

MEETING OF
THE ACCOUNTING REGULATORY COMMITTEE

23 SEPTEMBER 2014

1. Approval of the draft agenda

ARC members approved the agenda of the meeting.

2. Commission's update

In the introduction, the Chairman informed ARC members about announced changes to the structure of the Commission. A new DG Financial Stability, Financial Services and Capital Market Union will be created. Financial reporting will be within competences of this new Directorate General. Lord Jonathan Hill from the United Kingdom will be appointed as a Commissioner responsible for this Directorate General subject to the approval by the European Parliament. The hearing in the European Parliament is scheduled for 1 October.

a. Governance review of EFRAG

The Chairman informed about the selection process for a new President of a Board of EFRAG. A call for applications was published on 13 August 2014 on the website of DG Internal Market and Services. The Commission received several applications. The Commission intends to nominate the candidate within a timeframe that should enable EFRAG to appoint the President of the Board by 1st November. However, the Chairman noted that the timing was tight.

b. Evaluation of IAS Regulation

The Chairman informed that the 1st meeting of the expert group took place on 15 July 2014 and was dedicated to preparatory work on a public consultation. Another meeting is planned for 23 October 2014.

DG MARKT launched its public consultation on the impact of IFRS in the EU on 7 August 2014; it ends 31 October 2014. The Commission requested ARC Members to raise awareness about the public consultation in Member States, in order to receive wide input.

Finally, the snapshot on the use of options provided in the IAS Regulation for Member States to extend the use of IFRS in their countries has been finalised and published mid-July on the Commission website. The Commission services noted that they did not receive sufficient data on the number of companies applying IFRS in each EU country. Therefore, the snapshot only covers the list of Member States using this option.

One Member asked if the Commission is confident that the report on the evaluation of the IAS regulation would be ready by the end of the year. The Chairman responded that whilst this was still the aim, this deadline does present a challenge for the Commission. Another Member asked if there are other types of work that would feed the evaluation report apart from the public consultation and the expert group. The chairman pointed out that since this is a Commission report, the Commission services would carry out its own research.

c. Information on the current endorsement procedures

There are 10 standards pending endorsement.

3 sets of amendments are now subject to the scrutiny period, namely:

- amendments to IAS 19 defined benefit plans: employee contributions,
- annual improvements 2010-2012 cycle,
- annual improvements 2011-2013 cycle.

The Commission intends to adopt the relevant amending regulations by the end of the year.

As regards amendments to IFRS 11 accounting for acquisition of interests in joint operation and amendments to IAS 16 and IAS 38 clarification of acceptable methods of depreciation and amortisation, the Commission intends to seek the opinion of ARC by written procedure. Amendments to IAS 16 and IAS 41 agriculture: bearer plants should be discussed in the next ARC meeting.

3. IFRS 14 - interim standard on rate regulated activities - information pursuant to Article 7(2) of the Regulation 1606/2002

Pursuant to Article 7 of the IAS Regulation, the Commission informed the Accounting Regulatory Committee that it did not intend to propose the endorsement of IFRS 14. The Commission's decision took into account the negative response to the draft standard by EFRAG and concerns raised in the ARC Committee in April.

The Chair underlined that non-adoption would have very little impact on EU companies. She also said that the Commission would write to the IASB to explain its position.

One Member State found non-adoption of an IFRS standard problematic but acknowledged that there were specific issues in relation to IFRS 14. The same Member State asked whether the non-adoption of IFRS 14 would amount to a "carve-out".

The Chair explained that it would not because IFRS 14 was only an interim standard and that the Commission would still consider adopting a full standard should the IASB decide to issue one.

One Member State called for caution and stressed that full compliance with IFRS should remain the overall objective of the EU. The same Member State acknowledged that the Commission might have special reasons for not adopting IFRS 14 and agreed that these should be explained to the IASB in writing.

One Member State fully agreed with the Commission's decision.

One Member State agreed with the Commission and stressed the importance of a carefully-worded letter to the IASB.

The Chair stated that the Commission would consider consulting the Committee on the draft version of this letter.

4. IFRS 9 Financial Instruments – discussion about the endorsement process

The Chairman introduced the discussion on IFRS 9, noting that it had already been discussed in the past in ARC but that this was the first opportunity to discuss the final standard. There was a general wish for close cooperation with ARC members and colleagues from EFRAG during the endorsement process.

The Chairman noted that the standard is a key one as it is the IASB's response to the financial crisis meeting and in part a reply to the G20's call for strengthening the accounting rules for loan loss provisioning. Despite the fact that this standard had been expected to be converged, convergence has not been achieved and this aspect would need to be considered. This standard, more than others, has a bearing on the economy and financial stability. These factors mean that the endorsement process will be complex and the Chairman stressed the need for the process to be very organised and rigorous.

Following Mr Maystadt's recommendations, the European Commission wished to involve ARC members early on the endorsement process and asked them to identify key issues on IFRS 9. The input will help guide EFRAG in its work for the Commission. The intention is that the letter requesting EFRAG's endorsement advice will include issues where there is a need for input from EFRAG to take an endorsement decision.

