

SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND THE CONTACT COMMITTEE

16 JULY 2009

I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 12.6.2009

The Minutes of the meeting of 12 June were approved.

II. VOTES ON PROPOSALS FOR COMMISSION REGULATIONS

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

- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement
- IFRS 1 First-time Adoption of International Financial Reporting Standards
- Amendments to IFRS 7 Financial Instruments: Disclosures "Improving Disclosures about Financial Instruments"
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfer of Assets from Customers

All Member States voted in favour of the draft Commission Regulations endorsing the Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement*, IFRS 1 *First-time Adoption of International Financial Reporting Standards*, Amendments to IFRS 7 *Financial Instruments: Disclosures "Improving Disclosures about Financial Instruments"*, IFRIC 17 *Distributions of Non-cash Assets to Owners*, IFRIC 18 *Transfer of Assets from Customers*.

The Commission Services invited Member States to send any comments concerning delayed translations.

III. CONSISTENT APPLICATION OF IFRS IN THE EU

The Commission services invited a representative from Ineum Consulting to present their study on the "Evaluation of the Application of IFRS in the 2006 Financial Statements of EU Companies", which was commissioned by the European Commission (http://ec.europa.eu/internal_market/accounting/documents_en.htm#studies).

The objective of the study was to evaluate the development of consistent accounting for EU companies covered by the IFRS Regulation, including the evolution compared to the first year of IFRS application in the EU (i.e. 2005). The work was based on a desktop review of the financial statements of a representative sample of 270 EU companies, the

review of reports and statements by some national standard setters, enforcers and auditors, and interviews of some enforcers and members of professional bodies.

The study concluded that the application of IFRS in 2006 in the EU Member States improved compared to the situation in 2005. The quality of disclosure by preparers had also improved in 2006, although further efforts were needed to attain full compliance, and it is recommended that certain standards indicated in the report needed to be reviewed and improved. Additional efforts were also needed to further enhance the level of enforcement. Furthermore, the issue of how far to go in standardising presentation formats to ease reading and comparability needed to be addressed.

Views from Member States

One Member State drew the attention to problems emerging while trying to integrate IFRSs in the existing economic and normative systems in the EU Member States, especially concerning accounting for SMEs. This results sometimes in problems for internal management of the companies, and for stakeholders to understand their accounts.

Another Member State expressed its appreciation for the study and considered its conclusions as well balanced, in particular in that enforcement often poses difficulties. Even though the situation is improving, it is indeed sometimes difficult for SMEs to apply IFRSs, especially because of lack of awareness and training.

One Member State agreed with the difficulties concerning the lack of enforcement and further noted that the European concerns regarding local national tax rules and pension systems could lead to posing suggestions to IASB.

One Member States accentuated the importance of international comparability of financial statements.

IV. ACCOUNTING ISSUES LINKED TO THE CRISIS – REVISION OF IAS 39

The Commission stated that the IASB had made public on 14 July the Exposure Draft (ED) of the first phase of the IAS 39 revision, *Classification and Measurement*. Through this project the IASB aims to also address the three issues which the Commission raised in October last year, and most notably impairment of available for sale instruments (AFS). This opens a period of public consultation concluding on 14 September. Two representatives from the IASB were invited to make a presentation on the ED. The Commission clarified that this was intended to be an informational session to explain the key technical features of the IASB proposal. The ARC members expressed their gratitude to the IASB representatives for their comprehensive presentation. Several Member States raised questions and comments.

Views from Member States

One Member State raised questions related to the different phases of the IAS 39 revision, and the treatment of embedded derivatives and other split-accounting aspects, in particular convertible bonds. The IASB confirmed that this revision does not affect IAS 32.

Another Member State asked for clarifications on the "Other Comprehensive Income" (OCI) treatment. The IASB explained that treatment out of P/L in this particular case should not be considered as a precedent for other accounting aspects.

One Member State asked for further clarification on equity-instrument issues, in particular, prohibition of recycling under OCI, unquoted shares, and whether the same instrument could be treated, given the circumstances, under P/L and OCI. The IASB confirmed that the latter was a possibility, and that FV treatment of equity investments was important information, including disclosures on degree of uncertainty.

