

SUMMARY RECORD

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| <p style="text-align: center;">MEETING OF THE ACCOUNTING REGULATORY COMMITTEE OF 30 APRIL 2004</p> |
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M. David Wright, Director of Financial Markets at the Internal Market DG, European Commission, chaired the seventh meeting of the Accounting Regulatory Committee ("ARC"). No implementing measure featured on the agenda of this meeting.

In his opening remark, the Chairman indicated that Commission Regulation n°1723/2004 of 6 April 2004 adopting IFRS 1 "*First time Adoption of International Financial Reporting Standards*" had been published in the Official Journal of the EU of 17 April 2004.

Agenda point 1 - Approval of the minutes of the previous ARC

The minutes (ARC/2004-02-03/4) of the ARC meeting of 3 February 2004 were adopted.

Agenda point 2 – IAS 32 and IAS 39 – State of play

The Chairman invited Mr. Paul Rutteman, Secretary General of EFRAG (the "European Financial Reporting Advisory Group") to provide an overview of the current developments regarding IAS 32 and IAS 39.

Mr Rutteman explained that the problems raised by IAS 32 concerning the accounting treatment of cooperative shares (equity vs. liability) ought to be resolved in due course by an interpretation of IFRIC, the Interpretation Committee of the IASB. Mr Rutteman reported that IFRIC was due to finalise its interpretation in the coming weeks and issue it next June as an exposure draft for public comments with a view to a final adoption in September. Several delegations expressed support for the draft interpretation as it is and stressed the need that the options it offers be upheld.

Regarding IAS 39, Mr Rutteman explained that the IASB and the European banking industry were pursuing their discussions on hedging issues (macro-hedging effectiveness and hedging of demand/core deposits). Mr Rutteman added that the European Banking Federation had presented to the IASB a new hedge accounting method, the Interest Rate Margin Hedge, supplementary to the fair value hedge and cash-flow hedge approaches prescribed by IAS 39. Mr Rutteman considered that this more ambitious proposal that addresses the current shortcomings of IAS 39 in a more comprehensive way required further examination by the IASB, notably in respect of the on-balance-sheet disclosure of fair value changes of interest rate margin hedges and the measurement of effectiveness. Mr Rutteman explained the impact of IAS 39 on insurance companies, notably the insurance asset/liability mismatch, and the ways IFRS 4 allowed companies to alleviate it. Mr Rutteman also referred to the IASB's decision to re-expose a limited

amendment to IAS 39 restricting the use of the Fair Value Option in response to the concerns expressed by regulators and the European Central Bank.

After the presentation of EFRAG, the Chairman provided Member States with elements of context on the latest developments on IAS 32 and IAS 39 from the viewpoint of the Commission. The Chairman stated that progress had been achieved in respect of both standards, notably regarding loan loss provisioning, derecognition and the acceptance by the IASB of portfolio hedging (or macro-hedging). The Chairman added that the IASB also acknowledged that there remain serious issues under discussion. The Chairman underlined the need for a decision to be taken soon on the endorsement of IAS 39 in order to provide markets and companies with the certainty they need before 1 January 2005. The Chairman indicated that the Commission was nonetheless willing to wait until the end of May for the outcome of the ongoing discussions between the IASB and the European banking industry on hedging before taking stock and that meanwhile the Commission would continue to urge all parties to be reasonable and responsible and to come to solutions even on an interim basis. In this respect, the Chairman indicated that a presentational solution for the disclosure of cash flow hedges, pending a more robust approach on interest rate margin hedges, could represent a promising way forward. The Chairman added that at this stage, the Commission was not prejudging the orientation of its decision regarding the endorsement of IAS 39.

The Chairman then invited Member States to provide views and comments on this issue.

One Member State posed a series of questions on the way forward, suggesting that the most appropriate solution to bring certainty in the market and to allow companies to be ready in time, might be to postpone the date of application of IAS 39 until 1.1.2006. However, this Member State expressed concern about the political feasibility of such a proposal, because of its potential impact on financial markets, considering that the deadline of 1 January 2005 had been known for years.

Most Member States opposed postponing the date of application of IAS 39. Many reasons were invoked: advanced state of preparedness of companies, impact on European financial markets, impact on international agenda (convergence, etc...). One regulator stated that it was a matter of credibility for European capital markets to respect the deadline of 1.1.2005 set by the IAS Regulation.

