

SUMMARY RECORD

<p style="text-align: center;">MEETING OF THE ACCOUNTING REGULATORY COMMITTEE OF 14 JUNE 2004</p>

M. Alexander Schaub, Director General at the Internal Market DG, European Commission, chaired the eighth meeting of the Accounting Regulatory Committee ("ARC"). No implementing measure featured on the agenda of this meeting. The Chairman welcomed representatives of the new Member States for their first participation to the ARC meeting as full members.

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

The minutes (ARC/2004-04-30/4) of the ARC meeting of 30 April 2004 were adopted in written procedure.

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

In his introductory remarks, the Chairman underlined the importance for the credibility of the European financial reporting strategy to have in the EU common accounting rules on financial instruments on 1 January 2005.

The Chairman recalled that many shortcomings of IAS 32 and 39 had already been addressed by the IASB as a result of its continued dialogue with regulators and industry, notably regarding loan loss provisioning, derecognition and macro-hedging.

The Chairman confirmed that, as announced by Commissioner Bolkestein at the ECOFIN Council of Luxembourg, IAS 32 would be proposed for endorsement, adding that the issue of the accounting treatment of cooperative shares will be satisfactorily addressed by a draft IFRIC interpretation. The ARC will be invited to provide a formal opinion on the endorsement of IAS 32 at its meeting of 28 September, by which time the IFRIC interpretation on IAS 32 will be finalised and known to the ARC.

The Chairman added that the IASB had re-exposed the fair value option for public comments by 21 July. This Exposure Draft takes into account the concerns expressed by regulators and the ECB in defining strict circumstances under which companies can make use of that option. It is the intention of the IASB to finalise this amendment to IAS 39 in September that would then be considered for endorsement at Community level.

The Chairman said that the debate on IAS 39 was now concentrated on the hedging provisions of the standard and particularly hedging of core deposits, an issue of particular concern for the banking industry. The Chairman indicated that at the meeting of the High Level Group on IAS 39 (assembling the IASB, the ECB, the Basel Committee, CESR, CEIOPS, EFRAG, the banking and insurance industries and the Commission), the banking industry had put four remaining problems on the table, namely:

- (1) The presentation of cash flow hedges in the balance sheet,
- (2) The treatment of core deposits,
- (3) Hedge effectiveness and
- (4) Internal hedges

The Chairman explained the current situation concerning these four issues after the meeting of the High Level Group on IAS 39 of 9 June, underlining that:

- (1) a satisfactory agreement on a presentational solution for cash flow hedges was about to be concluded between the IASB and the European banking industry; that this solution would consist of the disclosure of changes in fair value of cash-flow hedges in a separate balance sheet line outside “core equity” and a footnote explaining the nature of that “cash flow hedge” line in order to facilitate the communication of the banks on this issue; that the Basel Committee had recommended to national banking supervisors to exclude cash flow hedges from the banks’ Tier 1 and Tier 2 capital;
- (2) the IASB agreed that hedging of core deposits was an issue of high priority to be addressed as a matter of urgency as confirmed in a public statement published by the IASB on 11 June where it declared its willingness to study the proposal of the European Banking Federation on Interest Rate Margin Hedges (IRMH); that the IASB was about to set up an ad hoc working group on IRMH that would report to the International Working Party on IAS 39; that meetings of the ad hoc group were already planned in June, July and September but that the IASB could not guarantee that it would publish an exposure draft on IRMH before the end of 2005;
- (3) the issue of hedge effectiveness could be addressed through a simplification of IAS 39 within the IRMH proposal and
- (4) the issue of internal hedges could be solved by an IASB interpretation, if need be, after re-examination by the banks and the IASB.

The Chairman added that EFRAG, the technical adviser of the Commission, had issued a draft letter recommending the endorsement of both IAS 32 and IAS 39 for public consultation until 5 July. The Chairman noted that EFRAG’s views were divided but that these opinions had been elaborated before the IASB had committed itself seriously to a speedy examination of the issue of core deposits as part of the ad hoc working group on interest rate margin hedges. The Chairman said that a final opinion of EFRAG would be available by 8 July.

At the end of his presentation on the current state of play, the Chairman then asked Member States whether, on the basis of progress achieved to date on IAS 39, taking into account the presentational solution elaborated by the IASB and the latter’s public commitment to work on interest rate margin hedges, they could envisage moving towards endorsement of IAS 39.

Supplementing his presentation, the Chairman also mentioned the existence of possible alternatives.

The Chairman opened the floor for comments.

The Chairman was asked by a Member State whether in terms of calendar, IAS 39 could still be endorsed in time for 1 January 2005. The Chairman explained that EFRAG's endorsement letter would be available on 8 July, that the Commission would give an indication on its policy choice at its meeting either of 14 or 20 July, that the ARC would be invited to provide a formal opinion on a Commission proposal at its September meeting and that the Commission would adopt that proposal in November 2004, so that in principle, a standard on financial instrument could still be in place on 1 January 2005.

