

Brussels, 15 October 2008

## **Accounting standards: Commission adopts changes to mitigate consequences of financial turmoil**

*The European Commission has today adopted amendments to accounting standards, with the unanimous support of Member States. The changes to the accounting standards are intended to mitigate the consequences of the recent turbulence in financial markets. These amendments ensure that EU companies have the same flexibility as their American competitors to reclassify assets held-for-trading into the held-to-maturity category. The current financial crisis justifies the use of reclassification by companies. In these circumstances, financial institutions in the EU would no longer have to reflect market fluctuation in their financial statements for these kinds of assets. These changes will apply as from the third quarter of 2008.*

Internal Market Commissioner Charlie McCreevy said: "By adopting these amendments, the Commission has responded in record time to the request of the ECOFIN Council on 7 October. I commend the European Parliament and the Member States in the Council without whose excellent co-operation, this would not have been possible. This shows once again that the EU is responding quickly and decisively to the current financial turbulence. I also welcome the speed with which the International Accounting Standards Board and all bodies involved in the endorsement process have responded to the ECOFIN conclusions."

### **Responding to the ECOFIN request**

On 7 October, the ECOFIN Council adopted the following conclusions related to accounting standards:

"We underline the necessity of avoiding any distortion of treatment between US and European banks due to differences in accounting rules. We take note of the flexibility in the application of mark to market valuation under IFRS as outlined in recent guidance from the IASB. Ecofin strongly recommends that supervisors and auditors in the EU apply this new guidance immediately. We also consider that the issue of asset reclassification must be resolved quickly. To this end, we urge the IASB and the FASB to work together on this issue and welcome the readiness of the Commission to bring forward appropriate measures as soon as possible. We expect this issue to be solved by the end of the month, with the objective to implement as of the third quarter, in accordance with the relevant procedures."

These conclusions echoed the statement issued by the Summit of European G-8 Members meeting in Paris on 4 October and were reiterated by the Summit of Euro-area countries meeting in Paris on 12 October.

## Next steps

In the context of the vote held in the Accounting Regulatory Committee on 15 October, the Commission stated that given the turbulence in financial markets, it will continue to closely monitor all accounting issues that could impact on the stability of financial institutions and financial markets and will keep under constant review the implementation of IAS 39 and IFRS 7. The Commission declaration in the Accounting Regulatory Committee can be found at [http://ec.europa.eu/internal\\_market/accounting/committees\\_en.htm#arc](http://ec.europa.eu/internal_market/accounting/committees_en.htm#arc)

## Background: amendments to IAS 39 and IFRS 7

On 13 October, the IASB adopted amendments of IAS 39 *Financial Instruments: Recognition and Measurement* and of IFRS 7 *Financial Instruments: Disclosures*.<sup>1</sup>

The amendments to IAS 39 introduce the possibility of reclassifications for companies applying International Financial Reporting Standards (IFRS), which were already permitted under US Generally Accepted Accounting Principles (GAAP) in rare circumstances. The amendments to IFRS 7 introduce additional disclosure requirements linked to these reclassifications in order to ensure full transparency for users of financial statements.

The IASB's approach fully achieves the objectives set out by the ECOFIN Council of 7 October, i.e. to place EU companies at the same position as its competitors as far as reporting rules are concerned. The amendment would also be applicable as of the third quarter of this year (periods starting after 1 July 2008) as requested by ECOFIN.

The European Financial Reporting Advisory Group (EFRAG) issued a favourable technical endorsement advice to the Commission on 14 October,<sup>2</sup> while the Standards Advisory Group (SARG) today formally confirmed that this technical endorsement advice is objective and well-balanced.<sup>3</sup>

The Commission Regulation will be published as soon as possible at the following address:

[http://ec.europa.eu/internal\\_market/accounting/ias\\_en.htm](http://ec.europa.eu/internal_market/accounting/ias_en.htm)

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1 <http://www.iasb.org/News/Press+Releases/IASB+amendments+permit+reclassification+of+financial+instruments.htm>

2 [http://www.efrag.org/news/detail.asp?id=2\\_62](http://www.efrag.org/news/detail.asp?id=2_62)

3 [http://ec.europa.eu/internal\\_market/accounting/ias\\_en.htm#standards](http://ec.europa.eu/internal_market/accounting/ias_en.htm#standards)