

DRAFT SUMMARY RECORD

MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE AND THE CONTACT COMMITTEE

2 OCTOBER 2009

I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 16.7.2009

The Minutes of the meeting of 16 July were approved, however, taking into account additional comments in writing from one Member State.

II. UPDATE ON THE SIMPLIFICATION OF SME ACCOUNTING

The Commission provided an update on the progress made on the Commission's proposal to give Member States an option to exempt the so-called micro entities from the requirements of the 4th Directive (adopted in February 2009). The European Parliament is discussing the proposal at Committee level. The Competitiveness Council discussed the proposal at the meeting of 24 September. There was still a blocking minority. Talks are expected to continue under the Swedish Presidency.

As for the review of the 4th and 7th Council Directives stakeholder consultations will continue through year 2010, and further studies are being prepared to contribute to the quality of this exercise.

Stakeholder consultations are being planned to assess whether there is interest for the IFRS for SMEs (released by the IASB in July 2009) to be used in the EU accounting context. There was also an ongoing technical analysis to evaluate differences between the IFRS for SMEs and the Accounting Directives. In this context the Commission would like to obtain a good picture of the views of especially small firms and their accountants and auditors. Hence the Commission asked the delegates to provide information on upcoming seminars and roundtables.

Views from Member States

One Member State informed the ARC members about a forthcoming conference on IFRS for SMEs.

One Member State asked the Commission whether it would be appropriate to change their Accounting Law to allow all entities that do not have public accountability to choose between Estonian GAAP, "full" IFRS or the IFRS for SMEs -- making this change effective already for 2009 accounts.

A Commission representative responded that it intended to launch a consultation on the suitability of the new Standard for use in the EU, and that it was too early to say what the place of this new Standard might be in EU accounting.

One Member State stated that it had no official viewpoint yet on this subject. The same Member State would pay close attention to the outcome of the Commission's consultation. This Member State noted that it was keen to wait for its results as it would be preferable to start from the same footing. The speaker speculated that the IFRS for SMEs could be interesting for companies with subsidiaries both within and outside the EU.

One Member State pointed out the conceptual differences between the IFRS for SMEs and the 4th and 7th Directives. The IFRS for SMEs would cover all entities in the scope of the 4th Directive. The IFRS for SMEs categorises companies differently, that is, not on the basis of size but rather depending on public accountability and transactions. Although the general idea behind the review of the 4th and 7th Directives is to reduce administrative burden, the IFRS for SMEs would increase burden on the smallest companies. Since the IFRS for SMEs covers not only individual but also consolidated accounts it could replace both the 4th and the 7th Directives.

A Commission representative responded that the consultation process is only just the beginning, and that no decisions have been taken, and in this context this input was very valuable.

One Member State noted that there was no clear standpoint yet in their country but the perceived need did not appear great. This Member State added that the previous speaker had raised a few very important issues.

One Member State added that for listed companies with unlisted subsidiaries the IFRS for SMEs would be useful. In April 2009, this Member State adopted a simplified version of "full" IFRS for SMEs keeping the valuation and measurement rules from "full" IFRS. In this way the data are comparable and it makes financing easier. All of this results in burden reduction for companies. These new rules will be applicable from January 2010.

One Member State said that consultation on the future of the accounting framework was ongoing in their country. The Member State agreed with the previous contributor that recognition and measurement in IFRS for SMEs were not that different from "full" IFRS. In their assessment, it was difficult to identify how much reduction in disclosures the IFRS for SMEs brought (2700 XBRL tags for full IFRS; 1500 tags for IFRS for SMEs). There were discussions in this Member State mainly as to whether there should be a shift to IFRS for SMEs for medium and larger entities that are not publicly accountable (with a definition yet to be given for "public accountability"). According to this Member State, IFRS for SMEs for the smallest entities could be too heavy. There would be local events in this Member State to which the Commission will be invited.

Another Member State said it was considering the IFRS for SMEs. Accounting law in this Member State is currently fragmented in different legal instruments. During mid-term they would reconsider the structure of their accounting law.

One Member State welcomed the fact that the Commission was looking into the IFRS for SMEs. However, the speaker warned the Commission that it should take some distance and think in strategic terms. The speaker emphasised the tax links with accounting in several Member States. The speaker suggested that one should first determine what is desirable and only then look at whether the IASB could be helpful in meeting our objectives. The speaker asked about the logic behind promoting de-harmonisation for micro entities but raising the possibility of introducing an international standard for

medium-sized entities (and larger). The speaker questioned whether we could not maintain an EU system instead.

