dynamic provisioning in the financial statements through changes in the current accounting standards. Another Member State also supported this view.

One Member State remarked that other accounting areas, in particular the concept of fair value, needed to be refined to prevent pro-cyclical manifestations and provide non-distorting financial information.

One Member State remarked that IAS 39 did not take into account the specificities of the banking sector's activities and did not allow for a fair measurement of its exposure to credit risk.

One Member State supported the approach in the first presentation. The delegation underlined the importance of having a clear distinction between prudential rules and accounting rules.

One Member State took the view that there could be some contradictions between this concept and accounting principles, and remarked that the main objective of the financial statements under IFRS was to provide information about the expected future cash flows of an entity, and not to prescribe the level of distributable earnings. It feared that dynamic provisioning would impair transparency.

Another Member State was also sceptical about dynamic provisioning and remarked that this could allow companies to smooth their results over time.

One Member State remarked that the recent amendments to IAS39 and IFRS7 had not been unanimously welcomed by the users of the financial statements and that the complexity of the issues that needed to be addressed by the IASB was such that there were limits as to how quickly work could properly be done.

One institution highlighted that it is actively contributing to the deliberations of a number of groups on accounting and procyclicality and that it has in the past expressed support for "forward looking provisions". Other provisioning schemes like the dynamic provisioning would be supported from a financial stability perspective provided that they promote the ability of agents to react to market shocks. The need to (a) implement forthcoming changes in accounting to address the issue on procyclicality in a way that would not compromise the provision of accurate and relevant information to the users and (b) to internationally coordinate those changes was also highlighted.

IV. IASB GOVERNANCE, EFRAG ENHANCEMENT

IASCF governance

The Commission representative recalled the ongoing discussions in the G20 and described the process leading-up to the London G20 Summit on 2 April. At the last G20 Working Group meeting in Mexico (24 February) there was significant support for the immediate implementation of the Monitoring Board. One EU Member State requested more far reaching reforms of IASB membership and of the mandate of the Monitoring Board, while some emerging markets asked for greater involvement in the Monitoring Board. The Commission made a compromise proposal that the G20 should support the implementation of the Monitoring Board now as a first step, combined with a commitment to review the situation in a second step as regards both membership and mandate. The Commission representative recalled that the Charter of the Monitoring Board already foresees the possibility to adjust its membership and mandate, including the expansion of the representation of emerging markets.

Subject to the confirmation of support for the immediate implementation of the Monitoring Board in the final report, it is possible that the latter's 1st meeting could take place around the same time as the London Summit.

Concerning phase II of the IASCF constitutional review, the Commission representative recalled that the IASCF published a discussion paper for which the comment period closes on 31 March. The ECOFIN conclusions of 8 July 2008, based on a note produced by the Commission, highlighted the EU's key concerns that should be addressed in phase II. Taking this into account (other issues could be added) the Commission is currently working on a draft comment letter which will be circulated to ARC members for comments in the near future (written procedure).

One Member State commented that the EC position concerning the Monitoring Board does not represent a coordinated EU position, while adding that as regards phase II the ECOFIN conclusions are dated in view of the development of the financial crisis since then. This Member State argued that there is a need to engage in a thorough reform of the IASCF in order to settle this matter once and for all.

In response, the Commission representative agreed that it is important to focus on the big picture and stated that the ongoing reforms should make a real difference to improve the IASCF's governance, while also emphasising the need to address the practical functioning of the IASCF/IASB - which will be central again once the crisis subsides. Without disagreeing, the representative of the same Member State repeated that experience indicates that there is a more fundamental problem and we therefore need a more ambitious approach if we want to avoid this becoming an eternal issue of contention.

Another member State stated that it was unfair to say that IASB has been inactive and nothing has happened. A lot of work was done in relation to the credit crisis (FCAG, IAS 39 amendment), Monitoring Group, etc. It is now time to move on and recognise progress that has been made.

EFRAG enhancement

The Commission representative informed the Member States about the latest developments of the EFRAG enhancement and that a call for applications will be published soon on EFRAG's website.

It was recalled that on 23 January the Commission adopted a proposal to finance the Level 3 Committees, the IASCF, EFRAG and the PIOB. Member States received an update about the current discussions in the European Parliament and the Council about that funding proposal. In the European Parliament, the ECON Committee is in charge of the file and the rapporteur is Mr. Karsten Hoppstedt. The JURI and COBU committees of the European Parliament will also be associated to the file. In the Council, the issue was attributed to the Financial Services Working Party.

