

SUMMARY RECORD

MEETING OF
THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE
OF 30 NOVEMBER 2005

M. Delsaux, Acting Director for Company Law & Corporate Governance, DG Internal Market and Services chaired the eighteenth meeting of the Accounting Regulatory Committee and the fourth meeting of the Contact Committee in 2005.

VOTES OF THE ARC

VOTE ON A COMMISSION REGULATION ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 7 FINANCIAL INSTRUMENTS: DISCLOSURE, AMENDMENTS TO IFRS 1 FIRST-TIME ADOPTION OF IFRSs AND THE BASIS FOR CONCLUSIONS OF IFRS 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES, AN AMENDMENT TO IAS 1 PRESENTATION OF FINANCIAL STATEMENTS—CAPITAL DISCLOSURES, AMENDMENTS TO IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT AND IFRS 4 INSURANCE CONTRACTS—FINANCIAL GUARANTEE CONTRACTS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE'S (IFRIC) INTERPRETATION 6 LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET—WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT IN ACCORDANCE WITH REGULATION (EC) No 1606/2002 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 19 JULY 2002 ON THE APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS

Result of the vote on a Proposal for a Commission Regulation amending Regulation (EC) No 1725/2003 adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council, as regards IFRS 7, Amendments to IFRS 1 and 6, Amendment to IAS 1, Amendments to IAS 39 and IFRS 4 on financial guarantee contracts and IFRIC 6.

The draft Regulation was accepted unanimously. One correction was made to footnote 2.

DISCUSSION AT THE MEETING

I. APPROVAL OF MINUTES OF THE ARC MEETING OF 8 NOVEMBER 2005

In view of the short time which had elapsed since the last meeting, some Member States had not yet forwarded their comments but will do so shortly. Those minutes will therefore remain in draft, pending these comments, and will be placed on the agenda for approval at the next ARC meeting.

II. FORMAL VOTE ON PROPOSAL FOR A COMMISSION REGULATION ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 7 FINANCIAL INSTRUMENTS: DISCLOSURE, AMENDMENTS TO IFRS 1 FIRST-TIME ADOPTION OF IFRSs AND THE BASIS FOR CONCLUSIONS OF IFRS 6 EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES, AN AMENDMENT TO IAS 1 PRESENTATION OF FINANCIAL STATEMENTS—CAPITAL DISCLOSURES, AMENDMENTS TO IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT AND IFRS 4 INSURANCE CONTRACTS—FINANCIAL GUARANTEE CONTRACTS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE’S (IRFIC) INTERPRETATION 6 LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET—WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT IN ACCORDANCE WITH REGULATION (EC) NO 1606/2002 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 19 JULY 2002 ON THE APPLICATION OF INTERNATIONAL ACCOUNTING STANDARDS

One Member State asked whether the basis for conclusions formed part of an accounting standard. The Commission explained that basis for conclusions are never part of the actual standard.

Two Member States remarked on the substandard quality of the translations. One Member State indicated that it would maintain a linguistic reservation on the text in its language and asked for a new, consistent version of the translation into its language. The other Member State agreed to provide comments on the corrections needed. The Chairman explained that such problems, together with translated documents arriving within a very short time before the meeting, were well recognised and that the Commission was reflecting on how best to improve the situation. Another Member State also expressed concern that its linguistic comments had not been included in the text presented at today's meeting.

The Chairman recalled that after the vote in the ARC but before the final formal endorsement and publication in the Official Journal, proposals by ARC members for linguistic amendments can still be incorporated into the texts. Clearly this is only a short term solution. For the longer term the Commission is reflecting internally on how to improve the situation.

Three Member States highlighted the need for a consolidated version of the endorsed IFRSs and IFRICs and asked when the Commission expected to do this work. One Member State suggested that the Commission could present a paper on this at the next meeting. The Chairman explained that the importance and utility of a consolidated text was well recognised. He added that the Commission would start working on this shortly but to properly complete such a task would take time.

Several delegations enquired when, assuming the passage to adoption now proceeds smoothly, one could expect this Regulation to be adopted and the corresponding IFRSs and

IFRICs become fully applicable. One Member State explained that there were companies, particularly banks, which would wish to apply IFRS 7 to their 2005 accounts. One Member State suggested that the Commission should make a public statement about this to quell the uncertainty. The Chairman explained that this issue was already a separate item on today's agenda (item VII) and suggested to discuss this important issue then.

