MEETING OF

THE ACCOUNTING REGULATORY COMMITTEE

24 JUNE 2014

ARC members observed a minute of silence in memory to Mr Jérôme Haas, the President of the Autorité des Normes Comptables and a member of the French delegation to ARC who passed away suddenly on the 8th of May.

1. Approval of the draft agenda

ARC members approved the agenda of the meeting.

2. Commission's update

a. Governance review of EFRAG

On 16 June the General Assembly of EFRAG approved amendments to the statute of EFRAG aimed at implementation of the governance reforms proposed by Mr Maystadt. The Chairman thanked EFRAG, in particular Mr Hans van Damme the acting Chairman of the EFRAG's Supervisory Board and the members of the dedicated taskforce for all efforts put in this process. The new statute will be applicable as of 31 October 2014. On that day the new General Assembly of EFRAG will meet to appoint a nominated Chairman of EFRAG. The European Commission will nominate a candidate to this post. The candidate will be in consultation with the Council and the European Parliament.

One of the important aspects of the reform is extending membership of the organisation. In the meeting of 16 June, the General Assembly approved 8 new members – 7 national funding mechanisms namely from France, Germany, Italy, Luxembourg, the Netherlands, Sweden, the United Kingdom as well as a new stakeholder organisation – The European Federation of Financial Analysts Societies.

b. Evaluation of IAS Regulation

The Chairman informed on the nomination of experts to the informal expert group which advises and assists Commission services in the evaluation of the IAS Regulation; the group's dedicated website can be found at:

http://ec.europa.eu/internal_market/accounting/governance/committees/evaluation/index_en.htm

The group is composed of 11 organisations (selected out of more than 25 applications) and 7 Member State authorities, appointed for a period of 12 months. Commission services regret that no member of the civil society applied to this call. The Commission will seek input from civil society through other means to ensure all views are taken into account. The first meeting of the group, on 15 July, will be devoted to preparation of a public consultation on the Regulation.

ARC members will shortly be asked for their verification of a snapshot on the use of Member State options and of IFRS in their countries, based on their earlier contributions.

Commission services expect to produce a report from the Commission to the European Parliament and the Council on the evaluation by the end of 2014.

c. <u>Meeting of the IFRS Monitoring Board</u>

The IFRS Foundation Monitoring Board met on 13 June in Madrid. It was the first meeting of the Board since two new members joined, i.e. Financial Services Commission of Korea and Comissão de Valores Mobiliários of Brazil.

Amongst other issues, the Board discussed, the governance of the IFRS Foundation with Mr Michel Prada, chairman of the Foundation's Trustees. Mr Prada made two important points. First, the Foundation will soon produce an explanation as to why it is incorporated in Delaware (USA) despite the fact that its main operations are conducted from London. Second, the Foundation will also consider this matter further under its 2015 governance review.

At the request of the Commission, the Board also discussed long-term investment considerations in the accounting standard-setting process. The Board will discuss this issue further in the future and the Commission will keep ARC members informed about the outcome of these discussions.

d. <u>The accounting directive – country by country reporting</u>

The Chairman informed the members, in the context of the implementation of the country-by-country reporting obligations of the new accounting directive, that the Commission intends to launch a public consultation on whether there is a need for additional equivalence criteria to those set out in the directive. The directive delegates power to the Commission to adopt the list of additional criteria for equivalence in the form of a delegated act. Following the work on the general equivalence criteria the Commission can take individual decisions concerning the equivalence of the reporting obligations of a third country. The consultation should be launched still in June with a 3 to 4 month period for replies.

Two members asked about the application of the Dodd-Frank act in the US concerning country by country reporting. They were concerned that the European rules are modelled on the US solutions, whereas the US is moving backwards after the court ruling. The Chairman confirmed that the Commission is engaged in the discussion with the SEC to clarify the situation in the US.

3. IASB technical project – Conceptual Framework

The Chairman welcomed Peter Clark, IASB Technical Director to the meeting. The Chairman noted that this is a significant project on which considerable work has already been done in Europe, in particular through EFRAG with the publication of Bulletins and a comment letter to the IASB. He also observed that the project has political significance and that there has been particular interest in the question as to whether the IASB would reinstate the concept of prudence. He invited the IASB Technical Director to update ARC members about the key developments on the project since the previous year.