In response to the question raised by the Chairman on the endorsement of IAS 39, **four Member States** said they **opposed the adoption of the current IAS 39**. One of these Member States insisted that it could not give a blank check to the IASB which was only invited to examine the current problems with IAS 39 and was under no obligation to deliver a solution. That Member State added that the present IAS 39 could force the business models of retail banks to be shifted from long to short lending durations and from fixed to variable interest rate. **Two of these Member States however added that they were ready to examine positively any half-way house solution that would accommodate the concerns raised by that standard (e.g. core deposits and hedge effectiveness), while the two others did not take a position on alternative solutions.** Among the latter, one Member State favoured an "adopt or reject" solution or, as a second best, postponing the endorsement of IAS 39, until improvements have been brought to it. Another Member State was particularly worried by the "instability" of an IAS 39 which might be endorsed in 2004 for application in 2005 and modification in 2005 or 2006, as this would mean additional costs and system changes for banks in Europe. That Member State hoped that the IASB could accelerate the examination of the IRMH proposal and come with an exposure draft before December 2004.

No Member State saw the rejection of IAS 39 as the outright solution.

Fifteen Member States were in favour of proceeding immediately with the endorsement of IAS 39 as it stands, on the basis of the balance sheet presentational solution for cash flow hedges proposed by the IASB and its commitment to seriously examine the proposal of the European Banking Federation on interest rate margin hedges. The arguments put forward were the following: need for a common base for all listed EU companies on 1 January 2005; convergence; need to create certainty in the market; avoid fragmentation of the market; debate about 10% of the standard for banks taking hostage the rest of the standard and the whole industry.

Six Member States were not in a position to offer a view, as they had not yet concluded their domestic consultations.

The Chairman thanked Member States for their contributions and asked them to submit or confirm their position in writing to the Commission by 30 June 2004 at the latest.

Agenda point 3- IASB's "Due Process"

The Chairman welcomed the decision of the IASB to launch a public consultation on the ways to improve its deliberative process and indicated that the Commission would contribute to it in providing comments and suggestions via a joint letter of the Commission and Member States through the ARC. The Chairman said that the IASB improvement proposals went in the right direction and incorporated suggestions that the Commission and the Member States had made in February in the context of the constitutional review of the IASC Foundation. The Chairman invited Member States to address their comment on the draft letter prepared by the Commission by 25 June at the latest.

Agenda point 4 – Miscellaneous

(1) IAS Translations in the new Member States

The Chairman provided some background information on the way that translation of IAS from English into the 10 other official languages of the EU-15 had been organised on the basis of a framework contract with the IASC Foundation, before the enlargement of the EU. The Chairman indicated that from 1 May 2004, it was the Commission's responsibility to organise the translations of IAS adopted into Community law in the 9 new languages of EU-25, but that it was of the responsibility of the new Member States to ensure the translation of the "*acquis*" prior to that date. The new Member States were invited to provide a status report on the translations of Commission Regulations EC/1725/2003 and EC/707/2004. The Chairman also invited the new Member States to provide information on the way they had organised the translation of the *acquis*, including information on the composition of review committees, etc.

(2) Service Concession Arrangements

One Member State signalled the importance to obtain a clear message from IFRIC, the interpretation committee of the IASB, on the accounting treatment of service concessions under the existing set of IASs, in the absence of a specific standard on concessions. The Chairman explained that the Commission was aware of this issue which is related to the recognition of assets, expenses and losses under service concession arrangements between private investors and public concession providers. The Chairman indicated that EFRAG was about to set up a working party comprising users, preparers, auditors and regulators in order to find an appropriate solution, which could be presented to IFRIC to help accelerate its work.

The Chairman thanked the Member States for their participation and announced that the next ARC meeting would in principle take place in September, without excluding that an exceptional meeting be called in July, if needed.

ACCOUNTING REGULATORY COMMITTEE

Meeting of 14 June 2004

PARTICIPANTS' LIST

Austria

Justizministerium

Finanzministerium

Finanzmarktaufsicht

Belgium

Commission des Normes Comptables

SPF Economie

Fod. Economie

Cyprus

Ministry of Finance

Czech

Ministry of Finance

Denmark

Danish Financial Supervisory Authority

Danish Commerce and Companies Agency

Estonia

Ministry of Finance

France

Conseil National de la Comptabilité (CNC)

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

Permanent Representation

Finland

Permanent Representation

Germany

Bundesministerium der Justiz

Permanent Representation

Greece

Ministry of Economy and Finance

S.O.E.L

Hungary

Ministry of Finance

Permanent Representation

Ireland

Institute of Chartered Accounts in Ireland

Department of Enterprise, Trade and Employment

Italy

CONSOB

ISVAP

Ministry of Economy and Finance

Permanent Representation

Latvia

Ministry of Finance

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Lithuania

Ministry of Finance

Accounting Institute

Luxembourg

Commission de Surveillance du Secteur Financier

Netherlands

Ministerie van Justitie

Ministry of Finance

Poland

Ministry of Finance

Portugal

CMVM

CDNC

Slovakia

Ministry of Finance

Slovenia

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Spain

Banco de España

ICAC

Sweden

Ministry of Justice

United Kingdom

Department of Trade and Industry

OBSERVERS

Norway

Kredittisynet (FSA Norway)

European Institutions

European Central Bank (ECB)

Committee of European Banking Supervisors (CEBS)

Committee of European Securities Regulatory (CESR)

Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS)

European Financial Reporting Advisory Group (EFRAG)

Commission

Alexander Schaub, Director General of the DG Internal market, Chairman of the ARC – Agenda Item 1 & 2

Karel Van Hulle, Head of Unit "Accounting & Auditing", Chairman of the ARC – Agenda Item 3 & 4

Philippe Pellé, Secretary to the ARC