One Member State indicated that footnote 2 of the draft Regulation needed to be updated and this was agreed.

The Regulation adopting the following international financial reporting standard (IFRS) 7 financial instruments: disclosure, amendments to IFRS 1 first-time adoption of IFRSs and the basis for conclusions of IFRS 6 exploration for and evaluation of mineral resources, an amendment to IAS 1 presentation of financial statements—capital disclosures, amendments to IAS 39 financial instruments: recognition and measurement and IFRS 4 insurance contracts—financial guarantee contracts and international financial reporting interpretations committee's (IFRIC) interpretation 6 liabilities arising from participating in a specific market—waste electrical and electronic equipment was accepted unanimously.

III. CONSISTENT APPLICATION

The Commission presented a revised working document on the creation of an informal Roundtable to contribute to consistent application of IFRS in the EU. This document had been revised to take account of observations made at the previous meeting.

The prime function of the Roundtable should be to act as a simple early warning mechanism for emerging and potentially problematic accounting issues in relation to consistent application at the stage where the company's financial statements are being prepared. It could identify and group together those issues where it is felt there is a real risk of divergence and recommend which of those were of such significance that they should be taken up by IFRIC as a matter of urgency.

There should be involvement of the ARC in the Roundtable's work, before any issue is formally transmitted to IFRIC for interpretation.

For the Roundtable to function effectively, the absolute number of participants should be kept to a minimum with some form of rotation of representation linked to the specific issues. However there is also the prime need to include representatives of all the key stakeholders. Following comments made at the previous meeting, the balance of the different groups participating in the Roundtable was revised. The feasibility of inviting other organisations which were not participants to attend as observers was also now suggested. The selection of observers should be linked to the issues to be raised.

Views from Member States

On the need for a Roundtable, one Member State doubted the necessity but would support this initiative if other Member States wanted to go ahead with it. Another Member State thought that the document overall underestimated the role and need for such a Roundtable. One Member State thought limiting the Roundtable to informal discussion was too cautious. There will be issues which need our attention and we will need to react. We should even think about what to do should IFRIC decide that no interpretation was necessary. We therefore should not give the impression that we will have too many problems and are unsure

how to address them. Another Member State thought that only those issues of major importance should be forwarded to IFRIC. CESR expressed the wish not to use the term 'ex-ante' to describe the issues which the Roundtable is supposed to focus on as many of these issues are likely to last for a certain time. CESR thought that in cases where, following a referral from the Roundtable, IFRIC had deemed that no interpretation was necessary, the Roundtable should take the matter up again.

Involvement of ARC

Two Member States welcomed the involvement of the ARC before any Roundtable recommendations for referral were actually transmitted to IFRIC. However, one Member State felt that this Committee should be informed rather than consulted about Roundtable conclusions. Another agreed, and took the view that the word *consult* could result in formalising the Roundtable. Another took the opposite view and preferred that the ARC be consulted. Another went further and thought that the ARC should be responsible (or jointly responsible with the Roundtable) for sending the Roundtable's conclusions on items requiring the attention of IFRIC to that body. The Chairman suggested as a compromise that the ARC should only be informed, but could make comments whenever it felt these to be necessary.

Participation

There was a detailed discussion on the composition of the Roundtable. The objective is to find a balance between keeping the number of participants to a minimum (for it to function effectively) whilst ensuring that all relevant parties are still represented. One Member State thought that the revised composition was an improvement, particularly as regards the increased number of national standard setters (NSS). One Member State went further and thought that all NSS should be involved. Another Member State thought that NSS participation should be reduced to four but that all NSS should have the possibility to attend the Roundtable meetings as observers. By contrast, one Member State thought that there was an overrepresentation of NSS. Two Member States and CESR thought that the revised composition did not adequately represent all interested parties and thought that the auditors in particular were underrepresented. One Member State thought that the participation of auditors should be increased to four. One Member State took the opposite view. This Member State explained that of the 'Big Four' firms, only the one firm which was best informed and experienced in the particular issue in question should participate. Some Member States also thought that other groups should be represented, such as CEBS and CEIOPS. One Member State explained that the number of companies in its jurisdiction adopting IFRS was already significant and growing rapidly. It was therefore important to ensure that their needs were taken into account through a suitable representation at this Roundtable. CESR offered to reduce its participation by 1 seat. On the rotation of participating NSS, one Member State thought that some kind of Memorandum of Understanding between all of them could be a way of resolving this issue. Another Member State thought that a rotation of NSS would not work in practice. Another thought that trying to accommodate other key representatives as occasional observers would not work in practice. Another thought that all Member States should in some way be actively involved in the deliberations of the Roundtable. Member States could subsequently take up the issues discussed at Roundtable meetings and exchange views using electronic interchanges. Another Member State believed that participation should be addressed from a different perspective. Three Member States thought that participation should thus be driven by the issues to be discussed and the need to have the necessary experience and expertise to allow for a constructive discussion on that particular matter. A fourth Member State agreed that the persons closest to the issues should be at the Roundtable to present them. The Chairman concluded the discussion on participation by repeating the importance of keeping the number of participants low but that including all of the 'Big Four' should still leave matters