EFRAG gave a presentation on IFRS 9 setting out an overview of the new standard, how it differs from IAS 39 and summarising the key findings of the field testing performed to date.

Following the presentation, there was a tour de table identifying issues to be covered in the endorsement process. Also ARC members were invited to send in their written comments by 10 October. The draft letter to EFRAG, incorporating the comments received, will be discussed at the next ARC meeting on 27 November and the final letter will be sent soon afterwards.

One Member State noted that the G20 had called for the standard to deal with certain issues that had been a problem with IAS 39; namely: that the standard was overly

complex; delivered too little, too late in impairment provisions and was not converged. The question was raised as to whether the new standard would adequately address these issues: was known complexity being replaced by unknown complexity (eg. bifurcation by the “SPPI” test)?; are the new impairment provisions too uncertain and unclear, in particular by comparison with Basel capital provisions, they lack solidity; and what will be the impact of not having a converged standard and of European banks potentially having lower provisions than their US counter-parts. Finally on hedging, is it a good thing to follow management practices when the latter may not be robust?

One Member State echoed the concern on impairment, noting that some key terms are not defined. However, another Member State commented that they welcomed the new expected loss for impairment as it is in better accord with prudential considerations than the IAS 39 incurred loss model and that it better reflects economic reality and should be endorsed as soon as possible. The EFRAG analysis should emphasise that this is very important for financial stability.

By contrast, another Member State considered that progress had been made in IFRS 9 and that it does go some way to meeting the G20 requirements. However, there was doubt about the effects of the new standard in terms of classification and reclassification of instruments and concern that the new requirements could affect financial stability. This Member State also had concerns about the accounting for equity shares under IFRS 9.

Many Member States stressed the need to ensure that the requirements of IFRS 9 to work appropriately with the future IFRS 4, once revised and meet the needs of insurance companies. However others noted that standard setting is continuous and IFRS 9 is an important standard that should not be held up.

Two Member States noted the need for more clarification that macro-hedging practices and the carve-out can be retained and one regretted that the IASB has not developed a standard covering macro-hedging. One Member State noted that the new standard improves micro-hedging accounting compared to IAS 39.

Member States were divided on the question of how much field-testing of the standard should be done. Some considered that there has already been extensive testing of the requirements and expressed concern that if banks were to engage in comprehensive field testing now, they might not be able to meet the application date of 1 January 2018. They also saw the need for companies to get certainty as soon as possible, about the endorsement of the standard. Other Member States considered that for such a complex and wide-ranging standard, there should be in-depth field testing to ensure the standard is well understood and accepted by everyone. In this context, the new requirements on impairment were specifically mentioned and one Member State noted that the requirements could change banks’ lending practices or business models and these potential effects should be understood.

The existence of the IASB's Transition Working Group on impairment was noted and it was agreed that it would be important to follow this.

Two Member States noted that the endorsement criteria in the IAS Regulation have not been changed and therefore the analysis of the standard must be made in the context of the existing legal requirements.

The Chairman thanked everyone for their input and confirmed that Member States could still send their written comments by 10 October. All comments received will be synthesised into a draft letter for finalisation after the next meeting.

Next meetings:

1. 27 November 2014
2. 12 February 2015 (*preliminary planning*)

ACCOUNTING REGULATORY COMMITTEE

Meeting of 23 September 2014

PARTICIPANTS

Austria

Federal Ministry of Finance

Belgium

Commission Normes Comptables

Ministry of Economy

Bulgaria

Absent

Croatia

Croatian Financial Reporting Standards Board

Cyprus

Absent

Czech Republic

Ministry of Finance

Denmark

Danish Business Authority

Danish FSA

Estonia

Absent

Finland

Ministry of Employment and the Economy

France

Ministère de l'Economie, des Finances et de l'Industrie

Autorité de Normes Comptables

Germany

Bundesministerium der Justiz

Greece

Absent

Hungary

Absent

Ireland

Department Enterprise, Trade and Employment

Irish Permanent Representation

Italy

Ministry of Economy and Finance

Banca d'Italia

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Luxemburg

Commission de Surveillance du Secteur Financier

Ministry of Justice

Malta

Absent

The Netherlands

Ministry of Security and Justice

Poland

Ministry of Finance

Portugal

Absent

Romania

Permanent Representation of Romania to the EU

Slovakia

Ministry of Finance

Slovenia

Ministry of Finance

Spain

ICAC

Banco de España

Sweden

Swedish Accounting Standards Board

Ministry of Justice

United Kingdom

Department for Business, Innovation and Skills

Financial Reporting Council

OBSERVERS

Iceland

Absent

Norway

Absent

Lichtenstein

Absent

European Institutions/Committees

European Insurance and Occupational Pensions Authority (EIOPA)

European Securities and Markets Authority (ESMA)

European Banking Authority (EBA)

European Central Bank (ECB)

European Financial Reporting Advisory Group (EFRAG)

European Commission – DG MARKT

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ROBEY Dawn

SWISTUN Piotr