One Member State explained that they had not yet had an in-depth discussion but it was not likely that SMEs would be allowed to adopt the standard directly. This Member State noted that it would expect some changes to their national law but only limited changes.

The Commission representative expressed his appreciation for the contributions, and stated that SME accounting issue will be on the agenda in the forthcoming ARC meetings.

III. PRESENTATION ON LAYOUTS

Due to lack of time this agenda item was postponed to a later meeting.

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

The Commission recalled that the consultation period related to the Exposure Draft (ED) of the first phase of the IAS 39 revision, *Classification and Measurement*, concluded on 14 September. The Commission has sent a comment letter to the IASB following consultations with Member States, the European Parliament, and also taking into account the outcome of the stakeholders' meetings held in July and September. Two representatives from the IASB (Ms Lloyd and Mr Danjou) were invited to make a presentation, with a particular emphasis on areas where stakeholders have made substantive comments, and the IASB is considering possible amendments to the proposal. The Commission stated that producing and endorsing accounting standards is not only a technical issue, but that it is also important to consider a policy dimension, in particular as regards to financial stability. 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 the level-playing field issue in relation to the impairment of available for sale debt assets, and questioned whether there should be a solution for companies that do not choose to go for early adoption.

Another Member State showed appreciation for the IASB's effort, but also presented its overall concerns related to the treatment of the "Other Comprehensive Income" (OCI) category and the prohibition to bifurcate embedded derivatives.

A Member State expressed its concern about the fact that banks which will not adopt early will not benefit in 2009 from the solution related to the level-playing field issue. It also asked for a more prominent role for the business model criterion, an improvement to the treatment of impaired instruments, and a better solution for the cases when currently equity instruments are measured at cost. This Member State noted that Phase II (impairment methodology) is important, and the opinion of supervisors should be fully taken into account.

One Member State supported the substantive points reflected in the Commission's comment letter, and highlighted the importance of financial stability considerations, which should not be in conflict with the information needs of investors. In this sense, the business model criterion should be given a more prominent role. This Member State also mentioned that financial reporting information should be reliable, and a better solution

should be found for the cases when currently equity instruments are measured at cost. As regards the OCI category, this Member State inquired whether dividends and realised gains/losses could be recycled to the profit and loss account. It also emphasized the importance of achieving a solution by the year end.

The representative of CEBS highlighted the importance of reliability of financial reporting information. Appropriate treatment should be granted to illiquid instruments held for the long term.

Another Member State highlighted that the level-playing field issue should be effectively addressed, and that there should not be an expansion of fair value through profit and loss, which may have an impact on financial stability (this is a point highlighted by the FSB and the EC). More emphasis should be placed on the business model, and a more appropriate treatment to illiquid instruments.

A Member State highlighted the importance of the business model criterion, and mentioned that some studies indicate that overall the new standard would lead to less fair value. This Member State noted that simplification is to be well-received, and that overall the IASB's proposal goes in the right direction.

One Member State requested that more discussion time should be considered in ARC meetings in order to facilitate the active participation of all Member States.

V. MISCELLANEOUS

The next ARC meeting will tentatively take place on 17 November (subject to confirmation).

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 2 October 2009

PARTICIPANTS' LIST

Austria

Ministry of Justice

Belgium

Commission normes Comptables

Ministère de l'Economie

Bulgaria

Permanent Representation

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 Finance

France

Ministère des Finances

Conseil National de la Comptabilité

Germany

Bundesministerium der Justiz

Greece

Hungary

Ministry of Finance

Ireland

Italy

Ministry of Economy and Finance

ISVAP

Bank of Italy

Latvia

Lithuania

Ministry of Finance

Luxemburg

Commission du Surveillance du Secteur Financier

Ministère de la Justice

Malta

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 of Business, Innovation & Skills

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Croatia

Ministry of Finance

Iceland

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Liechtenstein

Norway

Ministry of Finance

European Institutions/Committees

Committee of European Banking Supervisors (CEBS)

Committee of European Securities Regulators (CESR)

European Financial Reporting Advisory Group (EFRAG)

Standards Advice Review Group (SARG)

Other

International Accounting Standards Board (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

HRUDOVA Jitka /F3

LEBRUN Ludovic /F3

LEPPILAHTI Arto /F3

MAJOROS Dora /F3

ROONEY Paul /F3

ZUGO Liliana /F3