manageable. He thought the suggestion for participation to be driven by the issue was important. Such criteria should definitely be used in choosing the rotating participants (e.g. NSS).

Output

One Member State repeated the concern that neither the Roundtable nor, for that matter, the ARC should make any interpretations. Another thought that the description of the information which the Roundtable is supposed to collate should be clarified. The Roundtable should only be able to collect 'diverging application guidance' as opposed to 'diverging interpretations' because the latter should only be issued by IFRIC.

The Chairman closed the discussion by concluding that we were now close to a common understanding on the Roundtable. He explained that a new document would be drafted taking into account today's comments. He welcomed CESR's offer to provide written drafting suggestions and invited all other Members to also provide such and as quickly as possible. Before the next ARC meeting, the new document would be sent to ARC Members for further comments. After incorporating such comments, the document would then be deemed to be approved unless there were still issues of substance unresolved in which case further discussion would be necessary at the next ARC meeting.

IV. CONVERGENCE AND EQUIVALENCE BETWEEN IFRS AND THIRD COUNTRY GAAP, IN PARTICULAR US GAAP

Convergence and the IASB work program

The Commission described the contents of a recent letter from the Commission Services to the IASB concerning the work programme. The programme is very extensive and could lead to major changes to many important standards. The Commission Services are continuing the analysis of the IASB's work program and will be following up their observations by contacts with IASB staff. It is particularly important to establish a clear prioritisation between the projects and the Commission Services would be signalling to the IASB those areas where attention was needed and those which were of a lesser priority. Member States will be consulted before a definite Commission position is communicated to the IASB.

Equivalence

The Commission presented a note which set out the current thinking on this matter. Any conclusive assessment of the equivalence of IFRS and third country GAAP should not focus solely on the principles contained in the accounting standards but should also take full account of the information actually provided in application of these standards. Such a concrete assessment of IFRS will only be possible in the coming years, as EU issuers publish consolidated financial statements prepared in accordance with IAS for the first time in 2006. In addition, standard setters (IASB and FASB) are currently addressing a number of technical issues as part of the convergence work programme. A conclusive assessment of equivalence could usefully build on this on-going work, as part of which a number of the issues flagged by CESR in its advice could be progressively addressed. Furthermore, the SEC has indicated that it would take its decision on whether to drop the reconciliation requirement in 2009. Postponing the EU's decision on equivalence also to 2009 would therefore have the advantage of aligning both timetables. It would not prejudice the EU's right to impose an IFRS reconciliation on US GAAP users in the future, if appropriate. It would also maintain pressure on the SEC to complete the roadmap on time. Also, imposing de facto reconciliation

requirements would expose third country issuers to significant extra costs and risks disrupting EU capital markets and diminish their global attractiveness and competitiveness to third country issuers.

Against this background, the Commission is considering the possibility of postponing the equivalence decision to 2009. The main considerations have been made in regard to US GAAP, but the same decision could be taken for other third country GAAP (mainly Japanese and Canadian GAAP).

Views from Member States

One Member State disagreed with the direction of the current Commission thinking. This Member State presented a paper explaining in detail the two fundamental reasons for this view. The first is that it would create an asymmetric relationship between Europe and the US. We would be giving US companies an advantage and receive nothing in return for our companies. A second Member State agreed. According to the first Member State, this advantage had already been granted to the US for the period 2005-2007. There was no justification for extending it to 2009. The second reason is that it would expose Europe to the risk that the SEC would be interpreting IFRS and thus European companies would be following instructions on how to apply IFRS by a regulator from a third country which does not itself even apply IFRS. There was no safeguard against SEC interpretations. This Member State said that the way forward had to be one of 'mutual recognition' rather than 'equivalence'.

