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Jeff Singleton
International Accounting Standards Board
30 Cannon Street
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Oslo, 29 March 2007

Dear Sir

Exposure Draft of *Proposed Amendments to IFRS 1 "Cost of an Investment in a Subsidiary"*

We appreciate the opportunity to comment on the Exposure Draft (ED) of *Proposed Amendments to IFRS 1First-Time Adoption of International Financial Reporting Standards "Cost of an Investment in a Subsidiary"*. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We support the proposed amendments to IFRS 1 related to cost of an investment in a subsidiary as set out in the exposure draft, further we concur with the considerations given in basis for conclusions. We thus find the solutions in the exposure draft to be appropriate in regard to the issue of establishing the cost of an investment in a subsidiary.

However we want to point out that the challenges facing first time adopters in determining cost in accordance with IAS 27 are the same as those facing first time adopters in determining cost in accordance with IAS 28 and IAS 31. In our view the arguments supporting the proposed amendments applies equally well to investments in associates and joint ventures. We do recommend that the board inserts a specific statement making it clear that the options in B4 to B6 apply equally to investments in associates and joint ventures.

Yours faithfully
Norsk RegnskapsStiftelse

pp Håkon Sæther

Erik Mamelund
Chairman

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Jon Nelson
International Accounting Standards Board
30 Cannon Street
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Oslo, 04 May 2007

Dear Sir

Discussion Paper *Fair Value Measurement*

We appreciate the opportunity to comment on the Discussion Paper *Fair Value Measurement*. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We welcome the initiative of the IASB to locate in one standard the literature on how to measure fair value when IFRSs require its use. We see a great benefit in an accurate description of the fair value measurement concept.

However we are not convinced that it is a good solution to have one standard that incorporate both the measurement criteria and the cost/benefit considerations that is currently included in those standards that require fair value measurement. We recommend instead that the standard on fair value measurement is kept conceptual and internally consistent, and that the application of this fair value measurement is determined, with standard specific appropriate modifications, in each separate IFRS or IAS. In our view the standard should contain the principles of a measurement attribute applicable to all possible situations (as expressed by level 1, 2 and 3 in the fair value hierarchy) and not include cost benefit considerations unless these considerations apply to all situations. Such adjustments and cost benefit considerations should be incorporated in the separate standards that require fair value measurement.

Our detailed comments are set out in the appendix to this letter. We have not provided any feedback to your question 10, 25 and 26.

Yours faithfully
Norsk RegnskapsStiftelse

pp Hege K. Sæther
Erik Mamelund
Chairman

Appendix – responses to specific questions

Q1 In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or why not?
We believe that a single source of guidance is a good solution. There may be situations regulated in specific standards that warrant departures from the general guidance, and such cases will need proper justifications. For instance, we believe that any exceptions from fair value measurements due to unreliable measurements would belong to specific standards.

Q2 Is there fair value measurement guidance in IFRSs that you believe is preferable to the provisions of SFAS 157? If so, please explain.
No.

Q3 Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not?
We will answer this question from the perspective of the investor as the primary financial statement user; i.e. we disregard in this context what kind of fair value measurement would be most useful for stewardship purposes. From the perspective of the investor's use our answer is: yes, fair value should be an exit price (or exit value).

In our view the IASB cannot avoid taking a position on the question of choosing either the entry value or the exit value as the general measurement perspective. This is because entry value and exit value refers to two different reporting logics, the former to replacement cost accounting (much favoured by academics in the inflationary 1970's and 80's), and the latter to fair value accounting which suits the measurement perspective, much in favour presently. The measurement perspective is all about assessing the future cash flows of the company, for which the exit value has a direct significance, whereas the entry value, together with historical costs, has a more indirect bearing. The concept of fair value as it is used in existing IFRSs is mostly an exit value, and we believe that a choice of a consistent concept at this stage could hardly be entry value, without discussing the entire reporting model again. Therefore we recommend exit value as the single fair value concept.

Q4 Do you believe an entry price also reflects current market-based expectations of flows of economic benefits into or out of the entity? Why or why not? Additionally, do you agree with the view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.
Inviting your respondents to comment on such fundamental issues, you could have explained the concepts more clearly. Most accounting textbooks since Edwards & Bell, *The Theory and Measurement of Business Income,* 1961, talk about entry and exit *values* rather than *prices*, but we believe that this is about the same thing. The general understanding (also visible in E&B p. 76) is that transaction costs always constitute a difference between entry values and exit values. If the discussion is restrained to efficient markets, your assertion in Q4 would be correct. If it is extended to non-efficient markets, it is not necessarily correct, because in such markets an intermediary may take advantage of information not available to all. Obviously, that might lead to profit margins, which are also part of the difference between entry and exit values. So in our view, your second statement in Q 4 is not necessarily correct.

As explained in our response to Q3, we do believe that an entry price (as well as the historical cost) contains information about future cash inflows, but this is conceptually very different since it reflects the investors expectations when making the investment decision.

Q5 Would it be advisable to eliminate the term "fair value" and replace it with terms, such as "current exit price" or "current entry price", that more closely reflect the measurement objective for each situation? Please provide a basis for your views.
We would prefer that "current exit price" substitute "fair value".

Q6 Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRSs differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.
We agree with the list of examples that you have provided in paragraph 17.

Q7 Do you agree with how the market participant view is articulated in SFAS 157? Why or why not?
We agree with how the market participant view is articulated in SFAS 157. However we have some diverging views on the description of principal or most advantageous market as described in our answer to your Q13.

Q8 Do you agree that the market participant view in SFAS 157 is consistent with the concepts of "knowledgeable, willing parties" and "arm's length transaction" as defined in IFRSs? If not, how do you believe they differ?
We agree that the market participant view in SFAS 157 is consistent with the concepts of "knowledgeable, willing parties" and "arm's length transaction" as defined in IFRSs. In fact we believe that the description in SFAS 157.10 is better that the descriptions in the IFRSs. However we have two concerns; firstly we would like to see a clearer statement saying that the concept of market participant includes the hypothetical market participant in some level 3 based measurements and secondly we would like to see a bit more elaboration on the reason for including "able to transact" into the description of market participant.

Q9 Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not?
We agree with what we understand to be the content of FAS 157, but do not agree with the description of how to get there. We do not agree with the idea that it is possible for a market participant to assume (through a transfer) a liability without violating the condition that the nonperforming risk relating to that liability shall be the same before and after the transfer. We believe that the implied transfer of the liability will affect the fair value of the liability.

We argue that to get to the fair value described in FAS 157 a more logical and feasible approach is to require that a financial liability should be measured as the amount that a market participant would pay to get a claim on all the payments that is transferred from the entity taking into considerations any relevant credit enhancements related to the liability on the settlement of the liability. We agree with the described intentions in SFAS 157.C40, but would phrase this concept to say that a non-financial liability should be measured as the amount a market participant would pay to get a claim on the reporting entity on a (series of) cash-flow(s) equal to the future exit values of the resources that a market participant would use to settle the liability under the assumption that this measured claim relieved the reporting entity of its actual non-financial liability. We argue that these definitions that measures liabilities form an (implied) asset side incorporate the market based measurement of the underlying liability as well as the market based measurement of the credit risk of the reporting entity.

Q11 In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.
We believe in principle that the same measurement and recognition rules should apply at all levels in the fair value hierarchy. Thus in our view it is appropriate not to include a default assumption of no day-one gains or losses in a market based current exit value measurement standard. We see however a legitimate need for special disclosure on the separate components of day-one gains or losses recognised in a period. Such disclosure requirement should include separation of the recognised day one gains or losses in the period by level in the measurement hierarchy and contract duration.

However we do not see this to be an issue to be solved in the fair value measurement standard. Practical modifications to the fair value measurement principle including deferral of day one gains or losses are to be regulated in the specific standards that require use of fair value measurement.

Q12 Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views.
We believe that the issue of unit of account, including the guidance in SFAS 157.27, is an issue to be dealt with in the individual standards requiring the use of fair values and not in a standard on how to measure fair value.

Q13 Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?
We see a legitimate cost benefit reason to limit the search for the most beneficiary market, but we do not support the current wording in SFAS 157.8 that states that: "The principle market is the market in which the reporting entity would sell the asset or liability with the greatest volume and level of activity for the asset or liability." We object to this notion as it introduces an entity specific measure as opposed to a market based measure. The principle market is the market in which the <u>market participants</u> would sell the asset or liability with the greatest volume and level of activity for the asset or liability. The fair value of an asset is not dependent upon the current owner (unless market participants puts a positive or negative value on the fact that the asset has been in the possession of the current owner) or the market access of the current owner.

We do in principle agree with the description that: "The most advantageous market is the market in which" <u>market participants</u> "would sell the asset or transfer the liability with the price that maximizes the amount that would be received for the asset or minimized the amount that would be paid to transfer a liability, considering transaction costs in the respective market(s)." As commented below we do find it inconsistent to include the market participant transaction cost in identifying the most advantageous market without including it in the market based current exit value measurement of the asset or liability.

Q14 Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?
We agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability.

Q15 Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?

We disagree with the notion that all transaction costs that would be incurred in a transaction to sell an asset or transfer a liability should be excluded when determining the market based current exit value of an asset or liability. In our opinion an exit value include the exit costs, and a market based current exit value shall include the (hypothetical) market based transaction costs that a market participant would incur when selling the asset or transferring the liability.

The market based transaction cost is not given by the expected transaction cost that the current owner or obligant would incur in a transaction to sell an asset or transfer a liability.

Q16 Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?
Yes we do agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability. We believe a financial liability to be the flip side of a financial asset, when market participant bid-ask spread has been adjusted for, and we believe liability measurement approach described in our answer to question 9 to provide an adequate market based measure of a liability that includes the risk of non-performance including credit risk.

