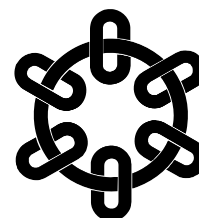
NORSK REGNSKAPSSTIFTELSE



International Accounting Standards Board

30 Cannon Street,
London EC4M 6XH
United Kingdom

16. September 2002

Dear Sir David,

Re: Comments on ED of Proposed Improvements to International Accounting Standards

General remarks

The following is the comments of the Norwegian Accounting Standards Board (NASB) on the Exposure Draft of Proposed Improvements to International Accounting Standards (the Improvement Project). The proposed changes are voluminous, and the NASB has been obliged to concentrate our discussions to some of the standards.

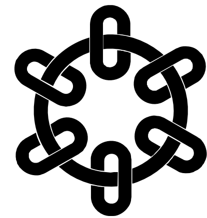
Although we will in general commend the Board for the outcome of the efforts invested in the Improvement Project, we feel that the objectives and limitations of the project have not been sufficiently defined. The removal of inconsistencies, the introduction of uniform terminology etc. are natural ingredients of such project. However, the introduction of material changes is not an indispensable ingredient. It is our impression that there are too many material changes in the project, which could preferably have been run as separate projects. Historically changes in accounting practice come about gradually, and the fact that IFRS will have a wider use in the years to come, is not a reason for impatience. It is also our impression that some of the material changes have not been justified in the basis for conclusions.

In our opinion there ought to have been a limitation to the project that no new differences to US GAAP should be created. We will not express the view that US GAAP solutions should be replicated whenever an IFRS is revised. We think, however, that a choice of a solution different from the US GAAP solution should be highlighted and discussed thoroughly. Such choices therefore should have been defined as being outside the improvement project. We have not examined all the proposed changes in order to identify deviations from US GAAP, but we have observed some. As a general statement we declare disagreement with any proposed change (in the improvement project), which create a difference between IAS/IFRS and US GAAP where no there was no difference before.

IAS 1 Presentation of Financial Statements

Comments to specific questions

Question 1
Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation?



We are partly in favour of the proposed amendment, but we are confused about the content of par. 15.

Presently, a TFV override is not allowed for Norwegian enterprises. A common view among Norwegian experts is that loyal subjection to high quality rules will result in financial statements that achieve a fair presentation. Therefore we support the initial paragraphs of the overall considerations, and to the extent that the selected new wording makes departure from standards more unlikely than before the changes, we are in favour of them.

When it comes to par. 13-15 we are not convinced about the logic. Compliance with IFRS requires a fair presentation, and if a fair presentation requires a departure from a standard, this must be equally the case irrespective of other relevant regulation. Consequently, in the event that a national regulation prohibits departure from IFRS, and the departure is necessary for the fair presentation for a particular enterprise, the enterprise subject to the regulation simply cannot comply with the IFRS.

Question 2
Do you agree with prohibiting the presentation of items of income and expense as "extraordinary items" in the income statement and the notes?

Yes.

Questions 3 and 4
(on the classification of liabilities as current or non-current)

The liquidity view of classification of liabilities is not in line with established practice in Norway. However, once the liquidity view is chosen, which is already the case with the present IAS 1, we have no objection to amendments that yield a better consistence with other standards and the Framework. Referring to our initial comment, we take it for granted that the proposed changes do not create new differences to US GAAP.

Question 5
Do you agree that an entity should disclose the judgments made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements?

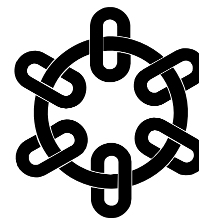
Generally, we are in favour of disclosure of management's accounting judgments. However, the proposed paragraph is so generally expressed, that it will be difficult both to practice and to enforce. We think that such requirement should be developed more before being part of IFRS.

Question 6
Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year?

We are generally in favour, but against the proposed text for the same reason as in our answer to Q 5.

Comments on other changes

Paragraph 2. The wording of the paragraph has been changed as compared to the wording in the existing IAS 1, without any explanatory comments. In particular we note that the last sentence of the paragraph has been deleted. The present text is: "This Standard applies equally to the financial statements of an individual enterprise and to consolidated financial statements for a



group of enterprises. However, it does nor preclude the presentation of consolidated financial statements complying with International Accounting Standards and financial statements of the parent company under national requirements within the same document, (…).” This text is replaced by: “When a group of entities exists, this Standard applies equally to the separate financial statement of a member of a group and to the consolidated financial statements for the group, (…).”

A reasonable interpretation of the new wording and the deletion is that for group accounts to comply with IFRS, adjacent separate accounts presented together with them must also comply with IFRS. If this were the intention, it would be a major step, which has to be introduced in a more transparent manner. We think that the amendments of paragraph 2 need clarification.

Paragraph 21. What is now stated in this paragraph is not a description of accrual accounting, but rather an ideological phrase. As it is, the content of paragraphs 20 and 21 is nil, because it is already clear that one shall follow recognition and measurement rules of the IFRS, with or without the name “accrual accounting” attached to it. We think that the present wording of this paragraph should be retained. If necessary, one might add to the paragraph that accrual accounting is the rule whenever a specific standard does not describe a specific solution (which, of course, may deviate from traditional accrual accounting).

Relationship to IAS 8. Generally, we think that the IASB has done a very good job in rearranging IAS 8. However, the “division of labour” between IAS 1 and IAS 8 is not quite clear. All rules, which govern accounting policies, have been grouped into IAS 8, while all rules, which govern the income statement, have been grouped into IAS 1. However, disclosure requirements on accounting policies are partly in IAS 1 (par. 103-109) and partly in IAS 8 (e.g. par. 23). In our opinion, IAS 8 could preferably have been integrated into IAS 1.

IAS 16 Property, plant and equipment

Comments to specific questions

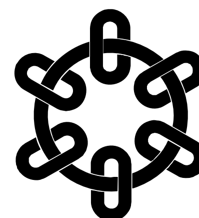
Question 1
Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets can be determined reliably?

and

Question 2
Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably?

Present IAS rules for measuring exchanges of similar assets, i.e. IAS 16.22, are incorporated in existing N GAAP. In the Norwegian context, these rules have primarily been influential in the way they govern the accounting for creation of joint ventures. The NASB acknowledge that the application of these rules may sometimes be difficult, especially because the concept of ”similar assets” is somewhat equivocal. However, we are not convinced that there is good reason to throw them away at this occasion. It is our understanding that present IAS is mostly in harmony with US GAAP on this point, and that the proposed amendment will create a difference where there was almost none before. Therefore we would recommend that any amendment of the rules for transaction measurement await a joint FASB/IASB initiative.

