

## **DRAFT SUMMARY RECORD**

**MEETING OF  
THE ACCOUNTING REGULATORY COMMITTEE AND  
THE CONTACT COMMITTEE  
10 DECEMBER 2010**

### **I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 30.09.2010**

The Minutes of the meeting of 30 September 2010 were definitively approved.

### **II. UPDATE ON THE REVIEW PROCESS OF THE 4<sup>TH</sup> DIRECTIVE**

The Commission representative gave an update on the progress of work on the revision of the Accounting Directives. The Commission is finalising its work on the legal proposal and the related Impact Assessment, taking account of the comments made by the ARC Working Group and all other relevant stakeholders. The quantitative effects of some changes to the Directives will also be estimated on the basis of a study completed by "Centre for Strategy & Evaluation Services" (now publicly available).

Following up on a note circulated to ARC Members ahead of the meeting, 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. A "mini-regime" is planned for small companies which will restrict their accounts to only a profit and loss account, a balance sheet and a limited number of disclosures in the areas of accounting policies, financial commitments, related party transactions, secured debt and post balance sheet events. In the Commission's view, such approach would represent a significant lessening of the current disclosure regime and would bring substantive burden reductions for small companies, while at the same time maintaining a satisfactory level of information for the stakeholders.

As regards micro companies, the Commission representative presented a simpler regime, which could be an alternative for those Member States that oppose the complete exemption of this category from the scope of application of the Directives, as proposed by the Commission in 2009. According to such approach, micro companies would be required to prepare a profit and loss account and balance sheet showing the major items of income and expense and major assets and liabilities, and the basis upon which the accounts are prepared would also need to be disclosed. Member States would be free to decide on issues such as publication, form, content and measurement bases.

For all companies, 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, is also envisaged, and the Commission is considering making the principle of "substance over form" mandatory as well as introducing a general principle of "materiality."

Finally, the Commission representative underlined that some changes to the Directives are reflected on the basis of international developments in accounting, with the aim of improving the Directives to get better accounting. Consequently, it was stated that four of the existing six differences between IFRS for SMEs and Directives as identified by EFRAG would be removed, with the exception of the different presentation of unpaid share capital and the differing amortisation periods for goodwill where the useful life cannot be reliably estimated.

#### *Views from Member States*

Several delegations took the floor to comment on the overall approach taken by the Commission or to raise questions on some specific points of the proposal. The major points raised during the discussion are summarised below.

One Member State welcomed the paper put forward by the Commission, sought clarifications with regard to the existing regime for abridged accounts, and raised doubts about the mandatory introduction of the materiality principle.

Another Member State raised questions on the maximum harmonisation regime for small companies and the substance over form principle, and welcomed the proposal put forward for micro companies. Another Member State sought clarifications on maximum harmonisation, the removal of existing options, and reaffirmed its opposition against any endorsement of the IFRS for SMEs. As far as micro companies are concerned, it was stated that there might still be room for finding a compromise in the Council on the existing text.

One Member State welcomed the proposed mini-regime and the removal of options. As far as micro companies are concerned, it was added that, although the current approach could represent a workable compromise, a two-layer system (including an option for Member States willing to do so to exempt micro companies from the scope of the Directives) could also be introduced. Finally, with regard to the substance over form principle, a potential problem with national tax law was highlighted.

Another Member State underlined that maximum harmonisation for small companies might undermine the necessary flexibility for small companies, while at the same time the micro-regime would entail a loss of harmonisation, in particular with regard to publication requirements. The opposition against any move towards IFRS for SMEs was also reaffirmed.

Another Member State expressed concerns with several aspects of the proposed approach, highlighting that the current texts have so far proven effective and some of the changes could complicate rather than simplify the accounting framework. One Member State expressed concerns with regard to maximum harmonisation, IFRS for SMEs, substance over form and materiality. Another Member State highlighted the need to maintain flexible thresholds, and another Member State insisted on the necessity for micro entities to publish annual accounts. Finally, the representative from CEBS raised a question on the relation of the proposed approach with the Banking Directive.

In response to these points, the Commission representative clarified that the current regime on abridged accounts will not be changed and that the Commission is not working towards endorsement of the IFRS for SMEs. With regard to materiality and substance over form, it was made clear that the former should be seen as a counter-balance for the latter, and that the principle of materiality is already present in various parts of the

Directives. It was also specified that the maximum harmonisation of certain provisions concerning small companies aims at maximising the burden reduction, and that the proposed changes would have no implications on banks and insurance firms.

### **III. IASB GOVERNANCE, EFRAG & IFRS FOUNDATION FUNDING**

The Commission representative explained that there are two important reviews addressing governance issues at the moment: (a) the strategy review launched by the Trustees of the IFRS Foundation (deadline for reply: 24 February, main issues: mission, governance, process and funding), and (b) the IFRS Foundation Governance Review carried out by the Monitoring Board.

The Commission welcomes the review by the Trustees. However, it stressed the need to ensure close coordination between the Monitoring Board (MB) and the Trustees in order to avoid contradictions and to be sure to take into account each other work.

