

## SUMMARY RECORD

**MEETING OF  
THE ACCOUNTING REGULATORY COMMITTEE AND  
THE CONTACT COMMITTEE  
4 MARCH 2010**

### **I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 11.11.2009**

The Minutes of the meeting of 11 November were approved, however, taking into account additional comments in writing from one Member State.

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

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

- Revised IAS 24 *Related Party Disclosures*
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amendment to IFRS 1 (Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters)

All Member States voted in favour of the draft Commission Regulations endorsing the Amendments to IAS 24 *Related Party Disclosures*, IFRIC 14 *Prepayments of a Minimum Funding Requirement*, IFRS 1 (Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters) and the Interpretation IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

However, several Members States subjected their positive votes to the analysis of the translation in their own language. The Commission offered its apologies for the problems with sending out some of the draft Regulations and annexes. The exact cause of this problem will be investigated, and appropriate measures will be taken.

### **III. ACCOUNTING ISSUES LINKED TO THE CRISIS – REVISION OF IAS 39**

The Commission explained the current state of play of the revision of financial instrument accounting (IAS 39 now becoming IFRS 9), relating to the November 2009 decision to carry out an analysis of the IFRS 9 standard, also taking into account subsequent phases, ie.: loan-loss provisioning (phase II) and hedging (phase III). As regards loan-loss provisioning, the Commission highlighted the importance of the work being done by the Basel Committee to suggest improvements to the IASB's proposal published in November 2009.

#### *Views from Member States*

One Member State reminded that accounting was to be discussed in the March EFC meeting and that the IASB's Chair was planning to attend the ECOFIN meeting on 16

March. It also reminded that EU stakeholders have identified significant issues with phase I of IFRS 9 and wondered what would be the IASB's response to these concerns.

The ECB representative referred to the letter by the ECB President to the Chairman of the IASB on the outstanding issues with IFRS 9 as published in November 2009, and informed that the ECB staff members are assessing the Exposure Draft (ED) on impairment of financial instruments, as well as an alternative model proposal by the Basel Committee.

One Member State underlined the importance of the decision taken in November as regards phase I. It also underlined the importance of the work on loan-loss provisioning (where an effort should be made to mitigate more pro-cyclicality and to limit the cost of its implementation by banks) and on hedging.

One Member State, supported by others, said that the ARC should be more involved on technical discussions, in particular as regards the revision of financial instrument accounting.

One Member State said that the Commission and EFRAG had not been sufficiently proactive on this dossier, and asked for better coordination and more effective influence.

One Member State indicated that in their view there is evidence of pro-activeness (such as the February international conference organised by the Commission), and suggested that the IASB usually changes its proposals when they are proven not to be practical (some stakeholders criticize the IASB's proposal on provisioning for this reason). This Member State suggested (supported by another Member State), that the IASB and others (EFRAG, ECB, Basel Committee) might be invited to the ARC to explain their proposals.

The Commission took note of comments by Member State, and provided a detailed explanation of the Commission's work and initiatives related to the revision of financial instrument accounting. EFRAG, CESR, CEBS, CEIOPS and SARG also provided their perspectives.

#### **IV. UPDATE ON GOVERNANCE ISSUES**

The Commission gave an update about governance-related developments since the last ARC meeting, in particular:

- the completion of the IASCF's constitutional 5-yearly review process;
- the European Commission's participation in the Monitoring Board. The next meeting will take place on 1 April.

As regards the former, the Commission representative explained the main changes introduced in the IASCF's constitution:

- a number of bodies would change their names (the IASCF becomes IFRS Foundation; the SAC becomes the IFRS Advisory Council; and IFRIC becomes the IFRS Interpretations Committee). The name of the IASB remains unchanged due to many references in legal texts, including the IAS Regulation;
- on substance, the most important changes are a new requirement for a public consultation about the IASB's work programme; a reduction in the maximum duration

of IASB members' mandate; the possibility for an accelerated due process in extraordinary circumstances subject to the authorisation of Trustees; and changes to the objectives of the IFRS Foundation to emphasise that convergence is not an end in itself but only a means to facilitate the global adoption of IFRS.

- Trustees have also committed themselves to complete a review by the end of 2010 about three points: the effectiveness of the IFRS Advisory Committee; Trustee oversight of the IASB; and the post-2011 strategy.

The Commission's representative stated that while these changes include a number of positive steps, the Commission would continue to promote governance reforms to enhance the accountability of the IASB.

As regards the Monitoring Board, the Commission representative explained that the Commission's decision to become a full member reflected an assessment that it was at this stage preferable to have a seat in this forum, thus giving the EU a formal mechanism to influence the debate about the governance of the IFRS Foundation. However, this does not prejudge future questions about the role and composition of the Monitoring Board, nor indeed about broader governance reforms.

The Commission representative listed the main topics that were expected to be discussed during the next meeting of the Monitoring Board in London on 1 April.

#### *Views from Member States*

One Member State stated that further efforts were necessary to really reform the governance of the IASB, as the current changes mainly concerned working procedures and do not guarantee that the governance will ensure that public interest is taken into account in the standard setting process.

Another Member State welcomed the Commission's decision to join the Monitoring Board. He questioned whether the constitutional review was going in the right direction, as it seemed to give greater prominence to the needs of investors while not giving sufficient emphasis to financial stability. As regards convergence, he stated that while the SEC's statement of 24 February is to be welcomed, it does not make a firm commitment to adopt IFRS.

Another Member State also welcomed the Commission's participation in the Monitoring Board, but questioned what exactly was missing in terms of governance reforms. This Member State also emphasised the need to clarify the EU's objectives after the completion of the convergence process in order to define the IASB's future strategy.