If the IASB maintains its position to change the rules now, we will ask you to reconsider the wording of paragraph 21A. The first sentence is about exchange of similar assets, and so is presumably the second sentence. However, the problem of determining a reliable estimate of the



fair value of an asset is not a problem, which is particular for exchanges of similar assets. Rather we would claim that there is a potential measurement problem in all non-monetary transaction. Therefore, 21A should not mention similar assets at all.

The NASB would recommend a redrafting of the chapter of initial measurement in IAS 16 such that non-monetary transactions are treated consequently under one heading. Non-monetary transactions would then encompass both the giving up of non-monetary assets (now mentioned under the heading of exchanges of assets) and the acceptance of non-monetary liabilities, e.g. costs to dismantle and remove an asset, mentioned in paragraph 20A and B. We will revert to this idea under ”other comments” below.

Question 3
Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

The content of your proposal is in line with existing N GAAP. The NASB would think that it follows from the wording in paragraph 41: ”The depreciation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.” The amended paragraph 59 therefore may be superfluous. As a practical reminder it may still have a function, but then it should not be placed in the chapter on retirements and disposals but rather in the chapter on depreciation. For accuracy we will also suggest an exception in paragraph 59 when the unit of production method (sum-of-the-units) is used.

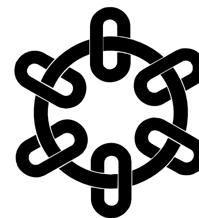
Comments on other changes

The NASB considers the proposed changes in the chapter of initial measurement of PPE to be the most important amendment of IAS 16. We have comments both to the structure of the chapter and the content of particular paragraphs.

The chapter should in our view deal with two issues: the components of cost and cost measurement. To the issue of components of cost we have the following objections to the proposed text. In paragraph 15 b) costs of testing are included in the cost of PPE, but the proceeds of sale of test products are deducted. We do not agree with the latter treatment. We think that sale of test products should be recognised as income, and that costs of those sales (at least variable costs) should be expensed. This position also seems consistent with the requirement in the new paragraph 17B that proceeds from incidental operations shall be recognised as income.

The NASB agrees that costs to dismantle and remove an asset are a component of cost of PPE, but we do not agree with proposed text in paragraph 20A and 20B. We would prefer these costs to be mentioned as an example of directly attributable costs, as in the existing paragraph 15. The fact that this text in the proposal has been separated from the other components of costs, seem to indicate that such liability is subject to a different accounting treatment than other liabilities.

Also the wording of the new 20A indicates special treatment: “Those costs may be incurred when the asset is initially acquired or in subsequent periods (…)”. Our understanding is that the obligation to remove, say an oil platform, is created when the platform is installed, and therefore is a component of cost for the platform. The initial estimate is likely to be uncertain. Changes in the estimate in subsequent periods should be recognised as income or expense, and should not be treated as part of cost for the platform. The effect of subsequent events, like new legislation or accidents, which increase clean up costs, also should be treated as income and expense. We are uncertain about the intended meaning of the second phrase, but it can be understood to signify an



entirely new accounting for such costs. If that is the intention, it represents a major breakaway from conventional accounting, and that would require a solid background discussion about the proposed change in the basis for conclusion.

The content of 20B is not about initial measurement, and should be moved to the chapter about subsequent measurement.

We would prefer cost measurement to be discussed separately. Whenever the consideration is money, the measurement gives itself. Whenever the consideration is non-monetary, the measurement may be complex. Non-monetary considerations, in our view, encompass both the exchange of non-monetary assets (which are not necessarily similar), and the assumption of non-monetary liabilities. For non-monetary liabilities, such as uncertain liabilities (provisions) and pension liabilities, measurement rules can be linked up with the relevant standards (in this case IAS 19 and 37). This solution, however, is not necessarily the best. One could argue that in the case of PPE acquisition, any uncertain liability should be measured at expected value, irrespective of the level of probability of "the outflow of resources". We have noted that the application of IAS 37 measurement rules is being considered in the Business Combination Project, and we would think that same arguments could apply to PPE acquisition.

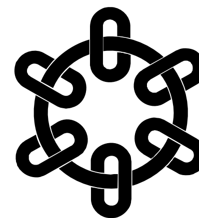
We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

The Norwegian Accounting Standards Board

Idar Eikrem

Chairman

NORSK REGNSKAPSSTIFTELSE



Sir David Tweedie

Chairman IASB

5 March 2003

Dear Sir David,

ED 2 Share-based payment

The Norwegian Accounting Standards Board is pleased to comment on the above document ("the draft IFRS"). The present lack of guidance regarding share based payment is a major obstacle in comparing the financial results of different enterprises. We therefore support IASB's efforts to develop a standard on this area.

In general, we were pleased to notice that the transaction principle is the underlying basis for the draft IFRS. This gives, in our opinion, a solid platform for the development of a standard that meets the qualitative requirements that an IFRS standard needs to have in order to improve financial reporting. Notwithstanding our support for this basic principle, we strongly believe there are important areas of ED 2 which should be revisited and improved. Our comments in those areas are incorporated in our attached answers to the questions raised in the draft IFRS. The most important areas are:

- Service date measurement when the transaction is measured directly (Q 4)
- Prescriptive use of indirect measurement for employee services (Q 7)
- Disallowing "true-up" if vesting conditions are not met (Q 9/10)
- Inclusion of performance based vesting criteria in measuring fair value of options granted (Q 13)
- Repricing and cancellation (Q 17/18)
- Cash settled transactions (Q 19)
- Disclosure requirements (Q21)

If you would like further clarification of our comments please contact Harald Brandsås or myself.

Yours sincerely,

Idar Eikrem
Chairman Norwegian Accounting Standards Board

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Question 1
Paragraphs 1- 3 of the draft IFRS set out the proposed scope of the IFRS. There are no proposed exemptions, apart from for transactions within the scope of another IFRS. Is the proposed scope appropriate? If not, which transactions should be excluded and why?

We agree with the proposed scope. We do however suggest that the standard to a larger extent clarifies the scope regarding trusts and similar mechanisms that are set up to grant options or shares to employees.

