

DRAFT MINUTES

**MEETING OF
THE ACCOUNTING REGULATORY COMMITTEE AND
THE CONTACT COMMITTEE
30 SEPTEMBER 2010**

I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 1.7.2010

The Minutes of the meeting of 1 July 2010 were definitively approved.

II. VOTES ON A PROPOSAL FOR A COMMISSION REGULATION ON:

The following proposal for a Commission Regulation was subject to a vote:

- Annual Improvements 2010

All Member States voted in favour of the draft Commission Regulation endorsing Annual Improvements 2010.

Views from Member States

One Members State asked about the timing of the translations of the draft Regulation (at the time only translations of the draft Annex were available).

III. IASB GOVERNANCE, EFRAG ENHANCEMENT AND FUNDING

The Commission representative informed Member States that the Monitoring Board of the IFRS Foundation set up in July a working group to undertake a comprehensive review of the governance of the IFRS Foundation. The purpose is to develop by the end of 2010 recommendations concerning possible reforms of the IASB's governance framework. The Commission is represented in this working group.

The key objectives for the review include:

- stronger oversight by public authorities (with safeguards preserving the IASB's independence);
- improvement of the working procedures (more involvement of stakeholders, more use of impact assessments, etc);
- appropriate consideration of all legitimate public policy objectives.

In addition, the participation of a jurisdiction in the governance of the IASB should be linked to a firm commitment to adopt IFRS within a reasonable period of time. That participation must carry an obligation to contribute to the funding.

The working group intends to consult stakeholders and to organise outreach events, in particular in emerging countries.

The Commission representative also informed Member States that the governance issue will be discussed at the ECOFIN of 19 October. A preparatory discussion will be held at the Economic and Financial Committee (EFC) of 4 October, on the basis of a paper presented by the Commission services. Member States were encouraged to liaise with their representatives at the EFC to ensure that they provide consolidated views on the IASB governance review to the Commission.

The Commission representative also provided an update on the nomination of the next IASB Chairman.

Views from Member States

One Member State enquired about the intended outcome of the ECOFIN discussion (Council conclusions or other document). The Commission representative explained that it was not aware of any intention to issue Council conclusions on this point.

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

The Commission representative updated the committee on recent developments at the IASB in view of standard setting. The following projects have been mentioned

- *ED Amendments to IAS 19 Employee Benefits: Defined Benefit Plans* (EFRAG comments submitted on 15 September)
- *ED Presentation of items of OCI* (comments due by 30 September (EFRAG submitted on 23 September))
- *ED Revenue from Contracts with Customers* (comments due by 22 October (EFRAG 22 September))
- *ED Insurance Contracts* (comments due by 30 November (EFRAG 22 November))
- *ED Leases* (comments due by 15 December (EFRAG 26 November))
- *IAS 37 (Non-financial) Liabilities*

The Commission representative emphasised that the Commission is monitoring (together with EFRAG) the technical developments, but it is crucial at this stage that stakeholders provide their comments to the IASB in order to make sure that all views are known. The Commission expects that the workload in terms of new standards will be less intense based on the post-2011 work program which is to be agreed in the upcoming months.

With respect to crisis-related projects the Commission representative recalled that the IASB's public consultation on the Exposure Draft (ED) relating to loan loss provisioning concluded on 30 June. The IASB's proposal is too complex and does not address properly the pro-cyclicality of accounting standards. The Commission sent a letter to the IASB on this subject, taking into account comments from Member States. The Commission expects that the IASB's process will include re-exposing a new draft in October/November. Concerning financial liabilities, the Commission explained that the IASB published an ED in May, whose comment period concluded in mid-July. The ED addresses the key issue of own credit risks, and it continues to allow the bifurcation of embedded derivatives. As regards hedging, the IASB plans to publish its ED in the fourth quarter. But the IASB is focusing on the general hedging model, leaving for later a decision on portfolio hedging, which is very important for the EU.