On the first reason, the Chairman replied that that the Transparency Directive already allowed the use of third country GAAP in Europe. The issue now was whether to postpone this until 2009. On the second reason, the Chairman replied that the sensitivity was well understood. However a cooperation agreement between the SEC and CESR was already in place, and could be developed to take account of this concern.

One Member State indicated that in the new set-up authorities in Member States are to become responsible for the supervision of accounts of companies in third countries. Dealing with (all the different) GAAPs of third countries will take up resources of regulators and this would increase costs.

This Member State also highlighted the need for an assessment of how convergence is actually working from a practical standpoint. We need to identify if there are fundamental differences in practice and how we should deal with them. Another agreed.

One Member State thought that an overall policy on how to deal with third country GAAPs was missing. Another Member State agreed and thought that a more comprehensive assessment of the differences between US GAAP and IFRS in practice could be useful in formulating a European policy.

Another Member State supported the idea of postponing matters to 2009.

Another Member State thought that other third country GAAPs could be eligible for mutual recognition before the US GAAP, if circumstances merited such. This Member State thought that if the Commission's intended decision leading to a postponement could be made in the middle of 2006, it could leave some months for negotiations with the US authorities to establish a road map leading to an agreement on mutual recognition. The Chairman replied that, even though the process would begin early next year, the EU's inter-institutional

decision making procedures would in effect mean that the decision could only be taken by that time (May/June 2006) at the earliest.

The Chairman then concluded the discussion on this section with the following remarks:

- The decision to postpone until 2009 was a political one.
- There was concern regarding the asymmetrical nature of this approach.
- If we postpone until 2009 and do not take a decision when we reach that time, this will also trigger the end of third country GAAP in Europe.
- If we take a unilateral decision (encompassing CESR's advice) it could sour relations with the SEC.
- If the decision to postpone were to be taken:
 - How should regulators handle third country GAAP?
 - How should we deal with the SEC getting involved in IFRS interpretations?
- Investor protection and the attractiveness of our markets are the two issues of prime concern to us. We need to do whatever possible for IFRS to become recognised in the US.
- No decision has as yet been taken on postponement by the Commission. This matter will be discussed at the European Securities Committee (ESC) on 19 December.
- The ESC will be the main Committee advising the Commission, but the input from Members of the ARC on this issue would be very important for the Commission.
- The concerns of Member States were understood. There would, if possible, be another meeting of this committee in January to discuss this matter.

V FUTURE RELATIONSHIP WITH EFRAG

The Commission explained that it was now close to finalising a document with EFRAG setting out the respective rules in the EU financial reporting infrastructure. This arrangement is the result of several high level discussions which had taken place in recent months. This document will set out the future relationship between the Commission and EFRAG, covering, in particular, the opinions which it provides to the Commission for the endorsement process.

There was a need to take account of some concerns which had been voiced regarding the objectivity and neutrality of EFRAG's advice in the past. Accordingly, the Commission is considering creating a separate small group of independent advisors whose sole task would be to review EFRAG's endorsement advice to the Commission from these perspectives. The group would not replace EFRAG's role, but only vet EFRAG's advice. The group would be established by the Commission and the experts chosen following an open procedure.

EFRAG expressed satisfaction with the agreement reached with the Commission.

Views from Member States

One Member State explained that its views would only be preliminary observations. This Member State thought that, in creating a second group, any concerns about independence could simply switch away from EFRAG and onto that group. The Member State doubted its effectiveness.

A second Member State questioned the role of the group. This Member State considered that as the ARC had the political role and EFRAG-TEG had the technical role, the role of this other group was not clear. The Commission explained that the role of the group would be like a filter, and that similar arrangements existed into other sectors. Another Member State

thought that the ARC already acted as a filter when the need arose. Another Member State also thought that there were not that many experts in the accounting field and thus achieving a suitable composition for the group would not be easy. Concerns about the group's effectiveness increased when the Commission explained that it would be small in number (about 7 persons).

One Member State also thought that adding another group in the chain would extend the time for the endorsement process. Another Member State thought that what was required in Europe was 'one voice' but instead we were moving towards a multitude of voices. Another Member State agreed and asked whether the work of this group could be handled by the Roundtable (discussed earlier) instead.

The Commission clarified the fact the filter role of the group would be in the endorsement process only.

Another Member State enquired what the selection criteria of these experts would be. Another Member State thought that these independent experts would have to come from the academic world.