Q17 Is it clear that the 'in-use valuation premise' used to measure the fair value of an asset in SFAS 157 is different from 'value in use' in IAS 36? Why or why not?
We consider that the difference between "in-use valuation premise" a market based valuation and "value in use" an entity specific valuation is clear. However the terms are sufficiently similar to create a potential unnecessary challenge for people not having English / American as their native language thus we do recommend the use of alternative terms.

Q18 Do you agree with the hierarchy in SFAS 157? If not, why?
We agree with the notion of having a hierarchy in place in order to decide how inputs to the valuation should be weighted in order to obtain fair value.

Q19 Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the difference between the levels?
The differences between the levels of the hierarchy are clear sufficiently clear for the application of this standard. Further information should, if needed, be provided in the specific standards requiring the use of fair value.

Q20 Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (level 1). In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.
We do not have any firm view as to whether a blockage adjustment should be prohibited or not for financial instruments when there is a price for the financial instrument in an active market. We do however believe that such specific regulation conceptually belongs in specific standards like IAS 39 and not in a standard which establishes a framework for measuring fair value.

Q21 Do you agree that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.
We do agree that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances. Further guidance, including the concession of applying med-market pricing should if applicable be regulated in specific standards.

Q22 Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another price within the bid-ask spread might be more representative of fair value? Why or why not?
Again we have sympathy for the use of mid-market prices as a simple approximation of fair value, but believe that such concessions are to be grounded in the specific standards requiring the use of fair values.

Q23 Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?
We believe that the bid-ask pricing guidance shall apply to all levels of the hierarchy. However, as indicated above, we see cost / benefit reasons to allow "mid pricing" in separate standards.

Q24 Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.
We can see further information needs related to day-one gains or losses however we do not agree with the concept that a standard on fair value measurement should contain disclosure requirements. Disclosure requirements should be regulated in separate standards or the standards requiring the use of fair value measurement.

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International Financial Reporting Interpretations Committee
First Floor, 30 Cannon Street
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United Kingdom

Oslo, 29 June 2007

Dear Sir/Madam

Response to tentative agenda decision: Scope of IAS 39.11A

We appreciate the opportunity to comment on your tentative agenda decision made in your meeting on May 4th 2007. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We disagree with the conclusion drawn and reasoning used in your tentative agenda decision on the scope of IAS 39.11A.

We base our comments on:
a) The Information for Observers to the IFRIC May meeting (hereafter "IfO")
b) The information in IFRIC Update May 2007 (hereafter "Update")
c) Interpretation of IFRS
d) Experience form actual application of IAS 39.11A in Norway

We base our disagreement on four foundations:
1) We agree with the arguments put forward in view A of IfO, but do not believe that all relevant arguments supporting view A has been presented.
2) We believe that there is an inconsistency in view B of IfO that might not have been considered by the IFRIC.
3) We are aware of practice in Norway that contradicts the expectation of no diversity in practise.
4) The agenda decision limits the application of IFRS in a direction that goes opposite to the direction of further IFRS development as indicated in IASB discussions on the next phase for financial instruments and by the ED on IFRS SME.

<u>We agree with and support the arguments put forward in view A of IfO</u>
We disagree with the premise in IfO paragraph 7 that "IAS 39 does not provide specify whether a hybrid (combined) contract includes a contract that contains a financial or non-financial host outside the scope of IAS 39." It is stated in IAS 39.11 that "If an embedded derivative is separated, the host contract shall be accounted for under this Standard if it is a financial instrument, <u>and in accordance with other appropriate Standards if it is not a financial instrument</u>." (our emphasis). Based on this text it must be clear that a hybrid (combined) contract includes a contract that contains a non-financial host contract outside the scope of IAS 39.

We believe that the content of the word "contract" in IAS 39.11A must be equal to the content of the word "contract" in IAS 39.11. It is clear from plain English that the content of the word contract includes both financial contracts (financial instruments) and non-financial contracts. When there is no clear and direct wording to the contrary of a plain English understanding a plain English understanding of the wording in an IFRS standard must be applied.

Thus we believe it is clear that IAS 39.11A applies to all contracts containing one or more embedded derivatives not covered by the limitations in either IAS 39.11A(a) or (b).

<u>We believe that there is an inconsistency in view B of IfO</u>
We understand that the driving principle in view B (expressed in IfO paragraph 13) is that "the scope of a subset of IAS 39 should not be broader than the overall scope of IAS 39". Thus the scope of IAS

39.11-13 and IAS 39.AG27-AG33B should not be broader than the scope expressed in IAS 39.2-7 and IAS 39.AG1-AG4A.

We understand the conclusions driven by such an a principle, but we do not accept that such a principle, not explicit expressed in IAS 39 or IFRS, should override the actual written content of IAS 39. It is clear from IAS 39.11 and IAS 39.AG33(d) that the scope of the section on embedded derivatives includes host contracts outside the scope of IAS 39. Thus the driving principle in view B is flawed.

It is put forward in IfO paragraph 17 that IAS 39.11A is just a condition to qualify for the fair value option. The position is repeated in IfO paragraph 19 where an "and" is connecting the three bullet points. But this clearly in contrast to the text in IAS 39.9(b) that reads "Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, **or** when doing so results in more relevant information,..." (our emphasis). Thus the cumulative requirements for use of the fair value option presented in view B is incorrect.

We believe that it is fair to point out the significant implications of view B on the scope of embedded derivatives. It would significantly reduce the population of contracts from which embedded derivatives is to be separated.
Examples are:

- Contracts to buy or sell non-financial items that can be net settled, but that are entered into to meet an entity's expected usage requirements.
- Contracts to buy or sell non-financial items not capable of being net settled.
- Contracts for the purchase or sale of a non-financial item where the price is denominated in a foreign currency

In the third bullet point of paragraph 15 of the IfO it is indicated that only non-financial contracts that can be settled as if the contract where financial instruments are candidates to be within the scope of IAS 39. We believe that the list in IAS 39.6 of examples on when a non-financial contract can be net settled contradicts such a line of thought.

We rest assured that view B can not be a correct interpretation of IAS 39.

We are aware of practice in Norway of use of IAS 39.11A and IAS 39.11 on non-financial contracts otherwise outside the scope of IAS 39
Based on our knowledge on the applied scope of IAS 39.11 and IAS 39.11A we disagree with the expectation expressed in Update that there will be no significant diversity in practice.

The agenda decision limits the application of IFRS in a direction that goes opposite to the direction of further IFRS development as indicated in IASB discussions on the next phase for financial instruments and by the ED on IFRS SME
IFRS does not include material issued by IASB or IFRIC not in the form of a final standard or interpretation. However we urge the IFRIC to be careful in issuing negative interpretations that inhibits the entities from making interpretations within current IFRS that aligns the accounting policies of the entities to the direction of accounting development as expressed by IASB.

Conclusion
We agree with the conclusion expressed by view A and disagree with the premise and conclusion in view B.

Yours faithfully
Norsk RegnskapsStiftelse

p.p. Hege Korsmo Sæther

Erik Mamelund
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International Accounting Standards Board
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Oslo, 16 November 2007

Dear Sir/Madam

Discussion Paper *Preliminary Views on Insurance Contracts*

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) appreciates the opportunity to comment on the IASB Discussion Paper *Preliminary Views on Insurance Contracts (DP)*. As the accounting for insurance contracts currently is subject to inconsistent treatment and a great deal of diversity we very much welcome the initiative undertaken by IASB in order to develop a comprehensive principle based accounting standard for such contracts.

Even though accounting for insurance contracts can raise several difficult issues we do believe the accounting for such contracts should not be considered in isolation. Therefore we do believe several of the key proposals and views included in the DP should be discussed in a wider context. For instance,

- The principles applied in accounting for insurance liabilities should be the same as for other liabilities. The discussion in the DP does not address this properly.
- The financial performance and financial position of an insurance entity can be presented in different ways. We do currently observe that it is often difficult to compare insurance entities reporting under IFRS due to diversity in the way they present information on the face of the income statement. We do believe that the outcome of the ongoing project on financial performance could have an impact on this, but we do also believe the Board should elaborate more on the presentation of profit and loss for insurance entities.
- The outcome of the ongoing projects on revenue recognition and fair value measurement could also have a bearing on the solutions and views presented in the DP. The discussion in the DP does not address this properly.

It would be helpful if the Board would further clarify how the "features" in paragraph 18 of the DP has been considered in developing the preliminary views in the DP. In this respect we do also believe it is worthwhile to consider whether the current definition of an insurance contract in IFRS 4 is appropriate and we do also believe that the Board further should clarify the attributes that differentiates an insurance contract from other financial instruments. One of the reasons for clarifying or further elaborate on the difference between an insurance contract and other financial instruments is to get a better understanding of the service elements which often are included in such contracts and how these service elements should be accounted for.

Our detailed comments are set out in the appendix to this letter.

Yours faithfully
Norsk RegnskapsStiftelse

P.P Hege Kosmo Sæther

Erik Mamelund
Chairman

APPENDIX – RESPONSES TO SPECIFIC QUESTIONS

Question 1—Should the recognition and derecognition requirements for insurance contracts be consistent with those in IAS 39 for financial instruments? Why or why not?

As an overall view we do believe there are several important aspects which needs to be considered before the proposal in the discussion paper should be implemented (see initial comments). We will however like to emphasize that we currently do not see any good reason for the recognition and derecognition requirements to be different to those proposed.

Question 2—Should an insurer measure all its insurance liabilities using the following three building blocks:

a) **explicit, unbiased, market-consistent, probability-weighted and current estimates of the contractual cash flows,**
b) **current market discount rates that adjust the estimated future cash flows for the time value of the money, and**
c) **an explicit and unbiased estimate of the margin that market participants require for bearing the risk (a risk margin) and for providing other services, if any (a service margin)?**

If not, what approach do you propose, and why?