Question 2
Paragraphs 4-6 of the draft IFRS propose requirements for the recognition of share- based payment transactions, including the recognition of an expense when the goods or services received or acquired are consumed. Are these recognition requirements appropriate? If not, why not, or in which circumstances are the recognition requirements inappropriate?

We agree with the provisions described in paragraphs 4-6 of the draft IFRS.

Question 3
For an equity-settled share-based payment transaction, the draft IFRS proposes that, in principle, the entity should measure the goods or services received, and the corresponding increase in equity, either directly, at the fair value of the goods or services received, or indirectly, by reference to the fair value of the equity instruments granted, whichever fair value is more readily determinable (paragraph 7). There are no exemptions to the requirement to measure share-based payment transactions at fair value. For example, there are no exemptions for unlisted entities. Is this measurement principle appropriate? If not, why not, or in which circumstances is it not appropriate?

We agree with the principle described in the draft IFRS.

Question 4
If the fair value of the goods or services received in an equity-settled share-based payment transaction is measured directly, the draft IFRS proposes that fair value should be measured at the date when the entity obtains the goods or receives the services (paragraph 8). Do you agree that this is the appropriate date at which to measure the fair value of the goods or services received? If not, at which date should the fair value of the goods or services received be measured? Why?

In our opinion the grant date is the most appropriate date to measure the fair value of the goods or services to be received in almost all circumstances. Grant date is the date on which an agreement has been reached between the two parties regarding the value of the goods or services to be provided.

Question 5
If the fair value of the goods or services received in an equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted, the draft IFRS proposes that the fair value of the equity instruments granted should be measured at grant date (paragraph 8). Do you agree that this is the appropriate date at which to measure the fair value of the equity instruments granted? If not, at which date should the fair value of the equity instruments granted be measured? Why?

In our opinion, as stated and reasoned above, the grant date is the appropriate date to measure all equity instruments granted to both employees and nonemployees.

Question 6
For equity-settled transactions with parties other than employees, the draft IFRS proposes a rebuttable presumption that the fair value of the goods or services received is more readily determinable than the fair value of the equity instruments granted (paragraphs 9 and 10). Do you agree that the fair value of the goods or services received is usually more readily determinable than the fair value of the equity instruments granted? In what circumstances is this not so?

We generally agree with the approach proposed in the draft IFRS that there is a presumption that the fair value of the goods or services received is more readily determinable than the fair value of the equity securities granted. However, we believe that this presumption may be overcome in several circumstances. For example; services provided by consultants could be similar to services provided by employees. In such circumstances the fair value of the services received could be equally problematic to measure as if the employees had provided the same services. In some instances it could also be difficult to measure the fair value of the goods or services received due to the fact that the goods or services received are only delivered to very few enterprises. In such cases, it is our belief that the presumption that the fair value of the goods or services is more readily determinable than the equity instruments granted may be rebutted. However, our understanding is that the requirements of the standard are sufficiently flexible to accommodate these transactions.

Question 7
For equity-settled transactions with employees, the draft IFRS proposes that the entity should measure the fair value of the employee services received by reference to the fair value of the equity instruments granted, because the latter fair value is more readily determinable (paragraphs 11 and 12). Do you agree that the fair value of the equity instruments granted is more readily determinable than the fair value of the employee services received? Are there any circumstances in which this is not so?

We do agree with the general view that the fair value of equity instruments often will be more readily determinable, however we believe that examples of the opposite do exist.

As long as such examples may exist, we believe that it is not proper to supersede the general principle stated in paragraph 7, “whichever fair value is more readily determinable”, by disallowing the use of direct measurement for transactions with employees.

We believe that one example would be where an employee, a group of employees or all employees are offered to substitute a portion of their cash salary against compensation in equity instruments. If, in such case there is evidence that, in the views of the employees, one alternative is not clearly better than the other, using the alternative cash salary as an measure on both sides of the transaction would seem appropriate. Such evidence could be that a significant portion of the employees chooses either of the two alternative methods of compensation. In this example it might be argued that employees are not fully able to appreciate the value of equity instruments. However, even if this was the case, it would be irrelevant to the question of measuring the value of services received since a lack of ability to appreciate the value of equity instruments would only highlight an issue related to the effectiveness of equity instruments as a form of payment.

If, in the example above, equity instruments are issued by a company which is not listed, this will also contribute to a conclusion that the value of the employees services are more readily determinable.

We propose to maintain the discussion in paragraph 12, but to delete the prescriptive conclusion that indirect measurement should always be used. As a minimum the assumption that fair value of equity instruments granted is more readily determinable should be modified by “in absence of evidence of the contrary”.

Question 8

Paragraphs 13 and 14 of the draft IFRS propose requirements for determining when the counterparty renders service for the equity instruments granted, based on whether the counterparty is required to complete a specified period of service before the equity instruments vest. Do you agree that it is reasonable to presume that the services rendered by the counterparty as consideration for the equity instruments are received during the vesting period? If not, when are the services received, in your view?

We agree that it is reasonable to presume that services received in exchange for the equity instruments granted are received during the vesting period.

Question 9

If the services received are measured by using the fair value of the equity instruments granted as a surrogate measure, the draft IFRS proposes that the entity should determine the amount to attribute to each unit of service received, by dividing the fair value of the equity instruments granted by the number of units of service expected to be received during the vesting period (paragraph 15). Do you

agree that if the fair value of the equity instruments granted is used as a surrogate measure of the fair value of the services received, it is necessary to determine the amount to attribute to each unit of service received? If not, what alternative approach do you propose? If an entity is required to determine the amount to attribute to each unit of service received, do you agree that this should be calculated by dividing the fair value of the equity instruments granted by the number of units of services expected to be received during the vesting period? If not, what alternative method do you propose?

The fair value of the equity instrument should be attributed to the goods or services received. However, we believe the proposed method (units of service approach) is to complex to be practical, and could give the wrong information, unless trued up (fully) for actual units of services received. We also believe that it could be questioned whether it is appropriate to recognise services received from employees in exchange for equity instruments that do no vest. We believe there is an important difference between share based payment for employee services and share based payment for goods and services in general that are of importance. The employee has the right to "walk-away" from the arrangement (for example quit, or renegotiate), while a supplier of goods or services needs to deliver even if the options are not exercised due to unfavourable conditions. It could therefore be argued that the employee would not consider equity instruments granted which have a small possibility of vesting as a payment for his or her services. The "surrogate measure" could in such circumstances lead to recognition of employee services received which are not supported by the value of the services the entity actually receives.