The Chairman explained that these were only preliminary ideas and that this matter will be discussed again at the next ARC meeting.

VI KEYNOTE SPEECH: MR PAUL VOLKER

The Chairman welcomed Mr Paul Volker, Chairman of the Trustees of the IASC Foundation to the meeting. Mr Volker gave a speech on the IASB's work on the convergence of IFRS and US GAAP and how that relates to stability and an update on changes to the IASB Constitution.

Period of stability and convergence

Mr Volker stated that companies have told the Trustees that after the effort of getting IFRS into place they need to be left alone for a while so that they can get used to using IFRS. The IASB acknowledges this need and will try to accommodate it. However to get convergence and mutual recognition there will need to be some changes, but hopefully not too many. It must be remembered that the fundamental issues will take several years of discussion to resolve and obviously one of these issues revolves around fair value. Therefore, effectively there should be a period of little change in the next 2-3 years.

For two of the important areas that have yet to be resolved, there is much political pressure to get on with these projects. In the US in particular, one issue is pensions accounting as there is mounting concern that there are many companies that have large pension deficits but this deficit is not fully recognised in the financial statements.

Whilst the Roadmap [to drop the reconciliation to US GAAP] sets out areas where progress needs to be made, this content cannot be set in concrete. The IASB will initially be concentrating on smaller changes, before tackling fundamental issues. Mr Volker stated that he gets many questions relating to the convergence exercise and whether IFRS will end up as detailed rules and also how the IASB views convergence. He said that the IASB does not look at it like this; they are looking at issues, together with FASB in order to get the best answer. If this discussion had been taking place 10 years ago, the US would have said that their standards were the best. However in recent times the US has had several accounting

related scandals which have highlighted shortcomings in US GAAP. The US is still keen on having rules, particularly the legal system, whereas the preference in the EU is for principles with few detailed rules. Where along this continuum accounting standards will end up is not known. Perhaps IFRS will have principles and some rules with the US using these same principles and rules, but adding further rules.

Another fundamental issue is the area of insurance accounting, where, at present, there is not much in the way of accounting standards. He recently received a letter from a European insurance company stating that they wished for this project to be completed as soon as possible, as this company considered that a comprehensive accounting standard is urgently needed.

Review of the constitution

After the review of the constitution, its basic outline remains unchanged, i.e. the IASB remains independent in order for it to make unbiased decisions and the Trustees' role is to arrange financing. The main changes relate to comments received that the IASB is insulated from the "real world" and so the due process has been strengthened.

Also, the size of the Board of Trustees has been increased from 18 to 22 and this is mainly to accommodate the fact that Asian countries and China are now using IFRS. However, there are still concerns regarding the composition of the Board of Trustees in Europe where comments are made that there is still not sufficient representation from Europe. The constitution states that six members should be from Europe and six members from North-America. At present, eight members are from Europe and only four members from North-America. It is very likely that the next Chairman will be European.

Member States' questions

Several Member States asked Mr Volker questions.

Q: One Member State asked Mr Volker his views on how far the IASB is trying to build consensus and confidence in its work programme?

A: Mr Volker replied that due process has been strengthened, but also the IASB now has many more informal contacts. He thinks that the IASB communicates much better than it did a year ago and he also noted that the Trustees are certainly much more aware of constituent's views. He stated that the IASB also needs users and preparers to get better at consulting the IASB.

One thing that is already happening is that informal consultation is occurring much earlier in the process. This is because the IASB is aware that many constituents believe that once a document is published is a "fait accompli". The IASB is also trying to get more users participating in the process. He noted that both the Commission and the SEC have important role to play in this regard.

Q: One Member State asked Mr Volker his views on how the EU should approach the SEC so that consistent application of IFRS could be achieved.

A: The question of how to get consistent application and enforcement is difficult. In the US, there has been a revolution in the way auditors are regulated with the Sarbanes-Oxley Act. This has had the effect of the US being perceived as aggressive in its

extra-territorial activities, however, the result has been that a substantial effort has been made in the EU to get good auditing standards and with that there may be the opportunity for reciprocity.

Q: CESR asked Mr Volker his views on how the complexity of accounting standards could be reduced.

A: Mr Volker stated that he would love simple accounting standards but this can only be achieved where they can reflect business reality. If there are complex business situations the accounting treatment must reflect this reality and this is especially the case with derivatives. One reason that fair value accounting is liked by some people is that it could lead to simpler accounting standards.