Another Member State stated that the IASB should focus on the needs of investors. This was supported by other Member States, one of which also argued that the EU should keep in mind the objective of convergence.

The Commission representative summed-up by highlighting three key issues for the coming year: the future of governance; the IASB's post-2011 strategy; and the link between accounting standards and financial stability.

## **V. ON THE REVISION OF THE FOURTH AND THE SEVENTH DIRECTIVE – SME ACCOUNTING**

The Commission gave updates on the progress of the micro-entity proposal through the Council and European Parliament, the public consultation on the IFRS for SMEs and the general review of the 4<sup>th</sup> and 7<sup>th</sup> Directives. The Member States were asked to provide a response to the "use of options" questionnaire by 19<sup>th</sup> March, and were encouraged to respond to the IFRS for SMEs consultation by 12<sup>th</sup> March.

Separately EFRAG gave a short explanation of the work it had done in preparing its draft letter on potential conflicts between the Directives and the IFRS for SMEs.

### *Views from Member States*

One Member State stated that it will respond to the IFRS for SMEs public consultation document. It has major reservations about this standard becoming a reference standard in the EU including:

1. Accounting will become more complicated because it will introduce a further standard.
2. Introducing the standard would give rise to implementation costs for business.
3. Business has said it does not want this new standard.
4. The regular 3 yearly updates will add the cost of implementation for the issuers in particular.
5. The IFRS is too complicated for some businesses.
6. There is no impact assessment available.
7. The changes of the standard will be under the IASB's competence and not of the EU.

This Member State is not in favour of a Member State option for the IFRS for SMEs, either for annual or consolidated accounts.

On the micro proposal this Member State stated that simplification should not mean dispensing with harmonisation. This Member State would rather see simplified disclosures and measurement bases.

One committee commented that many provisions of the Directives impact on the banking and insurance Directives and it would like to be consulted before a proposal is made.

Another Member State stated that its unlisted SMEs were subject to a similar regime as the IFRS for SMEs. It isn't in favour of allowing the standard to be used in a Member State. It also opposed the micro proposal.

Another Member State commented that it was going through a review of domestic GAAP at present, and the question was being asked as to whether very large private companies could be considered to be non-publicly accountable and hence within the scope of the IFRS for SMEs. This Member State commented that the incompatibilities between the standard and the Directives should be considered to see whether they

represent meaningful differences. In any event the Commission would have to allow use of the standard as modified for any incompatibility, and it will be helpful to have a conclusive picture of these so preparers can understand the situations in which it could be used.

This Member State strongly supports the micro proposal because it brings simplification possibilities. This Member State welcomes the amendment made in the JURI committee and would seek to use the option if it passes into law.

Another Member State reported that its businesses are in favour of the IFRS for SMEs. It would like to see the Commission remove any obstacles to implementation in the revised Directives. This Member State has many companies that are subsidiaries of overseas parents, for whom this standard presents simplification possibilities. Business Europe supports the standard so this Member State questioned why shouldn't there be a Member State option to use it?

On the micro proposal this Member State was saddened by the existence of a blocking minority. It cannot see why other Member State should block a simplification measure that will cause no harm to any other Member State?

Another Member State supported a Member State option for the IFRS for SMEs, but acknowledged that local implementation would depend upon local conditions. It asked the Commission to avoid creating further incompatibility between the IFRS and Directives when revising the Directives.

Another Member State reported that there was unanimous opposition locally to adopting the standard at an EU level and it will respond to the IFRS for SMEs consultation in due course.

## **VI. AOB**

- The Commission asked the Member States to submit any written comments about the question concerning FINREP reporting layout and its relationship with the bank accounts directive, which we could return to during the next meeting if necessary.
- The Commission recalled that the International Accounting Standards Committee Foundation (IASCF) who has worked as a subcontractor of the translation services of the European Commission (DGT) for translation of the International Financial Reporting Standards (IFRS) withdrew from this framework contract in July 2009 and since then the DGT has carried out the translations with its own resources. The Commission explained that a number of organisations previously involved in reviewing the IFRS translations in cooperation with IASCF are willing to continue with this cooperation with DGT. Fully acknowledging the added value of the expert review of the IFRS translations, the Commission is open to this cooperation to continue on voluntary and informal basis. The Commission asked the Member States to inform whether the review committees in Member States would be still willing to cooperate with DGT on revision of IFRS translations and /or if some body in Member States (for example standard setter) is already doing translations of IFRS with their own resources.

- ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 4 March 2010

## **PARTICIPANTS' LIST**

### Austria

Ministry of Justice  
Ministry of Finance

### Belgium

Commission normes Comptables  
Ministère de l'Economie

### Bulgaria

Ministry of Finance

### Cyprus

Permanent Representation

### Czech Republic

Ministry of Finance

### Denmark

Danish Commerce and Companies Agency  
Danish Financial Supervisory Authority

### Estonia

Estonian Accounting Standards Board

### Finland

Ministry of Employment and the Economy  
Ministry of Finance

### France

Ministère des Finances  
ANC

### Germany

Bundesministerium der Justiz

### Greece

### Hungary

Ministry of Finance  
Permanent Representation

Ireland

Italy

Ministry of Economy and Finance

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Luxemburg

Ministère de la Justice

Malta

Accountancy Board, Ministry of Finance

The Netherlands

Ministry of Justice

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 of Business, Innovation & Skills

**OBSERVERS**

Croatia

Ministry of Finance

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)

Committee of European Securities Regulators (CESR)

European Central Bank (ECB)

European Financial Reporting Advisory Group (EFRAG)

Standards Advice Review Group (SARG)

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