We therefore propose an alternative method; straight-line amortisation of the initially determined fair value at grant date of the services received, trued up at each reporting date for units of services received.

Question 10

In an equity-settled share-based payment transaction, the draft IFRS proposes that having recognised the services received, and a corresponding increase in equity, the entity should make no subsequent adjustment to total equity, even if the equity instruments granted do not vest or, in the case of options, the options are not exercised (paragraph 16). However, this requirement does not preclude the entity from recognising a transfer within equity, i.e., a transfer from one component of equity to another. Do you agree with this proposed requirement? If not, in what circumstances should an adjustment be made to total equity and why?

For acquisition of goods and services in general we believe the proposed requirement is appropriate. However (as stated above) we believe this requirement needs to be amended regarding services from employees where equity instruments granted do not vest. The reason for this is that we question whether the indirect method ("surrogate measure") gives an appropriate measurement of the actual value received in such circumstances.

Question 11
The draft IFRS proposes that the entity should measure the fair value of equity instruments granted, based on market prices if available, taking into account the terms and conditions of the grant (paragraph 17). In the absence of a market price, the draft IFRS proposes that the entity should estimate the fair value of options granted, by applying an option pricing model that takes into account various factors, namely the exercise price of the option, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares (where appropriate) and the risk-free interest rate for the life of the option (paragraph 20). Paragraph 23 of the proposed IFRS explains when it is appropriate to take into account expected dividends. Do you agree that an option pricing model should be applied to estimate the fair value of options granted? If not, by what other means should the fair value of the options be estimated? Are there circumstances in which it would be inappropriate or impracticable to take into account any of the factors listed above in applying an option pricing model?

Option-pricing models are not developed for measuring share based payments to employees. However, even if we are concerned whether values determined using an option-pricing model are appropriate for employee stock options, we believe that such models represent the most reasonable method available to value options granted in exchange for goods or services. Provided that the final standard allows reasonable adjustments to the output of option pricing models, we believe that such models can be used to derive appropriate values within reasonable limits.

Question 12
If an option is non-transferable, the draft IFRS proposes that the expected life of an option rather than its contracted life should be used in applying an option pricing model (paragraph 21). The draft IFRS also proposes requirements for options that are subject to vesting conditions and therefore cannot be exercised during the vesting period (paragraph 22). Do you agree that replacing an option's contracted life with its expected life when applying an option pricing model is an appropriate means of adjusting the option's fair value for the effects of non-transferability? If not, do you have an alternative suggestion? Is the proposed requirement for taking into account the inability to exercise an option during the vesting period appropriate?

Our concern is that option pricing models are not developed to measure stock options granted to employees. However, we believe the proposed approach is one example of taking into consideration the diminution in value resulting from the non-transferability of employee stock options. It is possible that valuation experts come up with a better model at a later stage. We believe the final standard should not prescribe the expected life approach as the only way of dealing with the non transferability issue.

Question 13

If a grant of shares or options is conditional upon satisfying specified vesting conditions, the draft IFRS proposes that these conditions should be taken into account when an entity measures the fair value of the shares or options granted. In the case of options, vesting conditions should be taken into account either by incorporating them into the application of an option pricing model or by making an appropriate adjustment to the value produced by such a model (paragraph 24). Do you agree that vesting conditions should be taken into account when estimating the fair value of options or shares granted? If not, why not? Do you have any suggestions for how vesting conditions should be taken into account when estimating the fair value of shares or options granted?

With the exception of performance based vesting conditions we generally agree that vesting conditions should be considered in the estimate of fair value of an equity instrument granted in exchange for goods or services. We also believe the vesting conditions should not be incorporated into the option pricing model since this would probably be confusing. It is our view that it is better to adjust the output (value) from the option pricing model instead.

Our concern with respect to performance based vesting conditions is that the element of variability in employee compensation is not reflected in the recognised expense under the treatment proposed in the ED. Although this may be conceptually correct in some respects, we feel that the result is counter-intuitive and may not always reflect economic realities.

Our experience is that entities, especially technology companies and companies where the human capital element is essential, often put a lot of efforts into establishing compensation elements which are variable to reflect the entity's and individual employees performance. Such arrangements may, in addition to work as an incentive, be targeted to share upside and downside with employees to secure a low cost base if performance falls below certain levels, reflect variances in the level or value of services received from employees, and similar.

In the above cases, regardless of the performance criteria are collective or individual, we are of the opinion that the variability should be reflected in the recognition of compensation expense since this would reflect both a planned and realised outcome. In addition we believe, in the case of individual performance criteria, the success level compared to the criteria may often reflect actual variances in the value of services received by the entity.

We also like to express our concerns regarding the challenges related to estimating the likelihood of vesting conditions that are performance related. We believe that such estimate will be very arbitrary in practice.

Therefore we propose to amend the ED to the solution described in FASB 123; no compensation cost is recognized if the performance conditions are not achieved, and 100% is recognized if they are.

Question 14
For options with a reload feature, the draft IFRS proposes that the reload feature should be taken into account, where practicable, when an entity measures the fair value of the options granted. However, if the reload feature is not taken into account in the measurement of the fair value of the options granted, then the reload option granted should be accounted for as a new option grant (paragraph 25). Is this proposed requirement appropriate? If not, why not? Do you have an alternative proposal for dealing with options with reload features?

We are not familiar with the concept of reload feature. In light of this we believe that it would be appropriate to clarify the the definition further and develop examples of how reload features should be measured.

Question 15
The draft IFRS proposes requirements for taking into account various features common to employee share options, such as non-transferability, inability to exercise the option during the vesting period, and vesting conditions (paragraphs 21- 25). Are there other common features of employee share options for which the IFRS should specify requirements?

To the best of our knowledge we are not aware of any other common features of employee share options for which the final standard should specify requirements. However, we do believe that tax issues in some circumstances could affect the value of the option. It is not common, but in some instances the employee have to cap the value of the option in order to “share” the increased salary tax due to increased value of the options.

Question 16
The draft IFRS does not contain prescriptive guidance on the estimation of the fair value of options, consistently with the Board’s objective of setting principles-based standards and to allow for future developments in valuation methodologies. Do you agree with this approach? Are there specific aspects of valuing options for which such guidance should be given?