One Member State asked for the overall rationale behind the IASB Exposure Draft (ED) published on 14 July. This Member State considered that reducing complexity could not be the main driver of reform, as the call by authorities to the standard-setter was essentially focused on improving valuation accounting standards. This Member State first asked about whether the financial instruments in non-functioning, illiquid markets would remain in the same category as before the crisis, and it was made clear that it was the case under the proposals set out in the ED. This Member State mentioned the treatment of derivatives, and it was also clear that they would remain treated at fair value in the same manner as before the crisis under the proposals set out in the ED. This Member State then asked questions about whether the proposed treatments were consistent with the October 2008 changes, and the IASB recognized that such re-classifications would no longer be feasible and that those that took place would likely be reversed, thus increasing again the amounts at fair value. The same Member State further expressed concerns on possible effects on long-term investment, and specifically asked whether the amounts of equity accounted for at fair value would increase, and the IASB responded that it would be the case under the proposals set out in the ED. This Member State finally mentioned those instruments that would not be eligible to the "amortized cost" category, which therefore would increase the fair value category, so that in all, the amounts treated at fair value would significantly increase on the basis of the IASB proposal, instead of decreasing as called for. The IASB explained that the main rationale was useful information for investors, and confirmed its view that fair value (FV) is useful information for them. The IASB explained that more/less use of FV will vary by entity, and that the proposal included significant improvements, such as eliminating the tainting rules.

One Member State raised questions on FVO treatment for accounting mismatches and accounting of financial liabilities. On the latter, the IASB confirmed that treatment would be symmetrical, while FVO was, indeed, not a choice but for mismatches only.

Another Member State raised questions on implementation and, in particular, comparability during the transition period. The IASB underlined efforts made to facilitate early adoption.

V. MISCELLANEOUS

The Commission services provided a short update on the simplification files. The time frame for the review of the 4th and 7th Directives had been considered by many as insufficient. Further expert analysis is required to clarify the role of the new IFRS standard for SMEs published on 9 July. A dialogue with different stakeholders to ascertain the views on possible use of this new standard will be completed during the course of 2009. Due to these developments, the Commission decided to postpone the "review project" until the appointment of the new Commission. Meanwhile the proposal

concerning micro entities continues to be blocked in the Council's Company Law Working Party after two meetings in April and June 2009. The new EP has been formed and will soon continue the discussions on the proposal.

The Commission services informed the ARC members that infringement procedures against six Member States were taken to the next phase on the basis of not having communicated the transposition of Directive 2006/46. The Commission already sent reasoned opinions to the six Member States, and their replies are expected in September at the latest.

Finally, the Commission announced the appointment of Mr. Pedro Solbes as chairman of the EFRAG Supervisory Board following the adoption of the relevant Commission Decision on 13 July 2009

(<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:182:0063:0063:EN:PDF>).

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 16 July 2009

PARTICIPANTS' LIST

Austria

Ministry of Justice

FMA – Austrian Financial Market

Belgium

Commission normes Comptables

Bulgaria

Ministry of Finance

Cyprus

Permanent Representation

Czech Republic

Ministry of Finance

Denmark

Danish Commerce and Companies Agency

Estonia

Permanent Representation

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

Italy

Ministry of Economy and Finance

Latvia

Permanent Representation

Lithuania

Ministry of Finance

Luxemburg

Commission du Surveillance du Secteur

Ministere de la Justice

Malta

Accountancy Board Ministry of Finance

The Netherlands

Ministry of Finance

Ministry of Justice

Poland

Ministry of Finance

Portugal

CNC

CMVM

Romania

Ministry of Public Finance

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

ICAC

Sweden

Ministry of Justice

United Kingdom

Department for Business, Innovation & Skills

OBSERVERS

Croatia

Iceland

Liechtenstein

Norway

European Institutions/Committees

European Central Bank (ECB)
Committee of European Securities Regulators (CESR)
Standards Advice Review Group (SARG)
Committee of European Securities Regulators (CESR)
European Financial Reporting Advisory Group (EFRAG)
Committee of European Banking Supervisors (CEBS)

Other

INEUM
IASB

Commission

HOOIJER Jeroen, Head of Unit F3 (Financial Reporting)
KOSMIDIS Michelle /F3, Secretary to the ARC
ARMININI Mauro/F3
BANAS Piotr/F3
BERNIER ABAD Nicolas /F3
BIEBEL Reinhard /F3
BOCQUERAZ Claude/F3
CROCI Remo /F3
DECKERS Alain /F3
HRUDOVA Jitka /F3
LEBRUN Ludovic /F3
LEPPILAHTI Arto /F3
MAJOROS Dora /F3
MONZON Angel/F3
ROONEY Paul /F3
ZUGO Liliana /F3