

SUMMARY MINUTES

MEETING OF THE STANDARDS ADVICE REVIEW GROUP ON 19 MAY 2008

Chairman of the Standards Advice Review Group, Mr Geoffrey MITCHELL, chaired the meeting.

At the beginning of the meeting Mr Jeroen HOOIJER, Head of Unit, Accounting DG MARKT, explained briefly the current discussion and developments in the institutional framework as regards accounting standard setting. The next ARC meeting 20 May will discuss the future role of EFRAG. The Commission's objective is to reinforce EFRAG's proactive role in bringing the European views into the international standard setting process. However, EFRAG shall not have a role of an accounting standard setter. Mr. MITCHELL offered the help of the Group members as advisors in general accounting matters to the Commission.

I. ADMINISTRATIVE ISSUES

Adoption of the minutes of the meeting of the Group held on 29 April 2008

The Minutes of the meeting of the Group held on 29 April 2008 were approved.

Adoption of the agenda of the meeting

The agenda of the meeting was approved. Delivery of an advice on EFRAG's opinion on endorsement of IFRIC 13 was subsequently added on the agenda.

Partial replacement/reappointment of Members in 2009

In accordance with the Article 3.6 of the Commission Decision (2005/505/EC) setting up the Group, providing for partial replacement of the Members, the Chairman requested the Members to consider – before the next meeting - whether two Members would volunteer to stand for reappointment in 2009. This would shorten their renewable term from three to two years. In case there are no volunteers, it was suggested that two Members for reappointment will be chosen by ballot. A relevant provision shall be added in the Rules of Procedure.

Voting Procedures

Further clarifications to the voting procedures were agreed:

- The Members may participate in the discussions of the meeting and voting by telecommunication facilities. However, at least 4 Members of the Group must be present for quorum.

- In case of tie, the Chairman shall have the casting vote. A relevant provision shall be added in the Rules of Procedure.

Signing of the statement to act in the public interest and a declaration indicating the absence or existence of any interest, which may undermine independence of the members of the Group

Members of the Group signed an undertaking to act in the public interest and a declaration indicating the absence or existence of any interest which may undermine their independence and objectivity. In accordance with the Article 3.5 of the Commission Decision (2005/505/EC) setting up the Group, this undertaking shall be signed each year.

II. DISCUSSION ON AMENDMENT TO IFRS 2 - SHARE BASED PAYMENTS – (ISSUED 17 JANUARY 2008)

Representative of EFRAG, Mr Paul Ebling, explained the changes made in the IFRS 2 standard, the EFRAGs work done and the conclusions reached in EFRAG's endorsement advice. EFRAG representatives also explained the work done and conclusions reached in the related effect study. In case of IFRS 2 amendments only a small scale effect study was considered necessary.

The amendment made to the IFRS 2 standard is generally considered as a welcomed clarification. There had been unanimous support at EFRAG TEG for positive endorsement advice. The advice was issued on 12 May 2008.

In the following discussion the Group Members made a number of observations:

- A question was raised as regards comparison to the US GAAP. Generally the provisions are similar.
- Following a request for further clarification, EFRAG explained the process and principles of its effect studies and the differences between their scales (small, medium and full).

III. DISCUSSION ON AMENDMENT TO IAS 32 AND IAS 1 - PUTTABLE FINANCIAL INSTRUMENTS AND OBLIGATIONS ARISING ON LIQUIDATION (ISSUED 14 FEBRUARY 2008)

Representatives of EFRAG, Mr Paul Ebling and Ms. Svetlana Boysen, explained the key issues of the amendment to IAS 32 and IAS 1, the EFRAG's work done and the conclusions reached in EFRAG's endorsement advice. EFRAG representatives also explained the work done and conclusions reached in the related effect study. In case of amendment to IAS 32 and IAS 1 only a small scale effect study was considered necessary.