We generally agree with this approach. This is because it allows possible future developments in option pricing models to be incorporated into valuation methodologies without requiring a change to the standard.

Question 17
If an entity reprices a share option, or otherwise modifies the terms or conditions on which equity instruments were granted, the draft IFRS proposes that the entity should measure the incremental value granted upon repricing, and include that incremental value when measuring the services received. This means that the

entity is required to recognise additional amounts for services received during the remainder of the vesting period, i.e., additional to the amounts recognised in respect of the original option grant. Example 3 in Appendix B illustrates this requirement. As shown in that example, the incremental value granted on repricing is treated as a new option grant, in addition to the original option grant. An alternative approach is also illustrated, whereby the two grants are averaged and spread over the remainder of the vesting period. Do you agree that the incremental value granted should be taken into account when measuring the services received, resulting in the recognition of additional amounts in the remainder of the vesting period? If not, how do you suggest repricing should be dealt with? Of the two methods illustrated in Example 3, which is more appropriate? Why?

We disagree with the proposed treatment since in a lot of circumstances it will produce a result that conflicts with the main purpose of the ED and result in recognition of an expense that do not reflect value of services received. We believe that there is a significant risk that the proposed treatment will be perceived as prioritising “punishment” over relevant measurement.

The proposed treatment of repricing is consistent with an underlying assumption that repricing normally will occur to reflect a change (normally increase) of the value of services received. We believe that this is rarely the circumstance. We believe that repricing in nearly all circumstances are made in situations where the fair value of equity instruments offered to employees has been significantly reduced or lost in full.

Indirect measurement is a “surrogate” measure used to estimate the value of services received. In repricing situations a direct application of the same “surrogate” measure will not necessarily represent a meaningful method, since repricing often will be motivated by changes in value of the equity instrument which do not correspond with changes in the services received by the company.

An equity based compensation arrangement for employees do not represent a “binding agreement” for both the employer and the employees. In normal circumstances the employee may at any time terminate his payment of the option price (through contribution of services). The fact that employees do not have an obligation to complete the vesting period is a very important attribute of such arrangements and has several implications.

To the extent employees have alternatives or negotiating power, they do in fact have a possibility to renegotiate the terms of the arrangement if it becomes significantly less attractive than initially expected.

When an entity elects to use share based compensation it elects to use a form of compensation that is highly volatile, and accepts the risk that the elected compensation will not be effective for the full vesting period and may have to be revised. There is a potential that, before the completion of the vesting period, the equity instruments may appreciate to a tremendously high value or become close to worthless. In the case of a positive development of values, the company is normally legally obliged to deliver the

agreed compensation. In the opposite situation the entity will often be in a situation where it is economically rational to revise the original terms to ensure that it do actually receive the services that it intended to acquire through the original grant.

A revision of the original compensation package can be made through repricing, through cancellation and establishment of a compensatory plan, through increase of cash salary, bonuses or similar. If the revision is due to the fact that the original plan has lost significant parts or all of its value to the employees, and not due to an increased value of services received, continued recognition on a revised or cancelled plan combined with recognising additional amounts will result in the recognition of an arbitrary expense which do not reflect any estimate of the value of services received by the entity. In the prescribed method for repricing an incremental amount is computed based on the differential between fair value of the original option and the repriced option at the time of repricing. This causes the computed fair value of the "new" repriced option to be "topped up" by the "value reduction" of the original grant. The first element is relevant. The latter is not.

In an economy with increasingly volatile financial markets repricing situations should be expected to occur more often than in rare situations. It is therefore important that the accounting for repricing produces results that are meaningful to users of financial statements and reflect economic realities. The proposed treatment may:

- cause financial statements to be less informative
- reduce the relevance of amounts recognised as expense in the financial statements because historical and no longer relevant compensation arrangements do affect future reporting
- reduce comparability since entities with different historical and no longer effective arrangements (either through repricing or cancellation), will recognise different amount as expense even if all effective arrangements are equal
- force financial statement users to adjust reported amounts to be able to use reported figures to estimate future financial performance

We believe that the ED currently does not have a proper solution in situations where the value of equity instruments granted to employees are reduced to an extent where the entity elects or is forced to or elects to improve the compensation to its employees. In our opinion IASB should evaluate alternatives such as:

- Include the "repricing" nature of employee options in the valuation of the original grant
- Measure the incremental amount by comparing the "per unit amount" under the original grant at grant date and the "per unit amount" under the repriced option
- Disregard cancelled options or the remaining "per unit amount" under the original grant and treat the new or repriced options as a new grant

Question 18

If an entity cancels a share or option grant during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the draft IFRS proposes that the entity should continue to recognise the services rendered by the counterparty in the remainder of the vesting period, as if that grant had not been cancelled. The draft IFRS also proposes requirements for dealing with any payment made on cancellation and/ or a grant of replacement options, and for the repurchase of vested equity instruments. Are the proposed requirements appropriate? If not, please explain why not and provide details of your suggested alternative approach.

With respect to cancellation in combination with replacement options or other forms of compensatory arrangements we do not agree with the proposed treatment. Reference is made to Our comments on Q 17, as such changes are not fundamentally different from repricing.

Paragraph 29(b) of the draft IFRS indicates that "any payment made to the counterparty on the cancellation of the grant shall be accounted for as the repurchase of an equity interest." We believe that the exchange resulting in the cancellation represents a new agreement and the value of that agreement should be attributed to the goods or services provided to earn the consideration under the agreement

Question 19
For cash-settled share-based payment transactions, the draft IFRS proposes that the entity should measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity should remeasure the fair value of the liability at each reporting date, with any changes in value recognised in the income statement. Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

We believe the entity should measure the goods or services acquired according to main principles in the standard for share based payment transactions, regardless of whether the settlement is in cash or shares. The proposed treatment is in conflict with this basic principle as it does prescribe a remeasurement that, if the remeasurement amount is reported as compensation expense, will cause different amounts to be recognised depending on how the compensation is settled.

The liability should of course be measured at fair value, but we believe that subsequent measurement of the liability after goods and services have been received represents a finance cost and should be presented as such. This will give a consistent measurement of goods and services acquired.