Regarding the timing, both the European Parliament and the Czech Presidency aim at adopting the proposal under the term of the current Parliament. The first discussion of Mr. Hoppstedt's report took place on 2 March, whereas the Council's Working Party met for that purpose on 26 February for the first time.

Based on the first reactions, the proposal enjoys a general support both in the European Parliament and the Council, with one Member State having objections against financing the IASCF, EFRAG and the PIOB, and others having comments and questions regarding the technical arrangements of the financing and the wording of the decision.

Views from the Member States

Responding to the comments of one Member State, the Commission explained that the current proposal aims at establishing a legal basis for the adoption of concrete, annual funding decisions in the future. If this Decision is adopted, a budget line will be created, and based on this Decision, the Commission can propose the concrete funding of the bodies in the future. On these latter proposals, the budgetary authorities, i.e. the European Parliament and the Council will decide on an annual basis. Thus, it is logical that the current proposal covers four years (in line with the 2007-2013 budgetary perspective). Also, issues regarding the funding being conditional upon sufficient governance reforms can be dealt with in the future, when deciding on the concrete financing proposals. Responding to the same comments, the Commission briefly explained the background of how the proposed amounts were calculated and invited the Member States to look at the *ex-ante* evaluations for detailed information on that issue.

Another Member State compared the status of the IASB developing accounting standards for Europe with the status of a supplier in the car industry. The main common element is the need for continuity in the financing. One Member State made the remark that another similarity is the necessity of some control over the supplier.

V. ONGOING WORK ON SIMPLIFICATION OF SME ACCOUNTING

The Commission informed that the micro entities proposal was adopted by the Commission on the 26th of February. The proposal will give the Member States an option to exempt the micro entities from the Accounting Directives' financial reporting requirements. Micro entities would be defined as those companies that do not exceed the limits of two of the three following criteria: balance sheet total of EUR 500.000, net turnover of EUR 1.000.000, and an average number of employees of 10. The proposal will now be forwarded to the European Parliament and the Council. It is expected that the discussion will start in the coming weeks.

VI. MISCELLANEOUS

VI.1. Transposition of Directive 2006/46

The Commission informed the Member States that 3 infringement cases have been closed and 12 procedures are continued. The Commission thanked for the cooperation of most of the Member States as they provided it with a transposition table.

VI.2. Translations of IFRS

The Commission informed that IASCF, who has been the subcontractor of DG Translation to produce the translations of IFRS, will not continue working under the framework contract after the coming summer. DGT is nevertheless confident to produce the translations with their own resources. After finalisation of the consolidation project the key terminology is reasonably established and stabilised. It would, however, be helpful to continue the cooperation with the Member States review committees. In the coming weeks, (the IASCF and) DGT will therefore approach the committees in this respect.

VII. NEXT MEETING

The next ARC meeting has been tentatively planned for the 12th of June.

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 3 March 2009

PARTICIPANTS' LIST

Austria

Belgium

CBFA

Commission normes Comptables

FOD Economie

Bulgaria

Ministry of Finance

Cyprus

Permanent Representation

Czech Republic

Ministry of Finance

Denmark

Danish FSA

Danish Commerce and Companies Agency

Estonia

Permanent Representation

Finland

Ministry of Employment and the Economy

France

Ministère des Finances

Germany

Bundesministerium des Justiz

Greece

Hungary

Ministry of Finance

Ireland

Department of Enterprise, Trade and Employment

Italy

Ministry of Economy and Finance

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Luxemburg

Commission de Surveillance du Secteur Financier

Ministry of Justice

Malta

The Netherlands

Ministry of Justice

Ministry of Finance

Poland

Ministry of Finance

Portugal

CNC

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 & Regulatory Reform

OBSERVERS

Croatia

Iceland

Ministry of Finance

Liechtenstein

Norway

Ministry of Finance

European Institutions/Committees

Committee of European Banking Supervisors (CEBS)

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

European Central Bank (ECB)

Committee of European Securities Regulators (CESR)

European Financial Reporting Advisory Group (EFRAG)

Commission

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ARMANINI, Mauro/F3

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BIEBEL Reinhard/F3

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DECKERS, Alain /F3

LEPPILAHTI, Arto /F3

MAJOROS, Dora /F3

MONZON Angel/F3

ZUGO Liliana/F3

EGGETT Louise/H1

VAN DER PLAATS Erik/H1