We do believe the measurement model proposed in the DP should have been discussed in relation to the fair value hierchy given in the DP on Fair Value Measurments issued earlier this year. We do however agree that insurance liabilities should be measured at the present value of an explicit unbiased probability weighted estimate of the future cash flows; plus the amount of compensation market participants demand for bearing risk inherent in contract and for providing other services under the contract.

However, we would propose to clarify that the methodology given in the discussion paper is used as a proxy methodology due to lack of observability of current exit value. We do also believe that the observed price for the transaction with the policyholder may provide a good estimate for the risk margin, hence we would not expect that the different views expressed in paragraph 116 and 117 would very often be significant in practice. As a matter of principle we would however support the view given in paragraph 116.

Question 3—Is the draft guidance on cash flows (appendix E) and risk margins (appendix F) at the right level of detail? Should any of that guidance be modified, deleted or extended? Why or why not?

We do not have any strong views as to whether further guidance is needed. We do however believe that this should be further assessed as the project progresses. As a general comment we would like to emphasize that we do strongly support the development of principle based standards, hence generally we do believe extensive specific and detailed guidance should be avoided.

Question 4—What role should the actual premium charged by the insurer play in the calibration of margins, and why? Please say which of the following alternatives you support.

a) **The insurer should calibrate the margin directly to the actual premium (less relevant acquisition costs), subject to a liability adequacy test. As a result, an insurer should never recognise a profit at the inception of an insurer contract.**
b) **There should be a rebuttable presumption that the margin implied by the actual premium (less relevant acquisition costs) is consistent with the margin that market participants require. If you prefer this approach, what evidence should be needed to rebut the presumption?**
c) **The premium (less relevant acquisition costs) may provide evidence of the margin that market participants would require, but has no higher status than other possible evidence. In most cases, insurance contracts are expected to provide a margin consistent with the requirements of market participants. Therefore, if a significant profit or loss appears to arise at inception, further investigation is needed. Nevertheless, if the insurer concludes, after further investigation, that the estimated market price for risk and service differs from the price implied by the premiums that it charges, the insurer would recognise a profit or loss at inception.**
d) **Other (please specify).**

We would support using c) as the only alternative.

Question 5—This paper proposes that the measurement attribute for insurance liabilities should be the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. The paper labels that measurement attribute 'current exit value'.

a) **Is that measurement attribute appropriate for insurance liabilities? Why or why not? If not, which measurement attribute do you favour, and why?**
b) **Is 'current exit value' the best label for that measurement attribute? Why or why not?**

a) We do believe this measurement attribute is appropriate for insurance liabilities as long as it is aligned with and has the same meaning as the definition of fair value in the fair value discussion paper released earlier this year.
b) We do not have any specific views on this, although it seems that "current exit value" is a more precise description than "fair value" or "settlement value".

Question 6—In this paper, beneficial policyholder behaviour refers to a policyholder's exercise of a contractual option in a way that generates net economic benefits for the insurer. For expected future cash flows resulting from beneficial policyholder behaviour, should an insurer:

a) **incorporate them in the current exit value of a separately recognized customer relationship asset? Why or why not?**
b) **incorporate them, as a reduction, in the current exit value of insurance liabilities? Why or why not?**
c) **not recognise them? Why or why not?**

This is a question where we do believe the Board need to clarify whether accounting for insurance contracts necessitates solutions which could be in conflict with the conceptual framework. Also, if the solutions given in this discussion paper deviates from the Framework we do believe this should be further clarified, and also addressed in other projects IASB is currently undertaking.

The solution currently included in the discussion paper gives the outcome that an insurance contract implicitly can be recognised as an asset even before renewal, or where no agreement to demand future premiums exist. The key factor here is that the policyholder (customer) has an economic incentive to continue the contract, rather than the insurer having an enforceable right to demand that future premiums are paid.

We do believe the underlying economics of an insurance entity clearly supports a solution where policyholder behaviour is included in the accounting for the contract. Which cash flows to include is further discussed in the answer to question 7. When it comes to the question as to whether beneficial policyholder behaviour should be recognised separately as a customer relationship asset or presented net (as a reduction) in the current exit value of insurance liabilities we do believe the latter would probably be preferable. We do base this view on the need to develop a practical solution.

Question 7—A list follows of possible criteria to determine which cash flows an insurer should recognise relating to beneficial policyholder behaviour. Which criterion should the Board adopt, and why?

a) **Cash flows resulting from payments that policyholders must make to retain a right to guaranteed insurability (less additional benefit payments that result from those premiums). The Board favours this criterion, and defines guaranteed insurability as a right that permits continued coverage without reconfirmation of the policyholder's risk profile and at a price that is contractually constrained.**
b) **All cash flows that arise from existing contracts, regardless of whether the insurer can enforce those cash flows. If you favour this criterion, how would you distinguish existing contracts from new contracts?**
c) **All cash flows that arise from those terms of existing contracts that have commercial substance (ie have a discernible effect on the economics of the contract by significantly modifying the risk, amount or timing of the cash flows).**
d) **Cash flows resulting from payments that policyholders must make to retain a right to any guarantee that compels the insurer to stand ready, at a price that is contractually constrained, (i) to bear insurance risk or financial risk, or (ii) to provide other services. This criterion relates to all contractual guarantees, whereas the criterion described in (a) relates only to insurance risk.**
e) **No cash flows that result from beneficial policyholder behaviour.**
f) **Other (please specify).**

The underlying economic reality in an insurance contract is that the insurers obligation to meet claim payments if an insured event occurs is contractually linked to the continued receipt of premium payments from the policyholder. It would be meaningless to assume that a contract continues for the purpose of estimating future cash outflows without considering the associated cash inflows in the contract.

We are to some extent skeptical to the solution currently favored by the Board since we do believe an insurer base its activity on all cash flows a contract can generate. We do therefore have more sympathy with a solution that treats all future cash flows associated with the insurance contract in a consistent way. However, we do see the problem of distinguishing old contracts from new contracts, hence we do believe solution a) could work well as a practical way of making such a distinction.

Question 8—Should an insurer recognise acquisition costs as an expense when incurred? Why or why not?

Yes, since we do not believe that such costs would qualify as an asset.

Question 9—Do you have any comments on the treatment of insurance contracts acquired in a business combination or portfolio transfer?

We do support the view expressed in paragraph 167 and 168 in the discussion paper.

Question 10—Do you have any comments on the measurement of assets held to back insurance liabilities?

In the discussion paper "cost based approaches" and "current estimate approaches" are discussed. We do support the "current estimate approach" since this in our view is the best approach given that insurance liabilities are measured at "current exit value".

Question 11—Should risk margins:

a) **be determined for a portfolio of insurance contracts? Why or why not? If yes, should the portfolio be defined as in IFRS 4 (a portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio)? Why or why not?**
b) **reflect the benefits of diversification between (and negative correlation between) portfolios? Why or why not?**

a) We do agree with the proposal in the discussion paper that risk margins should be determined on a portfolio basis. In general, we do believe that the unit of account needs to be discussed and further clarified on an overall basis (not just for insurance contracts), but as an observation we do see that for financial instruments the unit of account is typically the individual instrument, or a component of the individual instrument (eg an embedded derivative). One other important issue to consider in this respect is the definition of a portfolio. We are not sure as to whether the current definition in IFRS 4 of a portfolio is sufficient, but we do believe clarification is needed. The meaning of "broadly similar risk" and "managed as a single portfolio" should be further elaborated.

b) We do not believe risk margins should reflect the benefits of diversification between portfolios. The reason being that to reflect such diversification between portfolios would not be in line with applying the current exit value concept on either a portfolio or an individual contract basis. For instance, if an insurer sold a portfolio the value of the remaining portfolios would be affected if such a concept were to be applied.

Question 12

a) Should a cedant measure reinsurance assets at current exit value? Why or why not?

b) Do you agree that the consequences of measuring reinsurance assets at current exit value include the following? Why or why not?

i. A risk margin typically increases the measurement of the reinsurance asset, and equals the risk margin for the corresponding part of the underlying insurance contract

ii. An expected loss model would be used for defaults and disputes, not the incurred loss model required by IFRS 4 and IAS 39.

iii. If the cedant has a contractual right to obtain reinsurance for contracts that it has not yet issued, the current exit value of the cedant's reinsurance asset includes the current exit value of that right. However, the current exit value of that contractual right is not likely to be material if it relates to insurance contracts that will be priced at current exit value.

a) We do agree that a cedant should measure reinsurance assets on the same basis as the underlying insurance liabilities are measured. This is a consistent application of the current exit value approach.

b) We do agree that the consequences of measuring reinsurance assets at current exit value would be to include (i) to (iii).

Question 13—If an insurance contract contains deposit or service components, should the insurer unbundle them? Why or why not?

We do support the Boards view that if the components are not interdependent then the deposit component should be within the scope of IAS 39 and the insurance component be within the scope of this discussion paper. The reason for our view is that we do believe this would be more consistent with the way financial instruments generally are accounted for and would also not lead to different accounting for similar contracts based on whether one of the contracts qualify as insurance contracts while the other one does not.

We do also support the view that to disaggregate and account for each component separately when the components are interdependent should only be done when this results in more useful information, in other words when the components can be measured on a basis that is not arbitrary.

Question 14

a) **Is the current exit value of a liability the price for a transfer that neither improves nor impairs its credit characteristics? Why or why not?**
b) **Should the measurement of an insurance liability reflect (i) its credit characteristics at inception and (ii) subsequent changes in their effect? Why or why not?**

a) We do agree that the current exit value of a liability would be the price for a transfer that neither improves nor impairs its credit characteristics.
b) We are to some extent skeptical to a solution where the measurement of an insurance liability should reflect its credit characteristics at inception and that subsequent measurement of the insurance liability should include subsequent changes in the credit characteristics of the liability. Although we do see that this would be consistent with the views presented in the DP on Fair Value Measurements and that a theorethical argument can be provided for this solution as well we are not convinced that this is the solution that will give the best information to users of the financial statements.