Most Member States considered that progress had been made regarding both IAS 32 and IAS 39, whilst recognising that some important issues were still outstanding (e.g. insurance mismatch, hedging provisions, fair value option). One Member State added that since the perfect solution was out of sight, Member States should go forward since standard setting is an evolutionary process. Another Member indicated that it was not closing the door to any solution, while remaining very supportive of the position of the banking industry and hopeful that substantial progress could be achieved rapidly. Many Member States invited EFRAG to deliver its endorsement advice on IAS 39. The Chairman of EFRAG informed Member States that the Technical Expert Group was preparing its draft endorsement advice to the Commission.

Many Member States stressed that the situation had become critical in terms of timing for the endorsement of IAS 39 and that the market needed certainty. Nonetheless, all Member States agreed to last efforts being made before the end of May, suggesting that a mechanism be put in place to allow the Commission to consult them before taking a final

decision. The Chairman indicated that another meeting of the ARC would be held early or mid-June for this purpose.

Agenda point 3 - Presentation by EFRAG of the new standards part of the 1 January 2005 package

The Chairman invited Mr. Stig Enevoldsen, Chairman of the Technical Expert Group (TEG) of EFRAG to provide an overview of the standards recently released by the IASB.

Mr. Enevoldsen outlined the main principles of IFRS 2 *Share based Payment*, IFRS 3 *Business Combinations* (and subsequent changes to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*) and IFRS 5 *Non current Assets held or sale and Discontinued Operations*. At the end of his presentation, Mr. Enevoldsen concluded that overall, the new standards were improving the current accounting system and that as a consequence, EFRAG's draft endorsement letters were suggesting adoption through the ARC and the Commission.

In respect of IFRS 2 *Share based Payment*, two Member States enquired about the current situation in the United States, suggesting that the EU should align its calendar for endorsement of IFRS 2 on the US timetable for the adoption of a similar standard there, in order to create a transatlantic level playing field. A Commission representative explained that investors and securities regulators in Europe had been eagerly awaiting a standard on share-based payments, which was seen as one means to improve corporate governance across the board. Adding that it was debatable whether better accounting practices would put EU companies in a difficult position vis-à-vis US businesses, the Commission representative considered that it was nonetheless desirable that a similar standard be in place in the US as soon as possible after the adoption of IFRS 2. It was noted that the US Financial Accounting Standards Board ("FASB") had followed the steps of the IASB by issuing an exposure draft for a standard requiring the expensing of stock options and that this should resolve any issue related to the level-playing field between the US and the EU. One regulator added that the adoption of the new standard in the United States was likely to happen since the new proposal of the FASB was backed by the major players in the market and that as a consequence, Europe should demonstrate leadership. In response to a question on the potential negative impact of IFRS 2 on some employee share schemes, the Commission representative explained that the issue at stake was not considered material and should not delay the adoption of the standard. The Chairman noted that EFRAG had delivered a positive endorsement advice regarding IFRS 2.

Taking the latest developments regarding IFRS 3 *Business Combinations* as an illustration, a Commission representative drew Member States' attention on the need for the IASB to stabilise its standard-setting process: it was not acceptable that, soon after the release of IFRS 3, the IASB issued a new amendment with retroactive effect. Member States supported the general principle that the international accounting standard-setting process should become more orderly and adopt a pace compatible with the practical implementation of the standards. One regulator underlined the need for the IASB to stick to a stable platform of standards to be applied on 1.1.2005 and postpone the date of application of new standards to 2006/2007.

Agenda point 4 –State of play in the Acceding Member States

The observers from the Acceding Member States present at the meeting explained the state of play regarding the adoption or the application of IAS in their jurisdictions. In some Acceding Member States, IASs are either already allowed or of mandatory application for listed companies.

Agenda Point 5 – Miscellaneous

(i) CESR recommendation on Transition to IFRS

A representative of CESR presented CESR's "Recommendation for additional guidance regarding the transition to IFRS". The recommendation has been subject to public consultation and released in December 2003. This recommendation reflects best practice and invites listed companies to communicate as soon as possible on the possible effect of the conversion to IFRS on their financial statements in order to avoid a "Big Bang" approach and possible overreactions from capital markets. The CESR representative presented briefly the enforcement mechanism being put in place by CESR (enforcement network and common repository system) to ensure a proper and consistent enforcement of IAS/IFRS across the EU from 1 January 2005 onwards. The Chairman and Member States thanked the CESR representative for an interesting presentation.

(ii) Equivalence and convergence

The Chairman indicated that, to ensure a proper implementation of the Transparency Directive and the Prospectus Directive, the Commission and the European Securities Committee had decided to invite CESR to design a mechanism to assess the equivalence of IFRS and third country GAAPs, mainly US GAAP, Canadian GAAP and Japanese GAAP.