The possibility of having a two tier performance statement, with a line for net income and then a reconciliation to changes in the balance sheet is a result of the complexity of the transactions that companies undertake. How this statement or statements are presented and with what prominence and level of detail for each item and where items should be placed is very controversial.

Q: EFRAG asked Mr Volker his views on how he saw the Trustees role in respect of the IASB's work agenda.

A: Mr Volker stated that the Trustees have recognised that part of their general oversight role is to ensure that there is sufficient consultation and due process. There was nothing explicit in the previous Constitution but in the revised Constitution, the agenda is presented and reviewed by the Trustees, but the IASB still has the final say. The Trustees have already gone through this process once and the next meeting will be in March 2006. Meetings to discuss the IASB's agenda will be held at least once a year. He noted that influence is a fine line and whilst the Trustees have a broader experience than members of the IASB, they will need to use their influence carefully.

Q: One Member State commented that there is no definitive answer on whether a principle-based or rules-based approach is better, but the rules-based approach is more costly to the preparer. Mr Volker stated in his speech that perhaps IFRS will have principles and some rules with the US using these same principles and rules, but adding further rules. Does Mr Volker see the risk in this approach whereby the US standards become de-facto worldwide rules?

A: Mr Volker stated that this was a very good description of the IASB's dilemma. How far a principles-based approach can be maintained will depend on how much weight can be put on the audit profession to ensure consistent application of IFRS. The last 10 years have not shown auditors in a good light but with the changes that have occurred to the regulation of the profession, hopefully this should help. Overall this is an unresolved issue.

Q: The Chairman asked Mr Volker to update the ARC on the funding of the IASB.

A: Mr Volker stated that initially the Trustees had obtained pledges for five years, with a third of this coming from audit firms. He stated that official funding via budget appropriations from national jurisdictions would not be good, but some sort of support for fees using a stock exchange listing formula for contributions may be the way

forward. This is how the funding in the US of FASB and the auditing board has been done. How this is done, by legislation, regulation or moral support has not been determined; however he wishes to encourage countries to do something.

At present, he is getting financing for a further two years to gain breathing room to work out a long term solution.

The Chairman thanked Mr Volker.

VII. TOWARDS A STANDARD REFERENCE FOR IFRS COMPLIANCE IN THE EU. ENDORSEMENT PROCEDURE CONTINUING INTO THE FOLLOWING YEAR A STANDARD REFERENCE FOR IFRS COMPLIANCE IN THE EU

The discussion on this section was organised in two distinct parts.

1) Standard compliance statement.

Further to the discussion at the ARC meeting on 8 November, the Commission proposed a revised standard formulation to express compliance with the accounting framework applicable to companies subject to regulation 1606/2002/EC ("IAS regulation"). The ARC was supportive of the following formulation for use in the notes to the accounts and in the audit report: "*in accordance with International Financial Reporting Standards as adopted by the EU*" or (abbreviated variant): "*in accordance with IFRSs as adopted by the EU*".

This formulation is close to the version proposed in November 2004 following the decision to "carve out" contentious sections of IAS 39. However, the explicit plural "IFRSs" underscores that IFRSs are endorsed one-by-one rather than as a package.

The term "as" is significant: it makes it absolutely clear that the statement should be read as "in the manner in which IFRSs have been adopted in the EU following the endorsement procedure" and not simply as "IFRSs that have been adopted".

One Member State wondered whether the standard formulation should also contain a reference to a precise date. The Commission clarified that the Commission Regulations endorsing IFRSs typically provide for a certain flexibility as regards the early application of IFRSs. Therefore, different options are available to companies when they prepare their accounts. However, companies that make use of the "early application" possibility should disclose this fact, as required by the related IFRS.

Another Member State enquired about the term "by the EU". The Commission confirmed that this wording –already in use since November 2004– had not raised any legal concern.

Two Member States further enquired about the possibilities for companies to use IFRSs not yet endorsed by the EU. EFRAG indicated that the question of IFRSs not yet endorsed by the EU but not in contradiction with endorsed IFRSs had been addressed in 2003.*

* [Note from the Commission services]: please refer to section 2.1.3. of the Comments regarding certain Articles of the IAS Regulation (November 2003).

The Commission undertook to post the revised standard formulation on the website of DG MARKT. This would supersede the standard formulations recommended in section 2.1.4. of the *Comments regarding certain Articles of the IAS Regulation* published in November 2003, and in the Frequently Asked Questions section issued in November 2004 following the "carve out" decision on certain elements of IAS 39. These earlier formulations are now obsolete.