The Commission representative gave a debriefing about the work of the Monitoring Board Working Group, which met on 6 December in Tokyo to discuss the draft report prepared by Masamichi Kono (Chairman of the Working Group). The Working Group also concluded on the need to coordinate closely with the Trustees and to make sure that the two reviews are conducted in parallel and considered as one single package. The Working Group intends to issue a consultation document setting-out a number of options for reform in February 2011. It will allow sufficient time for stakeholders to participate.

The Commission services have prepared a draft reply to the Trustees consultation. This draft covers only the issues that are, in our view, under the responsibility of the Trustees, i.e. the due process. The accountability issues (composition and roles of the governance bodies) fall under the responsibility of the MB and will be addressed in the Monitoring Board governance review. The draft will be sent to ARC Members in the coming days, who are asked to provide their comments no later than 10 January 2011. This will allow the Commission to produce a final contribution representing a common EU position (the Commission will also consult the EP) which obviously will have a stronger impact on the review exercise launched by the Trustees.

#### *Views from Member States*

One Member State insisted on the need to answer consistently to the Trustees consultation. We should provide a complete vision and be ambitious (i.e. not only focussing on process issues, but also on governance issues).

One Member State asked for clarifications on the calendar for the consultation.

### **IV. UPDATE ON THE REVISION OF FINANCIAL INSTRUMENTS AND DISCUSSION OF IASB TECHNICAL AGENDA PROJECTS**

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

The Commission recalled that the new standard on financial liabilities (phase Ib of the revision of financial instruments accounting) was published by the IASB in October 2010. The new standard addresses the key issue of own credit risks, and it also continues to allow the bifurcation of embedded derivatives. As regards loan loss provisions (phase

II), the key issue is to improve current rules and to mitigate its pro-cyclical effect through a more forward-looking use of all available and relevant information, allowing for an earlier recognition of losses. The IASB's Exposure Draft (ED) published in November 2009 is far too complex and does not address properly the pro-cyclicality. The Commission sent a letter to the IASB in July 2010, with input from Member States. The Commission expects that the IASB will re-expose a new draft as soon as possible. Concerning hedge accounting (phase III), the IASB published on 9 December its Exposure Draft for comments until 9 March 2011, with a view to completing the new hedge accounting requirements by June 2011. However, for the time being, the IASB has been focusing on the general hedging model, while the review of portfolio macro hedging, which is very important for the EU, is still at an early stage.

*Views from Member States*

No Member State took the floor.

**B. DISCUSSION OF IASB TECHNICAL AGENDA PROJECTS**

The chairman of EFRAG presented the state of play on two important projects, which are part of the core work program of IASB and FASB: Leases and Revenues from contracts with customers. They are currently at exposure draft stage and finalisation is expected before the end of June 2011. Both projects when finalised will have an impact on almost all industry sectors. A number of substantial concerns regarding the proposed concepts and the due process applied by IASB have been raised so far by stakeholders. The general point of view amongst a broad range of stakeholders is that the IASB should take more time – at least until the end of 2011 – to improve the standards and present them in a form that meets the needs of preparers and users and also the endorsement criteria as set out by the IAS Regulation. The Commission considered conveying that message to the IASB.

*Views from Member States*

The Member States that took the floor basically agreed with the Commission view that the quality of standards should be first priority and not the self imposed deadline set by IASB. In particular two Member States confirmed that these standards would be scrutinised in view of endorsement in the EU. One Member State agreed but was more optimistic that if more time is spent improving the standards they could become fit for purpose.

**V. AOB**

The next ARC meeting is tentatively scheduled for the afternoon of 1 February 2011 (to be confirmed).

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 10 December 2010

## **PARTICIPANTS' LIST**

Austria

Absent

Belgium

Commission normes Comptables

Ministère de l'Economie

Bulgaria

Ministry of Finance

Cyprus

Ministry of Finance

Czech Republic

Ministry of Finance

Denmark

Danish Commerce and Companies Agency

Estonia

Permanent Representation

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

Ministry of Finance

Hungary

Ministry of Finance

Ireland

Department of Enterprise, Trade and Employment

Italy

Ministry of Economy and Finance

Latvia

Lithuania

Ministry of Finance

Luxemburg

Malta

Accountancy Board, Ministry of Finance

The Netherlands

Ministry of Justice

Poland

Ministry of Finance

Portugal

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, Innovation and Skills

OBSERVERS

Croatia

Ministry of Finance

Iceland

Ministry of Economic Affairs

Liechtenstein

Norway

Financial Supervisory Authority of Norway

OTHER

European Institutions/Committees

Committee of European Banking Supervisors (CEBS)

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

European Central Bank (ECB)

European Financial Reporting Advisory Group (EFRAG)

Standards Advice Review Group (SARG)

International

Commission

DECKERS Alain/F3, Deputy Head of Unit

KOSMIDIS, Michelle/F3, Secretary to the ARC

ARMANINI Mauro/F3

BERNIER ABAD Nicolas /F3

BIEBEL Reinhard /F3

LANGLOIS, Delphine /F3

LEBRUN Ludovic /F3

LEPPILAHTI Arto /F3

MELOT Anne-Françoise/F3

MONZON Angel /F3

ROONEY Paul /F3

ZAFFIRO Massimo /F3