We would therefore urge the Board to reconsider this issue and carefully consider whether the measurement of insurance liabilities should include changes in credit characteristics.

Question 15—Appendix B identifies some inconsistencies between the proposed treatment of insurance liabilities and the existing treatment under IAS 39 of financial liabilities. Should the Board consider changing the treatment of some or all financial liabilities to avoid those inconsistencies? If so, what changes should the Board consider, and why?

In general yes. We do believe the principles outlined in the DP regarding insurance contracts should be consistent with principles applied for measuring financial liabilities in general. We do however not have a strong view on which specific changes the Board should consider.

Question 16

a) **For participating contracts, should the cash flows for each scenario incorporate an unbiased estimate of the policyholder dividends payable in that scenario to satisfy a legal or constructive obligation that exists at the reporting date? Why or why not?**
b) **An exposure draft of June 2005 proposed amendments to IAS 37 (see paragraph 247-253 of this paper). Do those proposals give enough guidance for an insurer to determine when a participating contract gives rise to a legal or constructive obligation to pay policyholder dividends?**

a) We do believe the amounts related to future policyholder distributions, including both the guaranteed and discretionary elements of participating contracts, should be treated as liabilities based upon the expected future cash flows. We would base this view upon our belief that to treat them as equity would be to misrepresent the financial position of the company. However, we would like to emphasize that we do believe that such a solution should not be specific for insurance entities, but also be consistent with accounting for similar arrangements that exists in other industries.

b) In our view it does. We do not have any strong views as to whether further guidance is needed. We do however believe that this should be further assessed as the project progresses. As a general comment we would like to emphasize that we do strongly support the development of principle based standards, hence generally we do believe extensive specific and detailed guidance should be avoided.

Question 17—Should the Board do some or all of the following to eliminate accounting mismatches that could arise for unit-linked contracts? Why or why not?

a) **Permit or require insurers to recognise treasury shares as an asset if they are held to back a unit-linked liability (even though they do not meet the Framework's definition of an asset).**
b) **Permit or require insurers to recognise internally generated goodwill of a subsidiary if the investment in that subsidiary is held to back a unit-linked liability (even though IFRSs prohibit the recognition of internally generated goodwill in all other cases).**
c) **Permit or require insurers to measure assets at fair value through profit or loss if they are held to back a unit-linked liability (even if IFRSs do not permit that treatment for identical assets held for another purpose).**
d) **Exclude from the current exit value of a unit-linked liability any differences between the carrying amount of the assets held to back that liability and their fair value (even though some view this as conflicting with the definition of current exit value).**

We do not believe the Board should develop detailed rules and exceptions for unit-linked insurance contracts which are not consistent with the principles otherwise applied in the discussion paper or for other insurance contracts in general. Therefore, we would propose to not introduce detailed rules for unit-linked insurance contracts, but revisit the principles instead in order to see whether it is possible to find a solution which does not constitute an exception. That being said, we do have symphathy for solutions which eliminates or reduces accounting mismatches.

Question 18—Should an insurer present premiums as revenue or as deposits? Why or why not?

We do strongly believe that the insurer should not present premiums which effectively represents an investing element as revenue. Premium on insurance contracts which do not include any investment element should be presented as revenue.

Question 19—Which items of income and expense should an insurer present separately on the face of its income statement? Why?

We do believe that the answer to this question is somewhat premature due to the expected discussion paper on Financial Statement presentation.

Question 20—Should the income statement include all income and expense arising from changes in insurance liabilities? Why or why not?

We do believe that the answer to this question is somewhat premature due to the expected discussion paper on Financial Statement presentation. We do however currently observe that it is often difficult to compare insurance entities reporting under IFRS due to diversity in the way they present information on the face of the income statement. We do believe the further discussion related to accounting for insurance contracts should elaborate more on what the Board conceive to be the preferred presentation for insurance entities.

Question 21 – Do you have other comments on this paper

We do believe the further discussion related to accounting for insurance contracts needs to be viewed in context with other ongoing projects undertaken by the Board. We would especially like to see a more precise description of the fair value hierarchy given in the DP on Fair Value Measurements and the measurement model outlined in the DP on insurance contracts

International Accounting Standards Board
30 Cannon Street
LONDON
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Oslo, 29 November 2007

Dear Members of the Board

Exposure Draft of IFRS for Small and Medium-sized Entities

We appreciate the opportunity to comment on the Exposure Draft (ED) of *IFRS for Small and Medium-sized Entities*. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB).

The IASB has issued an Exposure Draft of IFRS for SMEs. The objectives are to provide a high quality standard suitable for SMEs globally, reduce the financial reporting burden on the SMEs that want to use a global standard and meet the user needs of SME financial statements. If the IASB achieves its objectives, the standard could have a significant impact on the financial reporting by most companies across the globe. The objective of harmonisation does, in our view, require a global acceptance of the simplified standard. It requires that the simplified standard is developed in such a way that it is considered an acceptable replacement of the existing national accounting standards.

Such a standard should be developed on the basis of a good understanding of users' needs. It also needs to be prepared on a reasonable basis having considered the balance between costs and benefits.

We support the development of a simplified international financial reporting standards aimed at companies that do not have public accountability. We believe that the proposed standard is a good starting point to develop a standard suitable as an accounting language for entities without public accountability. However, we have some suggestions for improvements to the standard and accompanying documents. Please see our following comments.

Users' needs

In the basis for conclusions, the IASB acknowledges that users of financial statements of SMEs may have different needs than users of financial statements of public accountable

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entities. We agree, but in our opinion users' needs ought to be analysed further to ensure that the differences in user needs and cost-benefit considerations have been appropriately and sufficiently reflected in the standard. The IASB has made major achievements in suggesting simplifications of full IFRSs, but further changes to the recognition and measurement requirements may be necessary in order to better serve the needs of users. We believe in general that fair value accounting is seldom appropriate for SMEs, and that the IASB has not done enough to replace fair value solutions of the full IFRSs with more suitable solutions for the SMEs. We believe that historical cost can be a more useful basis for measurement, and that it in many cases will serve the users' needs better than fair value. For operating activities fair value accounting is not appropriate because the business of the entity is not hypothetical sales of assets or settlement of liabilities at the reporting date.

Scope

The scope of the proposed standard excludes all entities which meet the proposed definition of public accountability. The scope does not refer to size criterion of any kind. In our opinion the label should therefore emphasise the fact that the standard is not intended for entities that have public accountability and not focus on the size of the entities.

We believe that the IFRS for SMEs can be well suited as an accounting language for entities without public accountability. However, this is under the condition that each jurisdiction can reduce the number of allowed options and decide whether full IFRSs are required (only parts of full IFRSs or all of it) or IFRS with certain simplification is permitted for different groups of entities. It is also under the condition that each jurisdiction can decide that simplified accounting standards (not referred to as IFRS for SMEs) are permitted for certain groups of entities, e.g. small entities. If each jurisdiction is given these options, we believe that IFRS for SMEs can be well suited as an accounting language for entities that do not have public accountability, as it has been tailored to the information needs of the users of these entities.

The NASB has considered if the proposed IFRS for SMEs is a suitable basis for mid-tier companies. For small companies in Norway, we will continue to issue a standard with much simpler rules.

Concepts and Pervasive Principles

The IFRS for SMEs was developed by extraction the fundamental concepts from the IASB Framework and the principles and related mandatory guidance from full IFRSs, and modified by cost-benefit considerations. In Section 2, Concepts and Pervasive Principles, the IASB states that the requirements for recognition and measurement are based on pervasive principles that are derived from the IASB Framework.

In the absence of a requirement in the IFRS for SMEs, management shall apply a hierarchy of guidance. The second level of that hierarchy refers to the pervasive recognition and measurement principles. According to paragraph 2.44 most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the reporting date. Fair value is the amount for which a liability could be settled (paragraph 2.31). This means that most non-financial liabilities in SMEs shall be measured at fair value. Financial liabilities (and assets), as a comparison, shall be measured at historical cost at initial recognition unless the IFRS for SMEs requires another basis. Subsequent measurement is at fair value unless another basis is required.

The third level of the hierarchy of guidance has an optional reference to full IFRSs dealing with similar and related issues (paragraph 10.4). Even though topics covered in the IFRSs are omitted from the IFRS for SMEs and the IASB has proposed recognition and measurement simplifications, the inclusion of the pervasive principles (2.33-2.43) and the optional reference to full IFRSs in the hierarchy of guidance means that fair value accounting could have significant impact on the financial reporting by the SMEs. The impact of fair value as exit value is also shown in Section 26, Impairment of Non-financial Assets, where recoverable amount in IAS 36 is substituted by exit value, and value in use is eliminated. Impairment based on exit value is not appropriate for assets other than inventories, and is certainly not a simplification.

In addition to our concern with the regulation as it is proposed, we also question the description of the concepts and principles. We do not find any reasoning in the draft documents for the above-mentioned consequences, nor any indications that the consequences are intended.

IFRS for SMEs versus full IFRSs

Mandatory fallback to full IFRSs?

We strongly support the elimination of a mandatory general fallback to full IFRSs. A mandatory general fallback could in our opinion undermine the simplifications and hence reduce the practical use of the IFRS for SMEs.

Optional fallback to full IFRSs

We also support the Board’s conclusions on optional fallbacks to full IFRSs (BC108-109).

In our view, the IFRS for SMEs should present all the principles that normally apply and are considered suitable for SMEs, and give guidance to optional simplifications.

On the other hand, we also believe that all accounting principles presented in full IFRSs should be available under IFRS for SMEs. The scope of the standard includes a wide range of entities. We believe that some of the entities within the scope of the standard may have a legitimate need to choose certain of the accounting policy options in full IFRSs. For instance this may apply to entities being in an early stage of considering public listing (before becoming public accountable), entities operating within certain industries, or there may be specific requests from important users of the entities’ financial statements. In our view it would be too restrictive to impose on those companies the burdens of full IFRSs. Allowing the options in full IFRSs will also facilitate comparability between SMEs and entities applying full IFRSs, and transition from IFRS for SMEs to full IFRSs.