The representative of EFRAG commented that EFRAG is reasonably pleased with the way the project is developing in terms of its scope and timing and the approach to problem solving which is not simply an academic exercise. She emphasised the quality of the standard-setting process and that discussions at ASAF are helpful. Commenting on some specific areas, she noted: that the concept of stewardship is being developed in the right direction but that EFRAG would need to consider the ED; that there is a need for strong recognition thresholds whilst there is a trade-off between relevance and reliability and EFRAG does not believe that a convincing case for this trade-off has yet been made nor that disclosures can compensate; on prudence, EFRAG would expect that there should be more clarity, the idea of asymmetry being a possible outcome should be acknowledged and also the fact that prudence does not bring bias. The ED should be unambiguous to avoid giving the impression that differing views and expectations have been met; EFRAG is not happy with the current position on the split between profit or loss / other comprehensive income which is not clearly articulated – it would encourage more thinking on the role of the business model and prudence to help elaborate these issues.

The Chairman invited questions or comments from the floor and began by asking what the concrete effects of long term investors being included as part of the user group would be for future standards; The IASB Technical Director said it was perhaps too early to envisage what particular needs these users might have but it would be a case of understanding their needs and analysing whether they were in any way different from those of other users. One Member State noted that in respect of the users of financial statements, the IASB statutes state that it works in the "general interest" and therefore the Conceptual Framework should encompass users in a much broader sense because of the impact of standards on the general economy and the way in which businesses are run. Others commented that primary users should explicitly include supervisors and regulators who rely heavily on the financial statements. The IASB Technical Director noted that the Constitution does refer to setting standards in the public interest but this does not mean that standards should be set for economic or fiscal reasons. The Board and Trustees see its role as concentrating on what kind of information is useful for economic decisions. On the needs of supervisors, the Board does not see them as primary users as they can access information in different ways and do not have to rely solely on the financial statements.

In this context, there were comments on the importance of the distinction between debt and equity, in particular for supervisors, and the IASB Technical Director said input from supervisors on this area would be very helpful for the IASB. He also noted that disclosures on equity instruments are probably insufficient.

Two Member States commented on the need for a proper distinction (with more positive definitions) between profit or loss accounts and other comprehensive income as the accounting profit is a significant figure. It was suggested that the objective of providing information useful for stewardship should not conflict with that of providing useful information; it was not evident that there are any examples to illustrate this and the IASB should find some examples where the two objectives cannot be met to illustrate their case. On stewardship, the IASB Technical Director noted it is unclear to what extent buy, hold or sell decisions have different information requirements and it is hard to find many examples but the idea of making stewardship more prominent is one the Board will keep it in mind and consider any possible different needs.

A number of Member States commented on prudence, its meaning and relationship with neutrality. The IASB Technical Director confirmed that it is very important to be clear about what is meant by prudence and to avoid any ambiguity. The Board certainly thinks prudence should be contributing to neutrality and not be inconsistent with it.

Two Member States pointed to the need for the IASB to do further analysis on the question of neutrality and prudence. The Board could analyse responses to more contentious proposals in recent years (for example, the proposals to revise IAS 37 to a more symmetrical presentation of assets and liabilities which were largely rejected) and consider whether a revised conceptual framework would move them closer or further away from their constituents. The board could also look at decisions it has taken on existing standards and see where asymmetry leads to a good result. The IASB Technical Director replied that there are two different levels in neutrality: what will the standard require and how will a preparer apply this? In the latter case, caution in making decisions is needed and more might be done on this point in IAS 1. In terms of guidance for the Board, it may be one thing to acknowledge asymmetry as a possible outcome but it might not be useful and helpful to require that asymmetry is an input to the decision making process.

Another Member State commented on the fact the Conceptual Framework is a very difficult subject not only because of inter-linkages between different parts of the project but because the IASB is not planning to modify existing texts. The broad approach being taken by the project could very well lead to inconsistencies with and between existing texts; eg. not having thresholds for assets and liabilities. The IASB Technical Director responded noting there could be a risk in one or two areas where there is the need for considerable judgement; for example, the proposals to use relevance and faithful representation for recognition criteria could be rather abstract concepts and the text will include a list of factors for the Board to consider but these will be judgemental decisions.

One Member State highlighted the importance of the Business Model concept. The IASB Technical Director said the Board would be discussing this in June. The staff recommendation will be that it is not useful to have an overarching business model embedded in Conceptual Framework because it might be too inflexible but that it could be useful for measurement, presentation and disclosures.

The Chairman noted that the Conceptual Framework would continue to be an important topic area in Europe.

4. Revenue recognition – IFRS 15

The Chair noted that IFRS 15 was only published in May and that it was probably too early to discuss its content. However, he invited ARC members to consider whether they saw a need for EFRAG to carry out any extra work with regard to this standard.