Question 20
For share-based payment transactions in which either the entity or the supplier of goods or services may choose whether the entity settles the transaction in cash or by issuing equity instruments, the draft IFRS proposes that the entity should account for the transaction, or the components of that transaction, as a cash-settled

share-based payment transaction if the entity has incurred a liability to settle in cash, or as an equity-settled share-based payment transaction if no such liability has been incurred. The draft IFRS proposes various requirements to apply this principle. Are the proposed requirements appropriate? If not, please provide details of your suggested alternative approach.

We generally agree with the proposal in paragraphs 35 to 44. However, the bifurcating an award into equity and liability components can be difficult (measurement issues) and we therefore suggest to give some examples in implementation guidance. Otherwise we do believe this issue could lead to diversity in practice.

Question 21
The draft IFRS proposes that an entity should disclose information to enable users of financial statements to understand:
(a) the nature and extent of share-based payment arrangements that existed during the period,
(b) how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined, and
(c) the effect of expenses arising from share-based payment transactions on the entity's profit or loss.
Are these disclosure requirements appropriate? If not, which disclosure requirements do you suggest should be added, deleted or amended (and how)?

We strongly believe the disclosure requirements are to excessive. We do not believe the users of the financial statements would be mislead if the disclosure requirements are decreased.

Question 22
The draft IFRS proposes that an entity should apply the requirements of the IFRS to grants of equity instruments that were granted after the publication date of this Exposure Draft and had not vested at the effective date of the IFRS. It also proposes that an entity should apply retrospectively the requirements of the IFRS to liabilities existing at the effective date of the IFRS, except that the entity is not required to measure vested share appreciation rights (and similar liabilities) at fair value, but instead should measure such liabilities at their settlement amount (i.e., the amount that would have been paid on settlement of the liability had the counterparty demanded settlement at the date the liability is measured). Are the proposed requirements appropriate? If not, please provide details of your suggestions for the IFRS's transitional provisions.

We do not agree with the proposed transition requirements. The proposed transition approach is in conflict with the intention of exposure drafts, since the draft is published for comments, not as an authoritative requirement. We also believe the exposure draft is yet not known among most listed entities, and such transition requirements would probably be viewed as complex.

In our opinion the transition requirement should be prospective from the effective date of the final standard.

Question 23
The draft IFRS proposes a consequential amendment to IAS 12 (revised 2000) Income Taxes to add an example to that standard illustrating how to account for the tax effects of share-based payment transactions. As shown in that example, it is proposed that all tax effects of share-based payment transactions should be recognised in the income statement. Are the proposed requirements appropriate?

We generally agree with the proposed requirements on this issue.

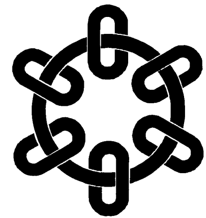
Question 24
In developing the Exposure Draft, the Board considered how various issues are dealt with under the US standard SFAS 123 Accounting for Stock- Based Compensation, as explained further in the Basis for Conclusions. Although the draft IFRS is similar to SFAS 123 in many respects, there are some differences…For each of the above differences, which treatment is the most appropriate? Why? If you regard neither treatment as appropriate, please provide details of your preferred treatment. (Respondents may wish to note that further details of the differences between the draft IFRS and SFAS 123 are given in the FASB's Invitation to Comment.)

Differences between the draft IFRS and Statement 123 should be carefully considered since it is important to have as few differences as possible. We would especially draw attention to 24 b), c) and e) where we see no reason to have a different solution than SFAS 123.

Question 25
Do you have any other comments on the Exposure Draft?

No.

NORSK REGNSKAPSSTIFTELSE



Sir David Tweedie

Chairman IASB

4 April 2003

Dear Sir David,

The Norwegian Accounting Standards Board is pleased to comment on the Exposure Drafts, ED3 – *Business Combinations*, Amendments to IAS 36 – *Impairment of Assets* and Amendments to IAS 38 – *Intangible Assets.*

We fully support the Board's objectives in the Business Combinations Project. Taking steps of convergence for business combinations is important in order to achieve global harmonisation on a larger scale.

General and overall remarks:
We support the proposal to eliminate the use of pooling of interests accounting as we believe that in almost all business combinations an acquirer can be identified.

In a few cases we have noticed there to be minor deviations compared to the corresponding US GAAP-rules. We do not believe this is justified at this moment. In order to achieve convergence, the technical objections of less important nature should be postponed at this stage, and removed to later convergence and improvement projects.

Specific questions:
In the Appendices to this comment letter we have provided answers to the questions that are included in the Invitations to Comment.

If you would like further clarification of our comments, please contact Harald Brandsaas or myself.

Yours sincerely,

Idar Eikrem
Chairman
Norwegian Accounting Standards Board

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Question 1 – Scope

The Exposure Draft proposes:

(a) to exclude from the scope of the IFRS business combinations in which separate entities or operations of entities are brought together to form a joint venture, and business combinations involving entities under common control (see proposed paragraphs 2 and 3 and paragraphs BC9-BC11 of the Basis for Conclusions).

Are these scope exclusions appropriate? If not, why not?

(b) to include in the IFRS a definition of business combinations involving entities under common control, and additional guidance on identifying such transactions (see proposed paragraphs 9-12 and Appendix A, and paragraphs BC12-BC15 of the Basis for Conclusions).

Are the definition and additional guidance helpful in identifying transactions within the scope exclusion? If not, what additional guidance would you suggest, and why?

(a) We agree with the Board's proposal to exclude from the scope of the IFRS business combinations in which separate entities or operations of entities are brought together to form a joint venture, and business combinations involving entities under common control on the basis that those were already excluded from the scope of IAS 22 and that they will be included in the scope of the Phase II of the project and will therefore be included in the revised IFRS due in 2004.

(b) We consider that the definition of business combinations involving entities under common control is helpful and constitutes on improvement over IAS 22 where such transactions were excluded from the scope but not defined. We also consider that the explanation given in the basis for conclusion paragraphs BC 14 and BC 15 are also helpful but believe additional guidance should be given on the meaning of the word "transitory" used in the definition.

Question 2 – Method of accounting for business combinations

The Exposure Draft proposes to eliminate the use of the pooling of interests method and require all business combinations within its scope to be accounted for by applying the purchase method (see proposed paragraphs 13-15 and paragraphs BC18-BC35 of the Basis for Conclusions).

Is this appropriate? If not, why not? If you believe the pooling of interests method should be applied to a particular class of transactions, what criteria should be used to distinguish those transactions from other business combinations, and why?