However, we think it would be unfavourable for the vast majority of SMEs to have all options from full IFRSs presented fully in the IFRS for SMEs standard. Primarily we think it could confuse the readers to have the additional options presented within the standard, and secondarily it would add length to the standard. We believe that certain recognition and measurement methods can be regarded as the less favourable options for SMEs, e.g. extensive use of fair value accounting. Those less favourable options should only be available through an optional fallback to full IFRSs, and only on a standard by standard basis. For instance we suggest that to use the fair value model for investment property, the entity would need to apply IAS 40 in full and would also need to disclose the fact that IAS 40 was used. The accounting principles presented directly in the IFRS for SMEs will be easily available, and we believe that cost-benefit considerations will result in this being the preferred option amongst most SMEs. It is also our experience from the simplified accounting standard for small companies in Norway that most companies use the simplified options described in the standard instead of the options allowed by cross-references to the Norwegian accounting standards for larger companies.

Deviations from full IFRSs – advancing changes in full IFRSs or simplifications?

As far as we can see, some of the deviations from full IFRSs have not been explained thoroughly enough. We believe that such deviations should not be included in the IFRS for SMEs if this merely represents an early presentation of a change that is planned to be brought to full IFRSs at a later date. If simplification is the main reason for these deviations it is of course a different matter.

We believe that the IASB should include the reasons for all the deviations from full IFRSs in the Basis of Conclusions. The missing explanations can be illustrated by a couple of examples:

- IAS 18 *Revenues* has in IAS 18.19 a reference to the matching principle, but there is no such reference in the IFRS for SMEs. An explanation for this deviation should in our opinion be included in the Basis of Conclusions.
- IAS 18 *Revenues* explicitly addresses deferral of revenue (earned income principle), but in the IFRS for SMEs it is not mentioned in the section itself. We have noticed that deferral of revenue is still in use in the IFRS for SMEs, in some of the examples in appendix to section 22, for instance in 22A.14 and 22A.18. However, the IASB should in our opinion have made it clear in the Basis of Conclusions whether excluding deferral of revenue from the wording of the section will have any consequences.
- The IFRS for SMEs model for accounting for government grants seems to deviate from the model presented in IAS 20. No explanation for this deviation is given.

Structure

The structure of IFRS for SMEs

We support that the IFRS for SMEs is organised by topic rather than by the standard structure used in the full IFRSs. EFRAG has in its draft comment letter proposed a restructuring of the standard (still organised it by topic). We agree with EFRAG on this matter, and believe that the standard can benefit from a restructuring. We therefore encourage IASB to reconsider the structure of the standard. In particular, we think grouping section 9, 13, 14 and 18 in one single section presenting all the requirements for group accounting, would improve the structure of the standard.

Glossary

We support IASB's choice of structure of the standard, where most of the definitions is included in the glossary, is a good solution. By doing so one avoids repetitions of definitions and it also prevents situations where the definitions are unclear or there might be subtle distinctions between the repeated definitions. In the IFRS for SMEs some definitions are found in the various sections and not in the glossary. We suggest that all definitions are included in the glossary.

Guidance in appendix

We believe that there is a need for additional guidance and more illustrative examples to elaborate on the content of some of the sections in the standard (please refer to our comments on question 8). We think it will be more user-friendly to present the additional guidance and illustrative examples in an appendix to the standard, rather than in the standard itself.

Our answers to the questions which have been raised by the IASB, and detailed comments to each section of the proposed standard are provided in attachments:

- Attachment 1 answers the questions set out in the invitation to comment.
- Attachment 2 includes detailed comments provided on each section of the proposed standard.

Please do not hesitate to contact us if you would like us to elaborate or clarify any of the issues discussed.

Yours faithfully
Norsk RegnskapsStiftelse

Elisabet Sulen

Chair

Exposure Draft of IFRS for Small and Medium-sized Entities

Appendix 1

Answers to the questions from IASB

Question 1 – Stand-alone document

In our view the IFRS for SMEs should be a stand-alone document in the sense that the standard should focus on the most common situations encountered by the entities that the standard is intended for. For those most comment situations the standard should describe the simplified accounting methods that best serve the user needs.

On the other hand, we believe that **all** methods available in full IFRSs also should be available. The methods suitable for the broad range of SMEs should be presented in the IFRS for SMEs. Other options in full IFRSs should be available only by cross-reference to the relevant standard in full IFRSs. Please also see our comments to question 4.

With the objective of a stand-alone document in mind, we think the equity method for investments in associates and jointly controlled entities should be described in the IFRS for SMEs. Such investments are common. We believe that in many situations the cost method will be an appropriate method of accounting for such investments, but in other situations the equity method would better serve the user needs, and both methods should be described in IFRS for SMEs.

Topics/guidance to be removed from the standard: We suggest that section 36 is removed from IFRS for SMEs, replaced with disclosure requirements and an optional fallback to IFRS 5. Please refer to the comments on section 36 and question 6.

Question 2 – Recognition and measurement simplifications that the Board adopted

In our view further simplifications are necessary in the following areas:

- Financial instruments: Cost/amortised cost should be the primary measurement basis for financial instruments. Fair value measurement should only be applied to financial instruments where observable market prices exist. Please refer to the detailed comments on section 11.

- Business combinations: The method for allocating the cost of a business combination should be simplified. Please refer to the detailed comments on section 18.

- Amortisation of intangible assets: Amortisation of goodwill and intangible assets with indefinite useful lives should be allowed and be a part of the primary measurement basis. Please refer to the detailed comments on section 17 and 18.

- Discontinued Operations and Assets Held for Sale: Section 36 should be removed. Please refer to the detailed comments on section 36 and the answer to question 6.

- Biological assets: Cost should be the primary measurement basis of biological assets. Please refer to the comments on section 35.

- Leases: Measurement of assets and liabilities in a finance lease at an amount equal to the present value of the minimum lease payments, instead of fair value, should be allowed. Please refer to the comments on section 19.

Question 3 – Recognition and measurement simplification that the Board considered but did not adopt

We agree with the IASB on the recognition and measurement simplifications that were considered, but not adopted, with one exception. In our opinion, the cost method should be allowed and be the primary measurement basis for biological assets. Please refer to our comments to section 35.

Question 4 – Whether all accounting policy options inn full IFRSs should be available to SMEs

All accounting policy options in full IFRSs should in our opinion be available to the entities that use the IFRS for SMEs. The options should be available either as a part of, and fully described in, the IFRS for SMEs, or by cross-reference to full IFRSs, with a requirement to apply all of the paragraphs in the relevant standard. Whether an option should be included in the IFRS for SMEs or be available by cross reference to full IFRS, should be determined by how typical the transactions and other events are regarded to be for this segment and a cost/benefit analysis.

Options from full IFRSs that we believe should be available through an optional fallback to IFRSs (standard by standard) are:

- IAS 39 *Financial Instruments; Recognition and Measurement*, as suggested by the IASB in section 11, paragraph 11.1.

- Fair value model for investments property, IAS 40, as suggested by the IASB in section 15, paragraph 15.4 and 15.5.

- Revaluation model for property, plant and equipment, IAS 16, as suggested in section 16, par 16.11 and 16.13. However, we suggest that it should be clearly stated that use of the revaluation model requires that all of the paragraphs in IAS 16 should be applied.

- Revaluation model for intangible assets, by cross-reference to IAS 38, as suggested by the IASB in section 17, paragraph 17.23. However, we suggest that it should be clearly stated that use of the revaluation model requires that all of the paragraphs in IAS 16 should be applied.

- Use of the capitalization model for borrowing costs, by cross-reference to IAS 23, as suggested by the IASB in section 24, paragraph 24.4.

- Employee benefits: The entity should be allowed to use the so called corridor approach, by cross-reference to IAS 19. See our comments to section 27 in appendix 2.

- Use of the fair value model for biological assets, by cross-reference to IAS 41. See our comments to section 35 in appendix 2.

- Discontinued operations and assets held for sale, by cross-reference to IFRS 5. See our comments to section 36 in appendix 2.

Question 5 – Borrowing Costs

We support the option in section 24 allowing SMEs to choose either the expense model or the capitalisation model, the capitalisation model only by cross-reference to IAS 23.

Question 6 – Topics not addressed in the proposed IFRS for SMEs

Accounting for discontinued operations and assets held for sale: We suggest that the requirements in section 36 are removed and replaced with disclosure requirements (please refer to comments on section 36) and an option to use full IFRSs through a cross-reference to IFRS 5. We would like to stress that we believe that use of the IFRS 5 requirements should be optional, not mandatory.

Question 7 – General referral to full IFRSs

We support the sequence of the hierarchy as set out in paragraph 10.3-10.4. See however our comments about "Concepts and pervasive principles" at page 2 of our letter.

We support IASB's conclusion that it is not mandatory for SMEs to look to full IFRSs for guidance.

We also support the use of explicit cross-references to particular IFRSs. Specific cross-reference to particular IFRSs should in our opinion be used, in order to allow **all** accounting policy options from full IFRSs in IFRS for SMEs, but "at the price" of following the full IFRSs (standard by standard and all of the paragraphs in the relevant standard). Furthermore we suggest that if an entity uses such an optional standard from full IFRSs, that fact would have to be disclosed. Please also refer to our comments "Optional fallback to full IFRSs" at page 3 of our letter.

Question 8 – Adequacy of guidance

In our opinion further guidance is necessary. We agree in principle on IASB's suggestion to compose the standard by extracting the main principles for each standard from full IFRS to IFRS for SMEs. This can, in our opinion, imply simplification because the main principle stands out more clearly in the standard. In addition detailed guidance could in some cases be unnecessary restrictive, another detailed guidance might have led to more or less the same result.

