

## **DRAFT SUMMARY RECORD**

### **MEETING OF**

### **THE ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE**

**10 MARCH 2008**

Mr Hooijer, Head of the Accounting Unit, DG Internal Market and Services chaired the thirtieth meeting of the Accounting Regulatory Committee and the first meeting of the Contact Committee in 2008.

#### **I. MINUTES OF THE MEETING OF 20 NOVEMBER 2007**

The Minutes were approved without any amendments.

#### **II. EQUIVALENCE: IFRS AND THIRD COUNTRY GAAPs**

The Commission services informed Member States about current developments as regards the future determination of equivalence of third country national GAAPs following the adoption of the Commission Regulation establishing the definition of equivalence and the equivalence mechanism at the end of last year.

The Commission services will present its second report on convergence between IFRS and third country national GAAPs and on the progress towards the elimination of reconciliation requirements that apply to the Community issuers in the course of April 2008, following CESR's technical advice.

Regarding the timetable for the determination of equivalence, the Commission services explained that it intends to submit its proposal concerning the determination of equivalence and/or transitional acceptance in May to the European Securities Committee (ESC) and to the European Parliament. Ideally, this proposal should be voted on in the ESC at the beginning of September to allow suitable time for the European Parliament and the Council for the exercise of their "right of oversight". Subsequently, the proposal should be adopted by the Commission and published in the Official Journal by the end of 2008.

CESR clarified in more detail the main conclusions of its upcoming advice.

#### *Comments by Member States*

One Member State enquired about Commission's views as regards Russian GAAP. Furthermore, this Member State stated that the US (SEC) does not recognise "IFRS as adopted in the EU" as being equivalent to US GAAP and recommended that this should be taken into account when deciding about US GAAP equivalence.

Another Member State highlighted the success of IFRS in Europe as well as in other parts of the world and noted that the differences between IFRS as adopted in the EU and full IFRS are insignificant.

One Member State could not envisage not recognising US GAAP as equivalent with IFRS. As regards Japan, this Member State commented that the situation seems to be less clear. The question was raised whether detailed technical work has been undertaken regarding Japan and whether the US would envisage accepting Japanese GAAP as equivalent.

The Chairman explained that Russian GAAP could not be considered equivalent with IFRS as there has been little progress on convergence. The Commission further explained assessment of the work by Japan is based on the CESR analysis made in 2005 and the 26 differences identified at this time. According to an announcement by the US SEC last year it was most unlikely that the existing reconciliation requirement would cease for Japanese GAAP; only full IFRS would be equivalent with US GAAP.

### **III. IASB GOVERNANCE**

The Chairman informed delegations that the report would be presented by the Commission on 14 March. The Chairman referred to three key developments in this area:

1. The report by Mr. Alexander Radwan MEP, which was voted in the EP's ECON Committee on 29 January and was on the agenda of the EP's Plenary session on 9-10 April.
2. The forthcoming review of the IASCF's constitution, which is due to be launched by mid-2008 and should be completed within two years. The IASCF intends to publish a comprehensive consultation document in the 2<sup>nd</sup> or 3<sup>rd</sup> quarter of this year, but will fast-track two issues. First, the creation of a public oversight board, in response to the Commission's joint statement with the US SEC, Japanese FSA and IOSCO published on 7 November. This will be the subject of a separate consultation to be issued during the 2<sup>nd</sup> quarter and the IASCF intends to complete this initiative by the end of 2008. Second, a proposal to increase the number of the IASB members from 14 to 16. This is largely driven by the IASB's increasing workload.

As was the case during the previous constitutional review (in 2004), the Commission will have the opportunity to make a written submission replying to the IASCF's consultation documents. The Chairman informed delegations that this issue would be included in the agenda of the ARC during a forthcoming meeting.

3. In parallel with the work to enhance the IASB's governance, the Commission is also exploring means to enhance the EU's ability to provide input to the IASB's work, in particular by guiding the latter's agenda-setting process. Our intention is to develop this by enhancing EFRAG, including by formalising the work done jointly with the national accounting standard-setters in the context of the PAAinE initiative. This would also involve a review of the overall governance and oversight arrangements.