After EFRAG presented the results of its work on IFRS 15, the Chairman opened the floor for comments.

One Member State was against additional field tests and in favour of endorsing the standard swiftly because telecom companies located in that Member State had already started implementing it.

One Member State suggested EFRAG should follow up on its past work in line with the final text of IFRS 15. This Member State also expressed concerns about the "transition group" that the IASB and FASB created to facilitate the implementation of the standard. Finally, the same Member State wanted the process of the endorsement of IFRS 15 to be run under EFRAG's new governance arrangements.

One Member State asked EFRAG to look into whether the standard's effective date (1 January 2017) gives companies enough time to implement it.

One Member State wanted to know EFRAG's own assessment of its work.

The Chair summed up the discussion by saying that with the exception of the standard's effective date, ARC members did not identify any major problem necessitating extra work. The endorsement of IFRS 15 should be launched shortly.

5. IFRS endorsement

a. Amendments to IFRS 11 – Accounting for acquisition of interests in joint operations

The Chairman informed that the Commission intends to seek the opinion of the Committee on the endorsement of amendments to IFRS 11 by a written procedure unless the members see any significant issues that should be discussed. The ARC members did not have any objection.

b. **Amendments to IAS 16 and IAS 38 – clarification of acceptable methods of depreciation and amortisation**

The Chairman informed that the Commission intends to seek the opinion of the Committee on the endorsement of amendments to IAS 16 and IAS 38 by a written procedure unless the members see any significant issues that should be discussed. The ARC members did not have any objection.

c. **IFRS 14 – interim standard on rate regulated activities**

The Chair recalled that during the previous ARC discussion on IFRS 14, nearly all Member States that took the floor expressed their strong reservations about this standard. The Chair informed the meeting that the Commission decided in this context not to endorse this interim standard but to wait for the final one instead. The Commission does not consider this to be a carve-out and plans to write to the IASB to explain the situation.

One Member State said that it fully supported this decision.

One Member State said that it supported the decision of the Commission provided that it would not amount to a carve-out. The same Member State indicated that it would be open to discuss this issue further.

Three Member States wanted to discuss IFRS 14 further at the following ARC meeting with one of them raising concerns over a possible carve-out.

The Chair agreed to put this formally on the agenda of the September ARC meeting.

6. **Transatlantic Trade and Investment Partnership (TTIP) – mutual recognition agreements of professional qualifications for accountants and auditors.**

The Commission informed the ARC members that the idea of mutual recognition of the profession of accountants and auditors is considered in the context of TTIP negotiation between the EU and US. Further details should follow in coming months, notably on the scope. Some members pointed out that auditors are regulated at EU level while the regulation of the profession of accountants is a Member State competence. Members asked for more detailed information about the objectives of the TTIP in this area and to be kept informed about further developments.

Next meetings:

1. 23 September 2014

2. 27 November 2014

ACCOUNTING REGULATORY COMMITTEE

Meeting of 24 June 2014

PARTICIPANTS

Austria
Federal Ministry of Finance
Belgium
Commission Normes Comptables
Ministry of Economy
Bulgaria
Absent
Croatia
Absent
Cyprus
Absent
Czech Republic
Ministry of Finance
Denmark
Danish Business Authority
Estonia
Absent
Finland
Ministry of Employment and the Economy
France
Ministère de l'Economie, des Finances et de l'Industrie
Autorité de Normes Comptables
Germany
Bundesministerium der Justiz
Greece
Absent
Hungary
Absent
Ireland
Department Enterprise, Trade and Employment
Italy
Ministry of Economy and Finance
Banca d'Italia
Latvia
Ministry of Finance
Lithuania
Ministry of Finance
Luxemburg
Commission de Surveillance du Secteur Financier
Ministry of Justice
Malta
Absent

The Netherlands
Ministry of Security and Justice
Poland
Ministry of Finance
Portugal
Absent
Romania
Permanent Representation of Romania to the EU
Slovakia
Ministry of Finance
Slovenia
Ministry of Finance
Spain
ICAC
Banco de España
Sweden
Ministry of Justice
United Kingdom
Department for Business, Innovation and Skills
Financial Reporting Council

OBSERVERS

Iceland
Absent
Norway
Absent

European Institutions/Committees
European Insurance and Occupational Pensions Authority (EIOPA)
European Central Bank (ECB)
European Financial Reporting Advisory Group (EFRAG)

European Commission – DG MARKT
MILLEROT Didier, Head of Unit
LEDURE Valerie
DECROOCQ Vincent
FURMANSKI Wojciech
ROBEY Dawn
SWISTUN Piotr
ZACH Zbigniew