On the other hand, we believe that removing guidance is no simplification as such. We therefore suggest that guidance is provided, preferably in an appendix, with examples on how the principles could be applied, without excluding the possibility that other approaches could also be appropriate.

Some areas where more guidance is needed are:

- Financial instrument and especially as to scope exclusion; reference is made to our comments under question 2 and our comments to section 11.

- Impairment, section 26, including reinstatement of value in use as a possible basis for impairment test.

- Measurement of investments at cost, section 13 and 14.

- Changes in accounting estimates, section 10. I.e. should changes in an assets useful life and hereby changes in the deprecation plan be treated as a change that gives rise to changes in an asset with full effect in the period of the change or as an other change – prospectively, also effecting future periods?

- Construction contracts, section 22.

Question 9 – Adequacy of disclosures

Including a disclosure checklist will in our opinion help the SMEs in preparing the notes, and we are also in favour of a significant reduction in the disclosure requirements compared to full IFRS. However, in our opinion, a more detailed analysis of users' needs ought to be conducted, and as a part of this, further simplifications in disclosures should be considered.

Question 10 – Transition guidance

We support the proposed guidelines, but we are concerned that the listed exemptions might be too restrictive unless coupled with a general impracticability exemption.

Question 11 – Maintenance of the IFRS for SMEs

We find the proposed approach appropriate. Changes brought to full IFRSs should in our opinion be considered for the IFRS for SMEs, but not necessarily adopted. IASB might consider to indicate the tentative proposals for SMEs already in the exposure draft of full IFRSs (in clearly separated sections), in addition to including them in the omnibus exposure draft of proposed amendments to the IFRS for SMEs.

Our proposal to include cross-references to full IFRS (standard by standard and all of the paragraphs in the relevant standard) will reduce the need to update the IFRS for SMEs, as changes brought to the relevant standard automatically will bring on changes in the IFRS for SMEs. The IASB should however clarify whether entities using the standards from full IFRSs are required to follow the transition guidance in those standards, or might have a longer period of transition.

We suggest that the IASB addresses due process issues for the IFRS for SMEs explicitly in the "Due Process Handbook for the IASB" and/or develop a separate document describing the Due Process for changes to the IFRS for SMEs.

The need for guidance may be higher for SMEs than companies following full IFRSs, and proposed changes to the IFRS for SMEs should therefore in our opinion normally be followed by implementation guidance.

The IASB should consider extending the period of transition, by changes in the IFRS for SMEs, compared to ordinary transitional periods under full IFRSs, to allow the SME entities a longer period to adopt the changes based on cost-benefit considerations.

Exposure Draft of IFRS for Small and Medium-sized Entities

Appendix 2

Comments on existing sections

Section 1 Scope

Users' information needs

We feel that more effort could have been made to systematically research into users' needs. The identification of such information needs based on evidence, constitutes a first step in developing high quality SME financial reporting standards. The IASB acknowledges in BC24 that "*users of financial statements of SMEs may have greater interest in short-term cash flows, liquidity, balance sheet strength and interest coverage, and in the historical trends of earnings and interest coverage, than they do in information that is intended to assist in making forecasts of an entity's long-term cash flows, earnings and value*". However, we question whether the differences in users' needs have been sufficiently taken into account when creating the standard. We think it is important that thorough discussions of users needs are included in the basis of conclusions of the IFRS for SMEs:

- Who are the primary users for SME financial statements,
- what kind of decisions does these users make and
- what are the consequences for the recognition and measurement requirements.

The PAAinE (The Proactive Accounting Activities in Europe) has published a user questionnaire where the objective is to carry out an on-line survey of the needs of the main user groups of financial reports. Even though the survey is not achieving a statistical status, we assume the result will be of interest for the IASB when analysing the user needs.

We assume that the main external user groups of SMEs financial statements are creditors, such as banks and suppliers, and minority investors. In most countries, a very important source of finance for SMEs is banks, and financial statements play an important role in their lending decisions and in monitoring existing loans. It is assumed that the main uses for SME financial statements by banks are to determine the company's ability to repay the loans, and to assess profitability, balance sheet strength and liquidity of the company. The predictive value is assumed to be less important, thus the historic cost is likely to be more in demand for SMEs than for listed companies. In addition historic cost tends to be more conservative than fair value reporting, a quality that appeals to lenders and other creditors.

The proposed standard includes several measurement principles based on fair value accounting. We agree that fair value accounting is appropriate for financial instruments, where observable market prices exist. However, in other cases of fair value accounting in the standard, we question how the chosen accounting principles are linked to the user needs, and we ask the IASB to address this issue in the basis for conclusions.

The proposed standard introduces more fair value accounting than what we believe is common in most national accounting standards for SMEs and current practice in SMEs. The change from current practice increases the need for an explanation in the basis for conclusions.

The label

The scope of the standard is not referring to size, while the label “IFRS for SMEs” indicates size of the entities. We are concerned that the label does not give a proper indication of the scope of the standard.

Definition of fiduciary capacity

The scope excludes publicly listed entities and entities that “hold assets in a fiduciary capacity for a broad group of outsiders”. The Basis for Conclusions states that financial institutions such as banks and insurance companies have public accountability because such entities act in a public fiduciary capacity. However there is no further definition of “fiduciary capacity”. To ensure a clear and common understanding of the type of entities the standard is intended for, we recommend that a definition of the term is included in the glossary or that the description in the standard is extended.

Section 2 Concepts and Pervasive Principles

Paragraph 2.4 Materiality

In IAS 8.8 the IASB has stated that the accounting policies set out in the standards need not be applied when the effect of applying them is immaterial. We think that the same should be explicitly expressed in the IFRS for SMEs (see paragraph 2.4 in IFRS for SMEs) to avoid doubt. For the same reason we also think that when paragraph 10.20 in the IFRS for SMEs requires retrospective correction of prior period errors, it should be explicitly stated in the standard that this is understood to be a requirement to retrospectively correct **material** errors only.

Paragraph 2.11 Balance between benefit and cost

We agree with the overall concept that the benefits derived from information should exceed the cost of providing it. However, we think it is not made clear enough in the proposed standard (paragraph 2.11) how this overriding cost benefit principle should be understood and applied. We are concerned that the wording in 2.11 may be interpreted as allowing the entities the choice of disregarding accounting principles set out in the standard, based on the **entities** understanding of the balance between benefits and costs. We question whether the entities in the SME segment would be capable of making such a judgment on behalf of their users, and are also unsure if it is intended by the IASB. We therefore ask the IASB to clarify the content of paragraph 2.11.

Paragraph 2.41 Subsequent Measurement - Financial assets and financial liabilities

The draft prescribes that after initial recognition, an entity should measures financial assets and financial liabilities at fair value unless the standard requires or permits measurement on another basis such as cost or amortised cost. In our opinion cost/amortised cost should be the primary measurement basis for financial instruments. Please see our comments to Question 2 (in appendix 1) and Section 11. If our suggestion is taken into account paragraph 2.41 needs to be revised.

Paragraph 2.44 Liabilities other than financial liabilities

According to paragraph 2.44 most liabilities other than financial liabilities are measured at the best estimate of the amount that would be required to settle the obligation at the reporting date. Fair value is the amount for which a liability could be settled (paragraph 2.31). This means that most non-financial liabilities in SMEs shall be measured at fair value. Financial liabilities (and assets), as a comparison, shall be measured at historical cost at initial recognition unless the IFRS for SMEs requires another basis. Subsequent measurement is at fair value unless another basis is required. We doubt that such fair value accounting is suitable for companies in the SME category.

Section 3 Financial Statement Presentation

To the extent that a producer of financial statements uses the optional fallback to any of the full IFRSs, the accounting policies must clearly state the fact (please also see our comments about optional fallback at page 3 of our letter an in question 4 in appendix 1).

Section 4 Balance Sheet and Section 5 Income Statement

To our knowledge, users of financial statements like banks often prefer the items in the income statement and the balance sheet to follow a standardised and mandatory format, as it is easier to compare data from one entity to another and analyse the data in computer models if the format (including the definition of the content in each line item) is standardised. We also believe a clear guidance on the format of the income statement and balance sheet can provide helpful guidance to the entities. However, in some cases, for instance in some industries, there may be a legitimate need for a different presentation. A strict mandatory format may also be contradictory to simplification, for instance if the format is in conflict with national requirements. We therefore support the approach the IASB has chosen with minimum requirements in the standard, and an illustrative example. We assume that the illustrative example will be used as a recommended way of presenting the income statement and balance sheet, and thereby supporting standardisation.

Comments to some of the items in the Balance Sheet and the Income Statement

The use of different measurement basis for different classes of assets indicates that the nature or function differs and therefore they should be presented as separate line items. Hence there is a need of distinction between *revaluated assets* and *assets carried at cost* on the face of the balance sheet. Correspondingly we think that changes in value of assets carried at fair value should be presented separately on the face of the income statement.

Paragraph 4.2 of the proposed standard prescribes minimum requirements regarding line items to be presented on the face of the balance sheet. However IAS 1.68 presents these items in reversed order, and this seems to be a needless deviation from the full IFRSs. In our view the *order of presentation* used for line items in the IFRS for SMEs as well as the illustrative example should be the same as in the full IFRSs:

In addition we believe there is a need to clarify which sub-totals could be presented on the face of the income statement.

Section 9 Consolidated and Separate Financial Statements

The NASB agrees with the IASB that SMEs should be required to prepare consolidated financial statements.

9.11 Uniform reporting date

Paragraph 9.11 requires that the statements of the parent and its subsidiaries used in the preparation of the consolidated financial statements are prepared as of the same reporting date unless it is impracticable to do so. We believe the ”impracticable” criteria for deviation from uniform reporting dates is unnecessary strict for preparation of consolidated financial statements for groups falling within the SME category. We suggest that a deviation in reporting dates for a period of up to three months is allowed.