There had been unanimous support at EFRAG TEG for positive endorsement advice. The advice was issued on 16 May 2008.

In the following discussion the Group Members made a number of observations:

- Difference in treatments between parent company's accounts and subsidiaries. There is still room for different interpretations.

- The differences relate to the fact that IASB has not come up with an comprehensive approach on the equity/liability distinction.
- The related IASB's discussion on 'reporting entity' this is still at its very early stages.
- Therefore, this is merely a 'quick fix' solution. In a longer term, a more comprehensive solution would be needed.
- One of the objectives of the effect study is to highlight if there would be major accounting changes expected. However, forecasting future behavioural effects remains very difficult.

IV. DISCUSSION ON IFRIC 13 - CUSTOMER LOYALTY PROGRAMMES (ISSUED 28 JUNE 2007)

Representatives of EFRAG, Messieurs Paul Ebling and Greg Hodgkiss, explained the key issues of the IFRIC 13 interpretation, the EFRAG's work done and the conclusions reached in EFRAG's endorsement advice. EFRAG representatives also explained the work done and conclusions reached in the related effect study. In case of IFRIC 13 a medium scale effect study was carried out.

EFRAG TEG had concluded for positive endorsement advice. The advice was issued on 14 May 2008. In the voting 8 TEG members were in favour, 2 were against and 2 members were absent. Some EFRAG TEG members were initially in favour of cost deferral approach.

In the following discussion the Group Members made a number of observations:

- Warranty provisions are a similar issue. However, IFRIC interpretation is limited to customer loyalty programmes only.
- It is not within the scope of the effect study to make an attempt to quantify the effect on companies reported earnings. Some of the respondents had however estimated that on the first year the deferred revenue approach will result in 3 to 4 higher liability compared to the deferred cost approach. Year to year profit and loss impact is not likely to be significant.

V. WORKING PLANS OF THE GROUP AND NEXT MEETINGS

Commission gave an update on the new endorsement process adopted 9 April 2008. The new process increases the formal powers of the European Parliament and the Council. At the same time it also adds to the length of the process.

A question was raised whether it would be possible to allow early application of IFRS standard which is still in the endorsement process. This would ease the reporting burden of US registered companies. The Commission explained that an early application is possible in

case the new standard or interpretation does not modify endorsed IFRS (which are part of the EU law).

Subject to changes from timetables for endorsement and EFRAG deliverables, the members of the Group and the Commission scheduled the next meetings of the Standards Advice Review Group for:

- **27 June** conclude on *IAS 32/IAS 1 ('puttables')*, educational session on *BusCom (IFRS 3, IAS 27)*.
- **23 September** *BusCom (IFRS 3, IAS 27)* (it is unsure whether BusCom will be concluded by end September), *Annual improvements* and amendment to *IFRS 1 Cost of an Investment in a Subsidiary*.

VI. DELIVERY OF ADVICE TO THE COMMISSION

After discussion, the members of the Group unanimously concluded that EFRAG's opinion on endorsement of *Amendment to IFRS 2 - Share Based Payments – (Issued 17 January 2008)*, and *IFRIC 13 - Customer Loyalty Programmes (issued 28 June 2007)* are well-balanced and objective.

VII AOB

It was agreed that the Commission will circulate the new IASB standards and relevant ARC documents to the Group.

STANDARDS ADVICE REVIEW GROUP

Meeting of 19 May 2008

PARTICIPANTS' LIST

MEMBERS OF THE STANDARDS ADVICE REVIEW GROUP

Josef Jílek

Jan Klaassen

Enrico Laghi

Geoffrey Mitchell

Carlos Soria Sendra

Hervé Stolowy – By teleconference under agenda item I (partly) and agenda item VI

EFRAG

Paul Ebling

Svetlana Boysen

Greg Hodgkiss

COMMISSION

Jeroen Hooijer

Arto Leppilahti

Philippe Bui

Jitka Hrudova

Bea Van der Linden