

To: Public Affairs Group; ECOFIN Committee; Accounting Steering Group; CPR Committee

Accounting Standards – European Commission adopts amendment to IAS 39 and IFRS 7

| Latest developments

Finance ministers had discussed at their ECOFIN Council meeting on 7 October, among other issues, the current financial crisis, where they stressed the need to align EU and US accounting rules and recommended supervisors and auditors to apply the recent IASB guidance on the flexible application of mark to market valuation under IFRS.

As a response to this call, and on the basis of the recommendation of the Accounting Regulatory Committee (composed on Member States representatives), the European Commission (EC) has yesterday 15 October adopted an [amendment to Regulation 1725/2003 adopting certain international accounting standards](#). These amendments are meant to ease the financial turmoil consequences by ensuring flexibility to European companies to reclassify financial assets held-for-trading into the held-to-maturity category. As a result, European companies will be placed at the same position as their US counterparts with regards reporting rules, and EU financial institutions will not need to reflect market fluctuation in their financial statements for these kinds of assets.

The changes to the Regulation will have retroactive effect and will apply as from the third quarter of 2008 (as from 1 July 2008).

The Commission has stated that “given the turbulence in financial markets, it will continue to monitor all accounting issues that could impact on the stability of financial institutions and financial markets”.

Furthermore, the EC has announced that it will organize a meeting in the coming days with all stakeholders to consider other possible issues under IAS 39 and IFRS 7. The Commission intends in particular to review the fair value option, embedded derivatives and insurance questions. The EC has stated that an in-depth reflection is needed on fair value accounting, including possible procyclicality effects, and has publicly requested the IASB and CESR to “begin work immediately in order to find appropriate solutions in the public interest taking into account an appropriate level of transparency”. The Commission suggests furthermore that these issues are discussed within the working group on procyclicality of the Economic and Financial Committee (EFC – composed of member state finance ministries, national central banks and ECB, and the EC).

In the context of the current financial crisis, the European Commission President has created within the College of Commissioners a permanent steering group to look at developments on the financial crisis. The group will be chaired by Barroso himself and is composed of Economic and Financial Affairs Commissioner Joaquin Almunia, Competition Commissioner Neelie Kroes and Internal Market and Services Commissioner Charlie McCreevy. In this context, the EC President has also created a High Level Group to look at the supervisory architecture at EU level. This High Level Group, composed of experts and chaired by President of the EBRD Jacques de Larosière, should lay the ground for building consensus on cross-border supervision.

| Next steps

The amendments on the reclassification of financial assets will apply retroactively as from 1 July 2008.

The EC plans to propose further amendments to IAS 39 and IFRS 7 before the end of October.

| For more info

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