9.21 Combined financial statements

A definition of the term ”single investor” used in section 9.21 should be included in the glossary section of the standard.

Description of the cost method

We can not find any definition or explanation of the cost model, neither in the glossary nor in section 9. Such a definition is needed to clarify how to account for income from an investment in a subsidiary, when applying the cost model in the separate financial statements. Both section 13 Investments in Associates and section 14 Investments in Joint Ventures (in paragraphs 13.4 and 14.9 respectively) include explanatory guidance on the application of the cost model. We believe that similar guidance on how the cost model should be applied is necessary to clarify the accounting for investments in the separate financial statements of an entity.

Section 10 Accounting policies, Estimates and Errors

Changes in accounting estimates

The content in paragraphs 10.14 and 10.15 is not easily available to the reader. We propose to include an example to illustrate the impact of changes in accounting estimates, for example to illustrate how a change in the estimated useful life of a depreciable asset should be accounted for.

Section 11 Financial instruments

IASB has made a valuable effort in reducing the complexity of the accounting regulation for financial instruments. However, the requirements set forth in the standard are still too complex and for some parts difficult to understand. We are concerned that the shortening compared to IAS 39 has reduced the understand ability and removed valuable guidance.

We believe that the requirements should be explicit, for instance should the measurement categories be stated explicitly and not by default. In addition, more work can be done in making the language more accessible. The standard should be understandable without previous knowledge of IAS 39.

It is assumed that the IFRS for SMEs will be used by a vide range of entities. We recognize that it is difficult to develop accounting requirements for financial instruments suitable for such a broad group of entities and to find the proper balance between benefit and cost. In this context major effort should be done to analyse users’ needs and to give priority. Considering the users’ information needs as discussed in section 1, we question whether extensive use of fair value can be justified from a cost-benefit approach.

Scope

Section 11 paragraphs 11.3 c) insurance contracts, 11.3 e) lease contracts and 11.4 contracts to buy and sell non-financial items define the scope as to contracts with embedded derivatives with economic characteristics not closely related to the contract. In our view is the scope exclusion not clearly understandable. If the scope exclusion is maintained in the final standard, is it a need for extensive guidance. For instance, is a lease contract with rental regulation according to the consumer price index covered by the scope exclusion?

The identification and analysis of the features embedded in contracts other than plain contracts is complex and we question whether the requirement can be justified from a cost-benefit approach. On the one hand it can be argued that if an entity enters into contracts containing embedded derivatives it is important that the risk is identified and quantified. On the other hand, and as stated in BC24, are users of SMEs presumably less interested in values and more interested in the entities ability to meet its obligation. In our view will these users demand be met by applying the lower of cost principle applied on the contract as a whole. For these reasons we believe that SMEs contracts discussed above should only be scoped in section 11 if the embedded financial risk is a prominent feature in the contract or where fair value measurement should be applied from a substance over form consideration.

Scope - Insurance contracts

Financial guarantee contracts are not regulated separately nor defined, and the wording is unclear. It seems as financial guarantee contracts, at least for the guarantor, are included in Section 11. We believe that there is a need to clarify the accounting requirements for financial guarantee contracts.

As to the scope exclusion of insurance contracts, we cannot see that the “insurance risk” is defined nor guidance given.

Measurement

Financial instruments are in principle measured at fair value according to Section 2.41. According to section 11, there are two bases of measurement, where the fair value measurement is chosen by default. We believe that the measurement categories should be explicit and that no option between the categories should be given. This will improve the understand ability and comparability for the users and the preparers.

We agree to the simplification when reducing the measurement categories. For reasons set out above, we believe, however, that cost/amortised cost should be the primary measurement basis. Fair value measurement should only be applied to financial instrument where observable market prices exist. The fair value measurement techniques as described in appendix B to section 11 are far to complex for a majority of the entities covered by the IFRS for SMEs. During the IFRS implementation process, we experienced that use of fair value on non-marketable financial instruments created major challenges for the listed entities. We question whether SMEs of all sizes and activities can be expected to have sufficient knowledge to understand and comply with the requirements set out in Section 11. The development in the direction of extensive use of fair value should not start with SMEs.

In addition, we believe that the requirements should not allow for nor require fair value measurement of own debt.

Financial derivatives are not discussed separately nor defined in the standard. We believe that there is a need to address derivatives explicitly. It is our view that, in principle, only marketable financial instrument should be measured at fair value, including financial derivatives where the fair value can be derived from market parameters. However, we recognise that in this context there is a need for further analyzes of the proper measurement basis for derivatives.

We are concerned that contracts scoped in according to section 11.3 and 11.4 shall be measured at fair value ref 11.7, as it seems as contracts with embedded derivatives with economic characteristics not closely related to the contract shall be measured at fair value for the whole contract. As discussed above, we believe that fair value measurement of this kind of contracts is far too complex and we question whether the requirement can be justified from a cost-benefit approach. We believe that lower of cost and fair value will meet the objectives sufficiently in respect of SMEs.

Amortised cost

Amortised cost implies using the effective interest method as described in Appendix A. In our view, a simplification in this respect which not is considered could be to explicitly allow for expensing transaction cost directly, provided not material.

Transaction cost initial recognition

Section 11 does not mention transaction cost on initial recognition for financial instruments measured at cost. We believe that this issue needs to be addressed. In addition transaction cost should be defined.

Recognition

The standard should set clear criteria for initial recognition of financial instruments. The reference to "… only when…" might cause unnecessary confusion.

Derecognition

We appreciate the effort to reduce the complexity of the derecognition criteria. We recognise that removing the continuing involvement criterion may prevent proper accounting for securitisation and factoring transaction. We therefore encourage IASB to explore further the alternatives to achieve proper accounting for securitisation and factoring transaction without increasing the complexity.

Hedging

We support the approach in the standard where hedge accounting has become simpler but also more restrictive. We believe that the guidance on testing hedge effectiveness in BC74 should be addressed explicit in the standard as this would improve the understand ability.

Reversal

It seems as also impairment losses on not publicly traded equity instruments measured at cost shall be reversed. As this group of assets are equity instruments whose fair value cannot be measured reliably ref 11.7 c), we do not agree with the reversal of impairment losses on these instruments.

Section 13 Investment in Associates and section 14 Investments in Joint Ventures

Accounting policy for investments in subsidiaries, jointly controlled entities and associates in the separate financial statements

According to the proposal a parent entity may use the equity method or proportionate consolidation only in the consolidated financial statements. In our view these methods should be an option also for the separate financial statements. Allowing these alternatives may represent a simplification for some entities using the methods in the consolidated financial statements, mainly because a difference between separate and consolidated financial statements and an accompanying need for an explanation is removed. Information about cost will be disclosed in notes.

Paragraph 9.18 requires a parent entity to adopt a policy of accounting for all of its investments in subsidiaries, jointly controlled entities and associates either at cost or at fair value through profit and loss in its separate financial statements. Our preferred solution is to allow an entity the option to account for its investments in associates by the equity method and in jointly controlled entities by either the equity method or proportionate consolidation in addition to the suggested options cost or fair value. If the Board should agree to this proposal one single accounting policy will be in conflict with the purpose of this option, namely to allow use of the same principle in the separate financial statements as in the consolidated financial statements. If the Board should disagree with our proposal we support that the entity should apply a consistent measurement method for all these investments and not only for each category of investments.

Supportive of measurement principles for jointly controlled entities and investments in associates in the consolidated financial statements

Section 13 and 14 allow three options (cost, equity and fair value) for subsequent measurement of investments in associates and four options (cost, equity, proportionate consolidation and fair value) for subsequent measurement of investments in jointly controlled entities in the consolidated financial statements. Equity method and proportionate accounting are permitted under IFRS and we support the suggested solution permitting these principles also under IFRS for SMEs. Possible changes in IFRS should not be implemented in advance.

Limitation of cross-reference to IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures

Section 13 and 14 include cross-references to IAS 28 when applying the equity method and to IAS 31 when applying proportionate consolidation. As mentioned in our response to question 1 of the invitation to comment, we believe that the cross-references to IAS 28 and IAS 31 should be deleted and the necessary requirements included in the IFRS for SMEs explicitly.

Comments on drafting

We believe that the standard needs to clarify that the accounting for investments in jointly controlled entities in section 14 Investments in joint ventures and the accounting in section 13 Investments in Associates will only apply to the consolidated financial statements. The standard should also clearly state whether or not it applies for financial statements of investors outside the scope of section 9 Consolidated and Separate Financial Statements, for example entities which are not included in a consolidated financial statement but have significant influence over an associate. We believe that such clarification is needed because different measurement principles are to be applied in accordance with sections 13, 14 and 9 respectively.

Section 16 Property, Plant and Equipment

We support the option for SMEs to use the revaluation model, and also that the revaluation model is made available by cross-reference to IAS 16. However, in our opinion, an entity that applies the more complex revaluation model should be required to apply all paragraphs in IAS 16 (the whole standard, and for all property, plant and equipment).

Section 17 Intangible Assets other than Goodwill

We suggest that the IFRS for SMEs emphasises that internally generated goodwill shall not be recognised as an asset.

According to the proposed standard SMEs shall asses whether the useful life of an intangible asset is finite or indefinite. An entity shall not amortise an intangible asset with an indefinite useful life. We agree with the IASB that amortisation may be somewhat arbitrary. Nevertheless, we believe that reinstating amortisation of intangible assets [and goodwill, see comments on section 18] would not deprive users of SMEs' financial statements of the information they need. In our opinion SMEs should not be required to distinguish between intangible assets with finite or indefinite useful life. This means that all intangible assets could be treated as assets with a finite life and be amortised. We propose that reasons shall be given in disclosures for any depreciation plan, which is longer than five years. SMEs should be allowed to treat intangible assets with indefinite useful lives according to the full IFRSs, by cross-reference to IAS 38.

