

Roundtable for the consistent application of IFRS

Summary Meeting Report

26 January 2007

Summary

The Roundtable discussed six new issues today. Two of these will be developed into Technical Papers for a further discussion at the next meeting. These issues are:

1. Regulatory Assets and Liabilities
2. IAS 17 Leases – exercise of renewal/extension options

A useful joint paper on the treatment of IFRIC rejections was discussed.

There was widespread support for greater representation of IFRS preparers in the IASB/IFRIC organisation. Such persons should have suitable technical expertise but also had to hold positions of sufficient seniority for their views to be recognised at appropriate levels.

Participation

The Chairman opened the meeting by emphasising the importance of the Roundtable for the consistent application of IFRS in Europe to both European constituents and the IASB. The active involvement at meetings and bringing new issues for discussion by *all* Roundtable participants was an essential ingredient for the Roundtable to fully meet its objectives. At the same time both IFRIC and the IASB need to react on a timely basis to issues which are, subsequent to a Roundtable recommendation, referred to them.

Overview of IASB/IFRIC activities

The IFRIC representative explained recent developments regarding the IFRIC due process. The Trustees have approved the following IASB proposals:

- The Agenda Committee will be integrated into IFRIC thus rendering the former's meetings public
- The status of IFRIC agenda rejection decisions, whilst providing some reasoning for the decision, are not part of authoritative IFRS literature
- The aim to increase the representation of IFRS preparers in the IASB/IFRIC (there are currently 4 vacancies in IFRIC).

Overall, it was agreed that these decision(s) would lead to improved transparency regarding the IFRIC due process, but would not simplify it or shorten its timeframe.

The Chairman concluded that there was a wish for vacancies in the IASB/IFRIC organisation to be filled with persons of suitable technical expertise which also held positions of sufficient seniority for their views to be recognised at appropriate levels.

Follow-up of issues from the last meeting

The IFRIC representative stressed that all three issues (de facto control, common control transactions and reassessments, reclassifications and redesignations on a business combination) which had been raised following the recommendation at the last Roundtable meeting should or could be dealt with through the IASB's revision of IAS 27 on "consolidation" and the "business combinations" exercise.

There was a discussion on the IASB's argument that if the issue can be dealt with as part of a Board project, it was not useful to ask IFRIC to prepare an interpretation at the same time (and probably within the same timeframe). However, participants expressed the view that in some cases there might still be an urgent need for IFRIC to provide clarification for the interim.

Concerning the particular issue of de facto control, some participants expressed dissatisfaction towards the attitude of IFRIC (IASB), as this issue has been around for a very long time, and thus IFRIC could have dealt with it by now. Some participants (e.g. FEE) indicated that they had hoped for clarity in time for the 2006 financial year end. The IASB Update statement (of October 2005) is not, from a legal perspective, conclusive.

The Chairman summarised the discussion in the area by confirming that the EU (including the EP and Member States) wanted the IASB to meet our expectations. We needed answers now and could not wait for several years. He asked the IFRIC representative to convey the message that if we do not get results the political mood in Europe would become very negative. He recalled that Member States may now want to discuss IASB governance every three months in Council. The Chairman concluded that in cases where a project would take some years to complete, there was majority of participants in support of having a short term temporary solution to use in the meantime.

IFRIC rejections

BUSINESSEUROPE, CESR and FEE presented a paper reflecting the conclusions from a meeting which had taken place in November 2006 on the potential treatment of IFRIC agenda rejection decisions. Based on the working assumption that an accounting policy applied in the financial statements issued prior to an IFRIC rejection note had been based on a reasonable interpretation of the relevant standards, the proposal is that – at least for a transitional period – there should not be an explicit distinction between treating such restatements as a change in accounting policy or as a correction of an error. Sufficient disclosure of the facts would nevertheless be necessary.

There was general support for the paper. However it was also acknowledged that in rare cases errors might be identified. The recent decisions regarding IFRIC due process by the IASCF demonstrate that some of the comments in section II have already been taken into account. The other comments remain valid. Finally, participants agreed that this paper be

presented at the forthcoming Accounting Regulatory Committee (ARC) meeting and published. CESR will present the paper at next week's ARC meeting.

Role of the Committee of European Securities Regulators

CESR gave a presentation on its structure and activities in the field of consistent application of IFRS. The cooperation between CESR and the SEC is of great interest, but as yet it was not very clear how, in practice, CESR would be involved in upcoming SEC enforcement decisions. CESR did not present any practical issues but indicated that the first publication of its decisions could be expected in March 2007 (57 decisions and 20 emerging issues so far discussed by the EECS). In June it will issue its report on its main experience of IFRS application. The Commission stressed the interest to have such issues discussed at the next Roundtable meeting.

General impression on the approach taken by the Securities and Exchange Commission in reviewing financial statements by foreign issuers

The accountancy profession gave a presentation of the approach being taken by the SEC in reviewing the financial statements of European issuers listed in the US. Major areas focused on were the presentation and disclosure of information in general and the information provided in cash-flow statements. Overall, the questions raised by the SEC were regarded as being relevant but detailed. Another issue discussed was the fact that the SEC will require reconciliations from financial statements prepared using IFRS "as adopted in" to full IFRS.

Issues Paper

Six issues were raised:

Issue 1: IAS 39 Derecognition

Conclusion: No further discussion necessary as the matter has already been taken up by IFRIC, although the IFRIC representative emphasised that the scope of the IFRIC project would be very limited.

Issue 2: Regulatory Assets and Liabilities

Conclusion: The Roundtable recommended that the issue be elaborated into a Technical Paper. This new paper will then be discussed at the next Roundtable meeting.

Issue 3: IAS 17 Leases – exercise of renewal/extension options

Conclusion: The Roundtable recommended that the issue be elaborated into a Technical Paper. This new paper will then be discussed at the next Roundtable meeting.

Issue 4: IAS 24: Ultimate controlling party

Conclusion: Many participants thought the issue was sufficiently clear and thus there was no widespread sentiment for taking the matter any further.

Issue 5: IFRS 3: Allocating the cost of a business combination

Conclusion: Many participants thought the issue was sufficiently clear and thus there was no widespread sentiment for taking the matter any further.

Issue 6: IAS 27: Exemption from the requirement to prepare consolidated financial statements

Conclusion: Many participants thought the issue was sufficiently clear and thus there was no widespread sentiment for taking the matter any further.

Observations of the accountancy profession on certain topics

The accountancy profession shared its experiences on three other accounting issues which, whilst these also seem to be problematic for consistent application, were not considered to warrant consideration for referral to IFRIC at this time.

Conclusion, preparation of new papers, next meeting

The Chairman concluded that the Commission will continue to follow up the three issues which have been referred to IASB/IFRIC as a result of the last Roundtable.

For the next meeting, the accountancy profession offered to develop the two new issues into Technical Papers for further consideration at the next Roundtable meeting. CESR was encouraged to present the problematic accounting issues with which it has been encountering. BUSINESS EUROPE agreed to present the revised Technical Paper on the treatment of Waste of Electrical and Electronic Equipment.

The paper on IFRIC rejections will be sent to ARC members and will be discussed at the next meeting of that committee.

Annexes: Issues Papers, BUSINESS EUROPE - CESR - FEE paper on IFRIC rejections