Regarding the convergence process between US GAAP and IAS, the Chairman said that the Commission had invited the US SEC to come forward with a road map for acceptance of IFRS without reconciliation to US GAAP.

(iii) Reform of EFRAG

The Chairman reported that EFRAG had finalized its constitutional review and outlined the major consequent changes:

- (1) Appointment of a full-time Chairman since 1 April 2004 and increase of EFRAG's staff;
- (2) Holding of public sessions of EFRAG TEG from June 2004 onwards;
- (3) Strengthening of the dialogue with the national standard setters and participation as observers at EFRAG TEG sessions of the Heads of the ASB, CNC and DRSC, i.e. the three EU liaison standard setters at the IASB;
- (4) Establishment of an Advisory Forum to discussion main accounting trends and economic impact (first meeting planned on 24 September 2004, issue: performance reporting);

- (5) Upholding of current EFRAG TEG's voting procedure (i.e. qualified majority required to reject a standard) and publication of dissenting views.

The Chairman concluded that those changes will help to increase the profile of EFRAG in the future. In response to a question raised one Member State, the Chairman confirmed that the Commission was considering the formal recognition of EFRAG as the technical adviser of the Commission.

(iv) IASB Governance

The Chairman indicated that the Board of Trustees of the IASC Foundation was currently reviewing the Constitution of the IASB on the basis of the feedback to the public consultation that ended on 10 February. The Chairman told the ARC that the Commission would participate, along side other members of the Standards Advisory Committee, to a joint-meeting with the Board of Trustees of the IASB on 2 June 2004 in New York to discuss ways and means to improve the governance and the functioning of the IASC Foundation and its main components (Board of Trustees, IASB, Standards Advisory Committee). A Commission representative added that the IASB had also issued an Exposure Draft on its due process for public consultation and that it would be important to ensure that the views of the EU on this matter are duly communicated to the IASB. The Commission representative indicated that the Board of Trustees of the IASC Foundation intended to implement its constitutional reform by mid-2005.

The Chairman of the ARC stressed again the need for a more balanced European representation on the IAS Board and a relaxation of the job specifications to fulfil to become a Board member. The Chairman reminded Member States of the collective European need to identify top class European candidates for future vacancies at the IASCF and at the IASB and invited them to put names forward.

The Chairman welcomed the new Member States to the European Union, thanked Member States for their participation and announced that the next ARC meeting would take place in June.

ACCOUNTING REGULATORY COMMITTEE

Meeting of 30 April 2004

PARTICIPANTS' LIST

Austria

Finanzministerium

Finanzmarktaufsicht

Belgium

Commission des Normes Comptables

Ministère des Affaires Economiques

Denmark

Danish Financial Supervisory Authority

Danish Commerce and Companies Agency

Finland

Ministry of Trade & Industry

Ministry of Finance

Insurance Supervisory Authority

France

Conseil National de la Comptabilité

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

Germany

Bundesministerium der Justiz

Bundesministerium für Wirtschaft und Arbeit

Greece

Ministry of Economy and Finance

S.O.E.L

Ireland

Institute of Chartered Accounts in Ireland

Department of Enterprise, Trade and Employment

Italy

CONSOB

ISVAP

Ministry of Economy and Finance

Banca d'Italia

Rappresentanza Permanente d'Italia

Luxembourg

Commission de Surveillance du Secteur Financier

Netherlands

Ministerie van Justitie

Portugal

CMVM

Spain

Banco de España

ICAC

Sweden

Ministry of Justice

United Kingdom

Department of Trade and Industry

OBSERVERS

Cyprus

Ministry of Finance

Czech Republic

Ministry of Finance

Estonia

Mission of Estonia

Hungary

Ministry of Finance

Latvia

Ministry of Finance

Poland

Ministry of Finance

Slovenia

Slovenian Institute of Auditors

Norway

Kredittilsynet

European Central Bank (ECB)

Banking Advisory Committee (BAC)

Committee of European Securities Regulatory (CESR)

**Committee of European Insurance and Occupational Pensions
Supervisors (CEIOPS)**

European Financial Reporting Advisory Group (EFRAG)

Commission

David Wright, Chairman of the ARC

Karel Van Hulle, Head of Unit "Accounting & Auditing"

Philippe Pellé, Secretary to the ARC

Mikael Lindroos

Thomas Scholz

Lars Vind Sorensen

Ulf Linder

Eurostat