In our opinion the use of the revaluation model is questionable, and for SMEs in particular, when recognising and measuring intangible assets. However, with respect to our principal view; that all options in full IFRS should be available, we support that the revaluation model by cross-reference to IAS 38, with a requirement to apply all paragraphs in IAS 38 if the entity chooses that option.

Section 18 Business Combinations and Goodwill

The requirement to allocate the cost of the business combination

The NASB agrees that all business combinations shall be accounted for by applying the purchase method. However, we suggest simplifying the method for allocating the cost of a business combination. With regards to intangible assets, we suggest that the requirement for separate allocation/recognition is limited to those intangible assets that are legal rights. Furthermore, the requirement to allocate the cost of the business to contingent liabilities should in our opinion be eliminated from the IFRS for SMEs. We believe this would be an important simplification, which could significantly reduce the complexity of the accounting for business combinations. This simplification would have the advantage of avoiding situations with arbitrary allocations after the purchases have been made. Important users, like banks, will to our knowledge often need to make their own judgement of such items, and there seems not to be strong arguments against the simplification based on user needs.

Goodwill should be amortised

In the Basis of Conclusions the IASB refers to studies that evidence little information content in goodwill amortisation as an argument against compulsory amortisation. However, the IASB fails to provide evidence that the alternative impairment only approach is significantly more relevant for the users. Goodwill accounting that only relies on impairment accounting, is vulnerable to earnings management tendencies, and goodwill impairment losses may lack proper information content for that reason, thus the impairment only approach also suffers deficiencies. We also believe that impairment testing of goodwill is burdensome for SME's. Amortising goodwill will reduce the need for impairment and represents an important simplification. We therefore suggest that the IFRS for SMEs model accounting for goodwill should include amortisation.

Section 19 Leases

We agree with IASB that the option to treat all leases as operating leases should not be given, but some simplification should be considered. We suggest that SMEs should be allowed to measure assets and liabilities in a finance lease at an amount equal to the present value of the minimum lease payments, instead of fair value.

Section 20 Provisions and Contingencies

We recommend section 20 to explicitly state that executory contracts are exempt from its scope, to make clear that no liability arising from executory contracts should be recognised.

We suggest that paragraph 20.8 be written as follows: "at the best estimate at the reporting date of the amount required to settle the obligation" (to make it clear that the best estimate reflects current economic conditions at the reporting date and **not** a settlement scenario at the reporting date).

Section 21 Equity

In general we think the IFRS for SMEs is much easier to read and understand than full IFRSs. However, section 21 seems more confusing and difficult to understand, cover miscellaneous issues related to equity, and we think it could benefit from redrafting. As the section in basic seems to address accounting for equity shares, we believe that "equity shares" should be defined.

The classification as equity versus liability is a difficult issue and detailed criteria are given in IAS 32. We believe that the standard should address the classification issue and give more guidance in this respect.

According to Section 21.3 equity instruments shall be measured at fair value. We question whether there is a need for departure from this principle, considering the accounting practice for common control transaction using pooling of interest method.

The principles established in 21.2 and 21.3 shall be applied to equity issued by derivatives. We believe that more guidance is necessary on the accounting requirements for this kind of instruments.

We are aware that in some jurisdictions partnerships, cooperatives or other forms of corporation have puttable equity instruments. Often these entities are not publicly accountable and are therefore within the scope of this standard. We believe that some changes are needed with respect to the debt/equity classification (such as but not limited to what the IASB is considering for full IFRSs) in order to address the anomalous outcome of an entity having negative or no equity at all although it is still very much a going concern.

Section 22 Revenue

IAS 18.19 states that ”Revenue and expenses that relate to the same transaction or other event are recognised simultaneously; this process is commonly referred to as the matching of revenues and expenses.” A similar statement is not included in the IFRS for SMEs. We question if the omission imply a different approach in the IFRS for SMEs compared to IAS 18. If so, the reasons for and consequences of the differences related to users needs should be explained in the basis of conclusion. In any case the omission needs an explanation in the basis of conclusions.

IAS 18 explicitly addresses deferral of revenue (earned income principle), but in the IFRS for SMEs it is not mentioned in section 22 directly, only in some of the examples in appendix to section 22, for instance in 22A.14 and 22A.18. The IASB should in our opinion explain in the Basis of Conclusions whether excluding deferral of revenue from the wording of the section will have any consequences.

We believe that, as a consequence of including revenue from construction contracts in the scope of section 22, paragraph 1 of this section should explain that revenue transactions arising from construction contracts are transactions within its scope.

Accounting for construction contracts in accordance with percentage of completion method is conditional on reliable estimation of income. We believe that lack of reliable estimation might rather be the rule than the exception for a major part of companies in the SME category. To enhance simplification and reduce the risk of unintentional violation of the accounting principle, we recommend the method described in paragraph 22.25 (“percentage of completeness method without profit”) to be presented as the main rule for accounting for construction contracts, instead of the exception. As a consequence the complete use of percentage of completion method would be presented as the exception (“Only when the outcome of a construction contract can be estimated reliability…”).

Guidance on the elements of contract revenue and contract costs is not included in the proposed standard. We believe that more guidance is needed. Furthermore the illustrative examples in section 22 should include examples of both construction contracts and other revenue transactions covered by the section.

Section 23 Government Grants

In our opinion IFRS for SMEs should in principle not be ahead of full IFRSs and future changes should not be anticipated. As a consequence we do not recommend the IAS 41 model to be implemented in the IFRS for SMEs to account for government grants at this stage, but it should be reconsidered when the due process for changes to IAS 20 has been completed.

We support short and concise sections, but on the other hand the sections can not be so limited that the producers and the users do not understand the content and how to apply the rules to normal transactions, events and conditions. In our opinion the section 23 lacks necessary guidance in the interpretation of “future performance conditions”. We recommend “performance conditions” to be explained in glossary, and examples to be included in an appendix to the section.

IAS 20.12 state that “Government grants shall be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate,…”. There is no similar statement in the IFRS for SME’s. The recognition criteria are related to the interpretation of “future performance conditions”. It seems to be different approaches. If so, the reasons for and consequences of the differences related to users needs should be explained in the basis of conclusion.

Section 25 Share-based Payment

We support IASB’s suggestions to account for share-based payment. A disclosure only approach for equity settled share-based payment transactions is in our view questionable based on user needs, because employee benefits would then not be fully reflected in the income statement. However, many of the companies in the SME category may have problems finding a reliable value both for their shares and other equity instruments, and we would welcome an approach which would be easier to apply.

Section 26 Impairment of Non-financial Assets

Impairment and recoverable amount; in our opinion value in use should be reinstated as a possible basis for impairment tests. We are strongly in favour of the same solution as in IAS 36, where recoverable amount is defined as the higher of the asset’s fair value less costs to sell and its value in use. This will call for a more extensive regulation of reversal of an impairment loss. However, we think this disadvantage is out weighted by the advantages. Impairment based on exit value is in our opinion not appropriate, and is certainly not a simplification.

Section 27 Employee Benefits

Defined benefit plans

Section 27.21 and 27.22(d) ask for immediate recognition of all actuarial gains and losses through the income statement. However, as explained in “Optional fallback to full IFRSs” at page 3 of our letter and the answer to question 4 in appendix 1, we think that all options allowed in full IFRSs should also be made available to SMEs.

We acknowledge that including all the options in the IFRS for SMEs would ad complexity to the standard. However, we believe that the method described in IAS 19.93A-93D (allowing actuarial gains and losses to be recorded directly to equity), is a preferable method, and should be included in the IFRS for SMEs.

The other options allowed in IAS 19 should in our opinion only be made available by cross reference to IAS 19, subject to application of the complete IAS 19.

Section 28 Income Taxes

We generally agree on the suggested approach on current taxes and the temporary differences approach regarding deferred taxes.

The primary accounting principle for a deferred tax asset should be not to recognise it, but with an option to recognise the deferred tax asset if meeting conditions equivalent to those in IAS 12. In our opinion this approach will be a simplification for the producers with no material negative effect for the most important users (creditors).

To enhance comparability we suggest more guidance on recognition- and measurement criterias of deferred tax assets in line with IAS 18 for the companies that use the option. Furthermore we think there should be disclosure requirements to specify underlying assumptions of carrying amount of deferred tax assets.

Section 32 Events after the End of the Reporting Period

We believe there is a need for clarification that disclosure in the financial statements should reflect information received after the balance sheet date, even though the information does not affect the amount that is recognised in the financial statement.

Section 33 Related Party Disclosures

”Close member of the family”, which is a term used in a part of the related party definition, is not defined. We suggest that a definition of this term is also included in the glossary. A close member of the family is defined in the Norwegian accounting and company legislation as:

1. a spouse or a cohabitant with whom the person in question is living in a marriage-like relationship;

2. dependent children of the person in question and dependent children of a person mentioned in no. 1 with whom the person in question is cohabiting;

3. a company controlled by the person in question or someone mentioned in nos. 1 and 2.

Section 35 Specialised Industries

In our opinion SMEs should be allowed to measure all biological assets at cost (less impairment). The fair value model should also be allowed, but only by cross-reference to IAS 41. An entity that applies the more complex fair value model should be requested to apply all paragraphs in IAS 41. The research carried out seems not to be conclusive on that fair value accounting of biological assets better serve the user needs than cost accounting, and we also question the assumption taken by IASB that in this industry .

Section 36 Discontinued Operations and Assets Held for Sale

We believe that the presentation and disclosure requirements of discontinued operations and assets held for sale are too rigorous for most entities within the SME category. From a cost benefit perspective the current requirements as set forth in the standard could be made optional by cross reference to IFRS 5. We propose that the IFRS for SMEs section 36 be revised to only require SMEs to give information in the disclosures when they have had discontinued operations (disclose information of impact of the discontinued operations on the financial statements, if material), with an option to apply IFRS 5 instead, by cross-reference.