The Commission representative also recalled that the FASB published its proposal on financial instruments accounting in May, with a consultation period concluding on 30 September. The FASB has presented a full fair value model, in sharp contrast with the IASB's mixed measurement model that the Commission supports.

V. UPDATE ON THE REVIEW PROCESS OF THE 4TH DIRECTIVE

The Commission representative gave an update on the progress of work on the revision of the Accounting Directives. The Commission is working on different aspects of the proposal on the basis of the comments made at the ARC Working Group meeting on 15 July. In that occasion, two non-papers were presented and discussed with the Member States, which were also asked to provide written contributions by 17 September 2010. The quantitative effects of some changes to the Directives will also be estimated on the basis of the outcome of an independent study.

The Commission representative clarified that the main objectives of the review remain burden reduction and simplification, focusing mostly on small companies, which by their nature face the biggest administrative burden in relation to their size. Based on the positive feedback received in previous meetings and other consultations with the stakeholders, it was stated that a potential approach to burden reduction could involve two main elements.

First, a "mini-regime" for small companies that would cut down most of the notes to the accounts, requiring only a limited number of disclosures. Second, a reduction in the number of Member States options, eliminating those options that are most rarely used in order to obtain a shorter, more comparable and simpler European accounting framework. The Commission is also considering making the principle of "substance over form" mandatory as well as introducing a general principle of "materiality".

Moreover, as regards the proposal to exempt Micro entities from the scope of the Directives, there were no new developments to report since the last ARC Meeting.

Finally, some changes to Directives are also reflected on the basis of international developments in accounting. With the aim of improving the Directives to get better accounting, the Commission is considering different options to deal with the existing differences between IFRS for SMEs and Directives.

Views from Member States

One Member State sought additional clarifications as regards the overall strategy adopted by the Commission in the review process. The Commission representative clarified that the main objectives of the review remain burden reduction and simplification. Another Member State welcomed the general approach taken by the Commission at this early stage.

VI. AOB

During October, the Commission will launch two public consultations on: (a) disclosure of non-financial information, and (b) financial reporting on a country-by-country by multi-national companies.

The Commission is also planning a Conference on Accounting and Auditing that will take place during 9-10 February 2011. More details will follow as soon as possible.

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 30 September 2010

PARTICIPANTS' LIST

Austria

Ministry of Justice

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

Estonia

Permanent Representation

Ministry of Finance

Finland

Ministry of Employment and the Economy

France

Autorité des Normes Comptables (ANC)

Ministère de l'Economie, de l'Industrie et de l'Emploi

Germany

Bundesministerium der Justiz

Greece

Hungary

Ministry of Finance

Ireland

Department of Enterprise, Trade and Employment

Italy

Ministry of Economy and Finance

Latvia

Counsellor/EU Budget

Lithuania

Ministry of Finance

Luxemburg

Commission de Surveillance du Secteur Financier

Malta

Accountancy Board, Ministry of Finance

The Netherlands

Ministry of Justice

Ministry of Finance

Poland

Ministry of Finance

Portugal

Permanent Representation

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

Permanent Representation

OBSERVERS

Croatia

Ministry of Finance

Iceland

Ministry of Economic Affairs

Liechtenstein

Norway

Ministry of Finance

OTHER

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)

International

- International Accounting Standards Board (IASB)

Commission

- HOOIJER, Jeroen/F3, Head of Unit (Financial Reporting)
- DECKERS Alain/F3, Deputy Head of Unit
- KOSMIDIS, Michelle/F3, Secretary to the ARC
- ARMANINI Mauro/F3
- BANAS Piotr/F3
- BERNIER ABAD Nicolas /F3
- BIEBEL Reinhard /F3
- HRUDOVA Jitka /F3
- LANGLOIS, Delphine /F3
- LEBRUN Ludovic /F3
- LEPPILAHTI Arto /F3
- MELOT Anne-Françoise/F3
- MONZON Angel /F3
- ROONEY Paul /F3
- ZAFFIRO Massimo /F3