

SUMMARY RECORD

**MEETING OF
THE ACCOUNTING REGULATORY COMMITTEE AND
THE CONTACT COMMITTEE
1 FEBRUARY 2011**

I. APPROVAL OF THE MINUTES OF THE ARC MEETING OF 10.12.2010

The Minutes of the meeting of 10 December 2010 were definitively approved.

II. DISCUSSION OF IASB TECHNICAL PROJECTS

The Commission has invited IASB representatives to present progress made on the key projects dealing with hedge accounting, impairment and netting. EFRAG was invited to present their (preliminary) views on these subjects. Since the last ARC meeting there have been several events to take account of:

- (1) The publication of a supplement to the Exposure Draft on loan loss provisioning for comments until 1st April 2011. This corresponds to the phase II of the revision of financial instruments accounting, and the key issue here is to improve the operability of the model proposed in 2010.
- (2) The recent publication of a proposal on balance sheet offsetting (netting) to establish a common approach to offsetting financial assets and financial liabilities on the statement of financial position (balance sheet).
- (3) Concerning hedge accounting (phase III of the IAS 39 revision), the IASB published last December its Exposure Draft for comments until 9 March dealing with the general principles, with a view to completing them by June 2011 (the IASB will deal with the specific issue of "macro-hedging" for portfolios later on).

The Commission noted that the IASB intends to deliver the reform of financial instruments accounting in 2011. This would allow the Commission to have a comprehensive picture of the IAS 39 revision.

Views from Member States

On the issue of hedging one Member State expressed some concerns about the amount of disclosures in the area of risk management and made the point that multiple disclosure requirements should be avoided. In addition, the IASB explained that decisions made on the general hedging principles would not limit the IASB in the revision of the "macro-hedging" for portfolios. EFRAG confirmed that according to their view a final position can only be taken once the portfolio hedge model is developed.

The supplementary IASB document on impairment was published only recently. The proposal includes new elements, e.g. the distinction between a good and a bad book and the co-called "floor". Member States expressed some concerns about how the proposed model would work in practice and what the overall impact would be on the timing of loss

recognition, mainly for open portfolios. Concerns were also raised regarding the use of technical definitions and the possible interpretation of those by regulators. One Member State concluded that the proposal does not reflect a model earlier described as "dynamic provisioning".

On the issue of netting, no comments were raised due to the fact that the proposal had only been published a few days ago. The Commission noted the importance of convergence in this area and that there seems to be a slight preference for a gross approach, close to the current IFRS requirements.

III. IASB GOVERNANCE, EFRAG & IFRS FOUNDATION FUNDING

IASB Governance review

The Commission representative informed that the working group of the Monitoring Board is finalising its work on the review of governance of the IASB and expects to publish in early February a consultation document outlining options for reform.

The Monitoring Board will publish a summary of responses to the consultation in late April 2011 and will present its action plan in the third quarter of 2011. The plan will be implemented in coordination with the Trustees.

The group will hold public meetings with stakeholders in the US, Europe and Asia during the consultation period (two months). A meeting is scheduled in Brussels on 3 March, 2011. Member States representatives are welcome to attend. Due to the limited capacity of the room, the Commission can register only one representative per Member State.

A discussion is also scheduled at the meeting of the FSC on March 16. ARC Members are asked to contact their representative at FSC to coordinate their positions.

Trustees Strategy Review

In parallel, the Trustees have launched a consultation on the strategic review of the IASB, which also covers aspects of governance.

The Commission services have sent to ARC Members a draft response to the Trustees. The Commission is finalizing a document reflecting a common European position, which will be circulated again before being submitted to the Trustees.

Views from Member States

One Member State asked for the definition of a common position at ARC level for submission to the FSC.

IV. UPDATE ON THE REVIEW 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 finalising its work on the legal proposal and the related Impact Assessment along the lines of the paper circulated to the ARC Members in occasion of the last meeting held on 12 December 2010.

As regards the substance of the proposal, the Commission representative underlined that large parts of the current legal text will remain unchanged, and most of the changes will be introduced with the *think small first principle* in mind. A key example in this respect is the reduction in the number of disclosures for small companies.

As far as general principles are concerned, it was clarified that the Commission does not intend to propose any radical change, but simply to further harmonise existing principles in order to increase comparability and encourage cross-border activities, as also advocated in the EU 2020 Strategy and the Single Market Act. Furthermore, it was stated that the proposal might also include a micro-regime applicable to micro companies, and that this review exercise does not represent in any way an attempt by the Commission to introduce the IFRS for SMEs within the EU accounting framework.

In terms of timing, the Commission services aim at having the proposal adopted by the College by end June 2011.

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.

One Member State sought clarifications as regards the relation between the review and the Micro proposal still pending in the Council.