2) Endorsement procedure continuing into the following year

The Commission explained that a question had arisen regarding what date should be used for the applicability of endorsed IFRS. This is especially relevant where the IASB publishes a standard before the balance sheet date of a company but it is endorsed by the EU and published in the Official Journal only after that date. The Commission Regulations endorsing IFRS typically require companies to apply the specified IFRS "... as from the commencement date of its [year] financial year at the latest." This mirrors the provisions in the related IFRS where there is an effective date and a provision where early application is encouraged. Therefore, the Commission informed Member States that Regulations endorsing IFRS published in the Official Journal and entering into force after the balance sheet date but before the date the financial statements are signed can be used by companies (but they are not obliged to) where early application is permitted in the Regulation and the related IFRS.

The challenge was now to accelerate the endorsement process and to publish the adopted standards shortly. While certain steps (such as publication) could be shortened by Commission services, other steps were in the hands of the European Parliament. The Commission undertook to contact Parliament to explore the possibility of reducing Parliament's three-month scrutiny right for the Commission Regulation on which the ARC had just issued a positive opinion. Receiving a green light from the Parliament already in December would allow the Commission to adopt the Regulation at the same time as the Regulation endorsing the cash flow hedge provisions under IAS 39. The Commission also reminded ARC Members to provide their comments on the different linguistic versions of the draft Commission Regulation discussed in the morning. The urgent availability of all final linguistic versions was essential for proceeding to publish the Regulation in the Official Journal as soon as possible after its approval by the Commission.

A number of delegations congratulated the Commission for this important clarification, which will provide legal certainty to companies and their auditors.

One observer noted that the accounting regulations adopted by the EU will need to be implemented in non-EU countries of the European Economic Area. This observer was concerned about a possible time difference between the availability of new accounting rules in the EU and their availability in the other EEA countries.

Several ARC Members called for a speedy communication of the outcome of this discussion. The Commission replied that it would be posted on the website of DG MARKT. EFRAG also offered to contribute to the diffusion of this information.

VIII UPDATE ON TECHNICAL ACTIVITIES, PARTICULARLY BUSINESS COMBINATIONS

EFRAG updated ARC Members on recent work carried out in the IASB and EFRAG, in particular as regards the joint IASB-FASB project on business combinations. The Exposure Draft released by IASB –which would significantly extend the scope of fair value accounting-

had been widely criticized. EFRAG had written to IASB to express its concerns about a number of aspects. Most probably, the deadline of end 2006 for the release of a new standard for business combinations will not be met.

Meeting of 30 November 2005

PARTICIPANTS' LIST

Austria

Financemarktaufsicht

Ministry of Finance

Ministry of Justice

Belgium

Commissie Boekhoudkundige Normen

Cyprus

Permanent Representation to the EU

Czech Republic

Ministry of Finance

Denmark

Danish FSA

Danish Commerce and Companies Agency

Ministry of Economic and Business Affairs

Estonia

Estonian Accounting Standards Board

France

Conseil National de la Comptabilité (CNC)

Ministère de l'Economie, des Finances et de l'Industrie (Trésor)

Finland

Ministry of Finance

Ministry of Social Affairs and Health

Germany

Bundesministerium des Justiz

Greece

Greek Accounting and Auditing Oversight Board

Hungary

Ministry of Finance

Ireland

Department of Enterprise, Trade and Employment

Institute of Chartered Accountants in Ireland

Italy

**Ministry of Economy and Finance
CONSOB**

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Accounting Institute

Luxembourg

Ministère de la Justice

Commission de surveillance du secteur financier

Malta

**Accounting Board
Ministry of Finance**

The Netherlands

Ministry of Justice

Poland

Ministry of Finance

Portugal

CMVM

CNC

Slovakia

Ministry of Finance

Slovenia

Spain

**Banco de España
ICAC**

Sweden

Ministry of Justice

United Kingdom

Department of Trade and Industry

OBSERVERS

Iceland

Icelandic Mission to the EU

Norway

Financial Supervisory Authority

Ministry of Finance

Romania

Ministry of Public Finance

Bulgaria

Ministry of Finance

European Institutions/Committees

European Central Bank (ECB)

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

Committee of European Securities Regulators (CESR)

European Financial Reporting Advisory Group (EFRAG)

Commission

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