A key aspect of this initiative is to ensure that EFRAG is sufficiently well-resourced. The Commission is currently analysing ways in which it could support EFRAG. This could however be a lengthy process. Some Member States have already established national funding mechanisms for EFRAG, for example via their national accounting standards-setter. In order to ensure that EFRAG has sufficient funds to continue developing its activities, the Chairman encouraged all delegations to take appropriate steps to facilitate the establishment of national funding mechanisms in their Member State.

A Commission representative then introduced the report.

#### **IV. EFFECT STUDIES ON FORTHCOMING ENDORSEMENTS. IFRS 3 REVISED (BUSINESS COMBINATIONS – PHASE 2)**

A Commission representative made an overview of the standards and interpretations coming up for endorsement during 2008.

##### *Effect Studies*

In accordance with wishes from the European Parliament, all (major) standards and interpretations up for endorsement will be accompanied by Effect Studies. These are similar in nature to the "Impact Assessments" presented alongside Commission legal proposals. There are however some differences taking the nature of the proposals into account.

Effect Studies should be made early in the standard-setting process. The IASCF has promised to do impact assessments for upcoming standards. The first such study was for Business Combinations Phase II. A shorter impact statement was also included in the recently presented change to IAS 32. For standards and interpretations already adopted by the IASB, the Commission and EFRAG will prepare Effect Studies.

The Commission Services are currently preparing Effect Studies for IAS 23 and IFRIC 12. The consultations have been concluded and the Studies will be finalised and sent to ARC members in April. The structure will be similar to that of the IFRS 8 Effect Study. For the following standards, EFRAG will prepare Effect Studies that will subsequently be analysed by the Commission and a "cover note" will be attached.

The Commission representative invited EFRAG to give an outline of ongoing work on Effect Studies. EFRAG will present Effect Studies for IAS 1 and IFRIC 14 in April 2008. The changes are quite minor and largely uncontroversial. The Effect Study for IFRIC 13 will be more comprehensive as companies will be contacted to discuss application issues related to the new interpretation.

Concerning the Annual Improvements project, the Commission representative informed that it is expected to be presented in April. This is an omnibus standard with a number of changes to existing standards. Most of these will be minor, many of a pure editorial nature. The foreseen Effect Studies may focus on the more substantial proposals. The issue of "IFRS branding" is unlikely to be included.

##### *Business Combinations Phase II*

The Commission representative invited EFRAG to give an overview of the recently presented Business Combinations phase II (changes to IFRS 3 and IAS 27). These changes were preceded by a lot of discussion at the time of the Exposure Draft. Subsequently IASB did substantial amendments to the standards. Notably an option to maintain certain current good will accounting solutions from IFRS 3 has been included. IASB staff has also prepared a feed-back statement and an impact assessment. EFRAG TEG has discussed these documents and found them useful, although there were sometimes discussions on the assessments made by IASB staff. EFRAG comments on the IASB impact assessment and endorsement advice is expected in June 2008.

##### *Outline of ARC endorsement work during 2008*

The Commission representative informed that nine standards and interpretations are expected to be discussed in the ARC during 2008. The timing is crucial as the Parliament will not accept new legislative texts after November 2008 due to the election of a new Parliament next year. After March next year the Parliament will not do any legislative work.

The Commission Services foresee that the standards and interpretations for endorsement will be dealt with in two sessions; for votes in June/July and in October. Some of the standards are important to endorse before the end of the year.

The Commission Services will endeavour to send Effect Studies and draft Regulations timely to Member States before the meetings.

#### *Comments by Member States*

One Member State highlighted the importance of impact assessment – also at national level – and urged the Commission to keep the timetable envisaged for the 2008 work.

Another Member State remarked that EFRAG so far had provided technical advice, and wondered whether the preparation of Effect Studies would call for changes in EFRAG. The delegate also asked whether this would change the tasks conferred to the Standards Advisory Review Group. Finally, it must be remembered that an Impact Assessment at international level may need to be adapted to fulfil the EU needs.

One Member State highlighted the importance of doing Effect Studies at the right time in the preparation process. This Member State disagreed with doing an impact assessment for IFRIC 12 at this point in time. Effect Studies must be made in a serious way and focus should be made on analysing all relevant aspects of a standard. The analysis should contain a fundamental analysis on whether the new accounting solutions are desirable or not. In the bank and insurance fields there is extensive experience in preparing such analysis.