Another Member State raised concerns as regards the lack of continuity between the current proposal and the previous consultations carried out by the Commission, which underlines the lack of an overall strategy by the Commission on this project. The Member State also argued that the Commission should provide concrete arguments to corroborate its statement that:

- (i) IFRS for SMEs will not be introduced in the Directives since – the Member State argued - the Commission precisely wishes to eliminate as much as possible the differences between IFRS for SMEs and the Directives;
- (ii) the approach would lead to simplification since – the Member States argued - all experiences in Europe and elsewhere show the complexity of IFRS (even the standard for SMEs); the approach would therefore undoubtedly complicate rather than simplify the accounting framework (in particular with regard to substance over form); not to mention the need to understand why the Commission wishes to combine the 4th and 7th Directives;
- (iii) the reduction of options would simplify the Directives where – the Member State argued - to the contrary, it would create undue constraints; if options need to be eliminated, this could be done on the basis of the existing EU principles, which are perfectly suited for non-listed companies, obviously resilient, and part of the "acquis" communautaire instead of drawing on complex financial standards (IFRS) and their well-known weaknesses that are otherwise addressed by the Commission, the G-20 and the IASB i.e. instead of adopting standards which are dedicated to the needs of *listed* companies and not relevant for *non-listed* companies.

Finally the Member State reiterated that there are alternative solutions to achieve the political objective of simplification, which have been presented and explained (a document has been distributed to the Committee), including proposals to significantly

reduce the volume of disclosures, constantly described by the SMEs as their major "simplification" issue, if any, and as such an excellent candidate for a far reaching and useful policy by the Commissioner.

One Member State sought clarification as regards consequences maximum harmonisation could have on other areas linked to accounting such as company law in general and taxation. Maximum harmonisation may lead to less but needed flexibility for Member States. Another Member State expressed its concerns over substance over form (currently an option), and called on the Commission to take a more flexible approach on this point and for more emphasis being placed on micros.

One Member State questioned whether any European accounting tradition as such really exists, highlighting that national GAAPs remain different and IFRS for SMEs is just one form of GAAP. It called therefore the Commission to consider IFRS for SMEs as a source of inspiration, and reminded that substance is a fundamental concept to accounting, which would otherwise be a mere set of administrative rules. Finally, it called for a more accurate cost-benefit analysis with regard to the potential micro exemption.

Finally, another Member State expressed its broad support for the Commission's line, although could not comment on details as the legal text is not available yet. It also questioned why certain Member States would prevent others from developing their GAAP.

The Commission representative welcomed all the comments made by the delegations and, in response to the aforementioned points, clarified once again that the current proposal does not intend to introduce IFRS for SMEs, and any move in this respect will merely aim at introducing a better accounting solution within the EU framework. It was also specified that the Commission supports the micro proposal still under discussion in the Council, and that the Commission is considering maximum harmonisation only for specific areas, notably disclosures by small companies, aiming at maximising the burden reduction objective.

V. AOB

The Commission representative stated that the transposition deadline for Directive 2009/49/EC was 1 January 2011. The Commission announced that seven Member States did not notify any transposition measures. The Commission asked these Member States to notify the transposition measures and kindly include in their communication a correlation table.

The Commission representative gave an update on the two public consultations linked to country-by-country financial reporting and disclosure of non-financial information. The Commission announced that the public consultation on country-by-country financial reporting concluded on 9 January 2011, and all 76 contributions have been posted on our website. One Member State argued that there is a need for a global solution on country-by-country reporting (and not just at the EU level), and that country-by-country reporting of full accounts would be very expensive for companies. Another Member State made a statistical observation and argued that imposing a threshold for extractive industries would be useful in order to avoid imposing unnecessary burden to small companies.

The Commission representative announced that the public consultation on disclosure of non-financial information concluded on 28 January 2011, and that there were around 260 contributions. The Commission is in the process of analysing these contributions.

The next ARC meeting is tentatively scheduled **for the afternoon of 11 April 2011** (instead of the announced 7 April 2011).

ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 1 February 2011

PARTICIPANTS' LIST

Austria

Ministry of Justice

Belgium

Commission normes Comptables

Ministère de l'Economie

Bulgaria

Ministry of Finance

Cyprus

Absent

Czech Republic

Ministry of Finance

Denmark

Danish Commerce and Companies Agency

Estonia

Permanent Representation

Finland

Ministry of Employment and the Economy

Ministry of Social Affairs and Health

France

Autorité des Normes Comptables (ANC)

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

Germany

Bundesministerium der Justiz

Greece

Absent

Hungary

Ministry of Finance

Permanent Representation

Ireland

Permanent Representation

Italy

Ministry of Economy and Finance

Latvia

Absent

Lithuania

Ministry of Finance

Luxemburg

Commission de Surveillance du Secteur Financier

Malta

Absent

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 for Business, Innovation and Skills

OBSERVERS

Croatia

Ministry of Finance

Iceland

Absent

Liechtenstein

Norway

Financial Supervisory Authority of Norway

OTHER

European Institutions/Committees

European Banking Agency (EBA)

Committee of European Insurance and Occupational Pensions Supervisors (EIOPA)

European Central Bank (ECB)

European Financial Reporting Advisory Group (EFRAG)

International

International Accounting Standards Board (IASB)

Commission

HOOIJER, Jeroen/F3, Head of Unit

DECKERS Alain/F3, Deputy Head of Unit

KOSMIDIS, Michelle/F3

ARMANINI Mauro/F3

BERNIER ABAD Nicolas /F3

BIEBEL Reinhard /F3

LANGLOIS, Delphine /F3

LEBRUN Ludovic /F3

RABINE Jean-Philippe /F3

MELOT Anne-Françoise/F3

MONZON Angel /F3

ROONEY Paul /F3

ZAFFIRO Massimo /F3

SIMEONOFF Kallina /F3