We agree with the proposed standard; that there should be only one method of accounting for business combinations, and that identifying an acquirer is possible in the vast majority of business combinations (other than the formation of joint ventures). In certain mergers though, this may be impossible. In such cases, we recommend that there should be an option to use the "fresh start method".

Question 3 – Reverse acquisitions

Under IAS 22 Business Combinations, a business combination is accounted for as a reverse acquisition when an entity (the legal parent) obtains ownership of the equity of another entity (the legal subsidiary) but, as part of the exchange transaction, issues enough voting equity as consideration for control of the combined entity to pass to the owners of the legal subsidiary. In such circumstances, the legal subsidiary is deemed to be the acquirer.

The Exposure Draft:

(a) proposes to modify the circumstances in which a business combination could be regarded as a reverse acquisition by clarifying that for all business combinations effected through an exchange of equity interests, the acquirer is the combining entity that has the power to govern the financial and operating policies of the other entity (or entities) so as to obtain benefits from its (or their) activities. As a result, a reverse acquisition occurs when the legal subsidiary has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities (see proposed paragraph 21 and paragraphs BC37-BC41 of the Basis for Conclusions).

Is this an appropriate description of the circumstances in which a business combination should be accounted for as a reverse acquisition? If not, under what circumstances, if

any, should a business combination be accounted for as a reverse acquisition?

(b) proposes additional guidance on the accounting for reverse acquisitions (see proposed paragraphs B1-B14 of Appendix B).

Is this additional guidance appropriate? If not, why not? Should any additional guidance be included? If so, what specific guidance should be added?

(a) We agree with the Board's description of the circumstances in which a business combination should be accounted for as a reverse acquisition as we agree that the draft IFRS should not include any departures from the control concept to identify an acquirer.

The proposed text will need further interpretation. An example is how the control aspect is to be interpreted in relation to the *owners*. In a legal merger, the combining entities form a new a entity, and as such making a meaningful judgment on which part controls the other without looking askance at the transaction as seen from the owners perspective seems to us impracticable.

(b) We regard the proposed additional guidance as necessary and appropriate.

In addition, we also believe that the IASB should make it clear in the standard itself that the comparative figures presented should be those of the legal subsidiary (or of the absorbed company in case of a merger).

Question 4 – Identifying the acquirer when a new entity is formed to effect a business combination

The Exposure Draft proposes that when a new entity is formed to issue equity instruments to effect a business combination, one of the combining entities that existed before the combination should be adjudged the acquirer on the evidence available (see proposed paragraph 22 and paragraphs BC42-BC46 of the Basis for Conclusions).

Is this appropriate? If not, why not?

We agree with the Board that a business combination in which a new entity is formed to issue equity instruments to effect the combination is, in substance, not different from a transaction in which one of the combining entities that existed before the combination obtains control of the other combining entity. We therefore consider it appropriate that such pre-existing entity be adjudged the acquirer. The Norwegian business combination standards have had a similar requirement for several years, with no difficulties in practice to our knowledge.

Question 5 – Provisions for terminating or reducing the activities of the acquiree

Under IAS 22, an acquirer must recognise as part of allocating the cost of a business combination a provision for terminating or reducing the activities of the acquiree (a 'restructuring provision') that was not a liability of the acquiree at the acquisition date, provided the acquirer has satisfied specified criteria. The Exposure Draft proposes that an acquirer should recognise a restructuring provision as part of allocating the cost of a business combination only when the acquiree has, at the acquisition date, an existing liability for restructuring recognised in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (see proposed paragraph 40 and paragraphs BC55-BC66 of the Basis for Conclusions).

Is this appropriate? If not, what criteria should an acquirer be required to satisfy to recognise a restructuring provision that was not a liability of the acquiree as part of allocating the cost of a combination, and why?

IAS 22.31 requests an acquirer to recognise, as part of allocating the cost of a business combination, a provision for terminating or reducing the activities of the acquiree (a "restructuring provision") that was not a liability of the acquiree at the acquisition date, provided the acquirer has satisfied specified criteria.

We agree with the Board that the requirement in ED 3 should be amended, in order to align the recognition criteria with those outlined in IAS 37 for similar provisions.

Question 6 – Contingent liabilities

The Exposure Draft proposes that an acquirer should recognise separately the acquiree's contingent liabilities at the acquisition date as part of allocating the cost of a business combination, provided their fair values can be measured reliably (see proposed paragraphs 36 and 45 and paragraphs BC80-BC85 of the Basis for Conclusions).

Is this appropriate? If not, why not?

We agree to the Boards proposal, as this would properly reflect the fair value of the contingent liabilities assumed in the acquisition. We recognise that the accounting for contingent liabilities with low probabilities will be different if assumed in a business combination compared to the general rule in IAS 37. We do not see this as a problem though.

We do, however regard it as inconsistent to recognise contingent liabilities at fair value but not contingent assets.

Question 7 – Measuring the identifiable assets acquired and liabilities and contingent liabilities assumed

IAS 22 includes a benchmark and an allowed alternative treatment for the initial measurement of the identifiable net assets acquired in a business combination, and therefore for the initial measurement of any minority interests. The Exposure Draft proposes requiring the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree will be stated at the minority's proportion of the net fair values of those items. This proposal is consistent with the allowed alternative treatment in IAS 22 (see proposed paragraphs 35 and 39 and paragraphs BC88-BC95 of the Basis for Conclusions).

Is this appropriate? If not, how should the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of a business combination be measured when there is a minority interest in the acquiree, and why?

We agree with the proposal of the Board.

The allowed treatment under the existing IAS 22 has been the only treatment acceptable under NGAAP.

Question 8 – Goodwill

The Exposure Draft proposes that goodwill acquired in a business combination should be recognised as an asset and should not be amortised. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses (see proposed paragraphs 50-54 and paragraphs BC96-BC108 of the Basis for Conclusions).

Do you agree that goodwill acquired in a business combination should be recognised as an asset? If not, how should it be accounted for initially, and why?

Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses? If not, how should it be accounted for after initial recognition, and why?

We agree that goodwill acquired in a business combination should be recognised by the acquirer as an asset even though it is arguable that goodwill does not fulfil the definition in the framework. We believe accounting for goodwill at cost less any impairment losses is an acceptable method, if not conceptually well founded. In order to achieve convergence, the US GAAP solution should be implemented.