Another Member State pointed at the difficulty of assessing the benefits to users. There is often a tendency to forget the general advantages of moving to the IFRS accounting framework.

Finally, one Member State highlighted the need to receive all documents timely in advance of the meetings.

The Commission representative emphasised the need for Effect Studies at an early stage in the preparation process of standards. The Chairman highlighted the need for having independent impact assessments at IASB level, and that this issue will be raised in the forthcoming IASB/IASCF governance review.

#### **V. REPORT ON THE FUNCTIONING OF THE IAS REGULATION**

A Commission representative made an overview of the studies on application of IFRS in 2005 and 2006.

In 2007 Commission conducted an extensive technical study on first year application of IFRS and implementation of Fair Value Directive. The study was provided by an external contractor, the Institute of Chartered Accountants of England and Wales (ICAEW). The study concluded that the implementation of the IFRS had been challenging but mainly successful experience. Some issues, especially as regards disclosures and national accents to IFRS accounts, were identified.

This study was used as a basis of Commission's report to European Parliament and Council on the functioning of the IAS Regulation, together with other input such as the CESR's review of the implementation and enforcement of IFRS in the EU. The final draft report has included comments received from ARC members at the 24 November 2007 meeting, as well as those received during the second comment period in January 2008. The final report is currently in the stage of formal approval by the Commission.

In order to evaluate the progress and learning curve on the IFRS reporting, the Commission has also decided to follow it up with one on IFRS application in the subsequent year, 2006. The objectives of this study are similar to those of the last year's study. In particular it will follow up the evolution and trends of the issues identified last year.

After an open tendering procedure, "INEUM Consulting" – a company based in France - was selected as contractor to carry out this study and has started its work. The focus is on the consolidated accounts of listed companies, but the study also includes some unlisted companies and individual accounts.

To get a wide range of information, INEUM will also contact national authorities, market regulators and professional accounting bodies in Member States. The Commission services encouraged Member States to provide assistance.

The final report is due by the end of 2008.

#### *Comments by Member States*

One Member State called for more involvement of the Member States during the drafting stage of the Commission Report on the first year application of IFRS.

Another Member State asked why the CESR report was not used as the basis of the Commission's report.

The Chairman recalled that Member States had indeed been asked to comment on the draft report and that the remarks have been taken into consideration in the current draft. As regards the CESR study, the Chairman explained that the Commission's objective is to get as broad overview as possible on the various application issues. CESR's report is more limited to the enforcement issues.

## **VI. SIMPLIFICATION OF ACCOUNTING RULES FOR SMALL AND MEDIUM-SIZED ENTERPRISES**

A Commission representative provided an overview of the latest developments.

Following the Commission Communication on a simplified business environment for companies in the areas of company law, accounting and auditing, which was published July 2007, the Commission held extensive consultation with external and internal stakeholders. In the context of a Commission-wide initiative to reduce administrative burdens in the EU, it was decided that three proposals would be included among the so-called "fast-track actions". This decision was made based on the feedback of the Commission consultation and taking due account of the tight timetable. The three measures are the abolition of the requirement for explaining formation expenses in the notes to the accounts and for breaking down the net turnover into categories of activity and geographical markets (4<sup>th</sup> Company Law Directive), and the clarification of the relationship between the IAS Regulation 1606/2002 and the Seventh Directive with a view to immaterial subsidiaries (7th Company Law Directive). The proposal for amendment can be expected during spring 2008.

Two Member States expressed their support for the inclusion of including the three proposals in the fast-track package but they said they were disappointed at the omission of the some of the other, more ambitious, proposals. One Member State speaker wished to know whether there would be an assessment of the impact of the three proposals and what the timeframe was for the other proposals.

Two Member States appreciated the Commission's current plans to go forward with the three proposals only. Both had had a real problem with the draft measure on micro entities.

The Commission representative explained that there was an impact assessment ongoing, as well as a large study, managed by DG Enterprise. Regarding the additional proposals, the Commission representative explained that the political will to push these forward was not present for the time being.

## **VII. CONSOLIDATION AND LANGUAGE REVISION**

A Commission representative gave an update on the consolidation and language revision project.

The Commission is preparing the consolidation and language revision of the IFRS and will publish a new text including all endorsed IFRSs as per 31 December 2007. It will enable constituents to refer to only one updated Regulation. At the same time the Commission will take the opportunity to correct previously identified translation errors. The Comments received from Member States will be taken into consideration in the revised translations.

The translation and revision work is being done by IASCF, who is the Commission's subcontractor for this translation. After the IASCF has finished its work the texts will be reviewed by Commission's Translation DG. The final versions are due by the end of April. Thereafter the texts will be sent to Member States for eventual final comments. Formal adoption is scheduled for the June ARC meeting. Although all standards in question have already been endorsed, the revised version will nevertheless, following a recommendation from the Commission's Legal Service, go through comitology procedure.

The task is very voluminous and the logistical challenges are considerable. Commission encouraged the Member States to signal potential problems with their language versions as soon as possible to Commission.

## **VIII. MISCELLANEOUS**

### **Transposition of Directive 2006/46/EC**

The Commission services reminded Member States about the approaching deadline for transposition of Directive 2006/46/EC (by 5 September 2008) and thanked Member States for providing information on the current state of play of the implementation following the Commission's written request. The Commission Services are currently analysing the received replies and, if needed, might contact some Member States bilaterally with supplementary questions. A preliminary assessment of Member States' replies indicated that there seems to be no substantial problems with the transposition.

The Commission invited one Member State, which notified in advance that it has some questions, to comment. This Member State asked the other Member States to provide information on how they had implemented the requirement to make an explicit reference to the Corporate Governance Standard used. This Member States furthermore asked whether Member

States consider self-regulation (meaning rules by professional associations etc.) to be sufficient. The Commission representative this issue briefly bilaterally with this Member State and expressed doubts about the admissibility of transposition of a Directive via self-regulation.

**Amendment of the IAS Regulation introducing the new comitology regulatory procedure with scrutiny**

A Commission representative informed Member States that the Council adopted on 3 March the text of the amendment of the IAS Regulation and it is expected that this Regulation will be published in the OJ and enter into force towards the end of March. As soon as the publication takes place, the Commission services will inform Member States.

# ACCOUNTING REGULATORY COMMITTEE AND CONTACT COMMITTEE

Meeting of 10 March 2008

## **PARTICIPANTS' LIST**

### Austria

Financial Market Authority (FMA)  
Ministry of Finance  
Ministry of Justice

### Belgium

Belgian Accounting Standards Board  
Fod Economie

### Bulgaria

Ministry of Finance

### Cyprus

Permanent Representation

### Czech Republic

Ministry of Finance

### Denmark

Danish Commerce and Companies Agency  
Danish FSA  
Ministry of Economic and Business Affairs

### Estonia

Ministry of Finance

### France

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

### Finland

Ministry of Employment and the Economy  
Ministry of Finance

### Germany

Bundesministerium des Justiz

### Greece

Ministry of Economy and Finance

### Hungary

Ministry of Finance  
Permanent Representation

### Ireland

Department of Enterprise, Trade and Employment



Italy

Bank of Italy

CONSOB

Ministry of Economy and Finance

Latvia

Ministry of Finance

Lithuania

Ministry of Finance

Luxembourg

Commission de Surveillance du Secteur Financier

The Netherlands

Ministry of Justice

Poland

Ministry of Finance

Portugal

CMVM

CNC

Romania

Ministry of Public Finance

Slovakia

Ministry of Finance

Office of Audit Oversight

Slovenia

Ministry of Finance

Spain

ICAC

Sweden

Ministry of Justice

United Kingdom

Department of Trade and Industry

## OBSERVERS

Iceland

Liechtenstein

Norway

Ministry of Finance

### European Institutions/Committees

European Central Bank

Committee of European Banking Supervisors (CEBS)

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

Committee of European Securities Regulators (CESR)

European Financial Reporting Advisory Group (EFRAG)

Standards Advice Review Group (SARG)

### Commission

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CROCI Remo, Secretary to the ARC/F3

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HRUDOVA Jitka/F3

LEPPILAHTI Arto/F3

MAJOROS Dora/F3

MONZON Angel/F3

TONNE Knut/F3