Question 9 – Excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities

In some business combinations, the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the combination exceeds that cost. The Exposure Draft proposes that when such an excess exists, the acquirer should:

(a) reassess the identification and measurement of the acquiree's identifiable assets, liabilities and contingent liabilities and the measurement of the cost of the combination; and

(b) recognise immediately in profit or loss any excess remaining after that reassessment.

(See proposed paragraphs 55 and 56 and paragraphs BC109-BC120 of the Basis for Conclusions.)

Is this treatment appropriate? If not, how should any such excess be accounted for, and why?

We agree with the proposal as we find the treatment in accordance with the conceptual framework of IFRS. There are other treatments that all have some merits, but the proposed treatment is acceptable. We will point out that the presentation of such an item in the income statement need to be separated.

Question 10 – Completing the initial accounting for a business combination and subsequent adjustments to that accounting

The Exposure Draft proposes that:

(a) if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination occurs because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer should account for the combination using those provisional values. Any adjustment to those values as a result of completing the initial accounting is to be recognised within twelve months of the acquisition date (see proposed paragraphs 60 and 61 and paragraphs BC123-BC126 of the Basis for Conclusions).

Is twelve months from the acquisition date sufficient time for completing the accounting for a business combination? If not, what period would be sufficient, and why?

(b) ***with some exceptions carried forward as an interim measure from IAS 22, adjustments to the initial accounting for a business combination after that accounting is complete should be recognised only to correct an error (see proposed paragraphs 62 and 63 and paragraphs BC127-BC132 of the Basis for Conclusions).***

Is this appropriate? If not, under what other circumstances should the initial accounting be amended after it is complete, and why?

(a) We agree with the Board's proposal to provide an acquirer with a period of twelve months after the acquisition date to finalise the accounting for a business combination as we consider such period reasonable.

(b) Thereafter adjustments are proposed only to be made to correct errors with the exception of adjustments to the cost of a business combination contingent on future events or adjustments related to the subsequent recognition of a deferred tax asset existing at the acquisition date but not recognised at that time.

Paragraph 64 of the draft standard continues without reconsidering the rules of IAS 22 where later adjustments due to deferred tax assets being recognised are recorded as a write-down of the goodwill and as negative income tax. We strongly disagree with this method of adjustment as it distorts pre-tax earnings severely. The Norwegian standard advise a treatment whereby such reclassification is made in the balance sheet only, and we recommend this method to be applied, being more meaningful to the users.

Question 1 – Frequency of impairment tests

Are the proposals relating to the frequency of impairment testing intangible assets with indefinite useful lives and acquired goodwill appropriate (see proposed paragraphs 8 and 8A and paragraphs C6, C7 and C41 of the Basis for Conclusions)? If not, how often should such assets be tested for impairment, and why?

Frequency of impairment tests

We agree with the Board's proposal relating to the frequency of impairment testing both for goodwill as well as for intangible assets with indefinite useful lives, i.e. annually and whenever there is an indication of possible impairment. Although this could be very burdensome for preparers, we regard such frequency as acceptable in view of draft paragraphs 20A (intangibles assets with indefinite useful life) and 96 (cash generating units to which goodwill has been allocated) which permit the most recent detailed calculation of the recoverable amounts made in a preceding period to be used in the current period's impairment test, providing certain criteria are met.

Timing of impairment test

We do not agree with the Board's proposal in draft paragraphs 8A and 93 which require that an indefinite life intangible asset should be tested for impairment at the end of each annual reporting period and that goodwill acquired in a business combination be tested for impairment annually at any time during an annual reporting period, provided the test is performed at the same time every year. We believe that requiring annual impairment tests at different dates for indefinite useful life intangibles (at end of each annual reporting period) and for acquired goodwill (at anytime during an annual reporting period) is impractical. We agree with the Board's proposition to permit the annual impairment test for goodwill to be performed any time during the annual reporting period in order to reduce the cost of applying the test, however we believe that the exposure-draft should grant the same permission for the annual impairment tests of intangible assets with indefinite useful lives.

Question 2 – Intangible assets with indefinite useful lives

The Exposure Draft proposes that the recoverable amount of an intangible asset with an indefinite useful life should be measured, and impairment losses (and reversals of impairment losses) for such assets accounted for, in accordance with the requirements in IAS 36 for assets other than goodwill (see paragraphs C10-C11 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount be measured, and impairment losses (and reversals of impairment losses) be accounted for?

Although we agree with the Board that there is no conceptual reason why the treatment of impairment losses and reversal of impairment losses for intangible assets with indefinite useful lives should differ from those applying to intangible assets with finite useful lives, we are concerned that requiring different treatments of impairment losses and reversal of impairment losses for goodwill and for intangible assets with indefinite useful lives may lead to accounting arbitrage especially as reversals of impairment losses are not authorised for goodwill.

We recommend that the Board reconsiders its approach taking also in view the fact that US GAAP require the same treatment for impairment losses and reversals of impairment losses for goodwill and intangible assets with indefinite useful lives.

Question 3 – Measuring value in use

The Exposure Draft proposes additional guidance on measuring the value in use of an asset. Is this additional guidance appropriate? In particular:

(a) should an asset's value in use reflect the elements listed in proposed paragraph 25A? If not, which elements should be excluded or should any additional elements be included? Also, should an entity be permitted to reflect those elements either as adjustments to the future cash flows or adjustments to the discount rate (see proposed paragraph 26A and paragraphs C66 and C67 of the Basis for Conclusions)? If not, which approach should be required?

(b) should the assumptions on which cash flow projections are based take into account both past actual cash flows and management's past ability to forecast cash flows accurately (see proposed paragraph 27(a)(ii) and paragraphs C66 and C67 of the Basis for Conclusions)? If not, why not?

(c) is the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use appropriate? If not, why not? Is it sufficient? If not, what should be added?

(a) We agree that an asset's value in use should reflect the elements listed in draft paragraph 25A and that an entity should be permitted to reflect these elements either as adjustments to the future cash flows (expected cash flow approach) or adjustments to the discount rate (traditional approach).

(b) We agree with the Board that cash flows projections used in measuring value in use must in principle be based on reasonable and supportable assumptions that take into account both past actual cash flows and management's past ability to forecast cash flows accurately; however we ask the Board to clarify how this can be done in practice.

(c) We agree that the additional guidance proposed in Appendix B on using present value techniques in measuring an asset's value in use is appropriate.

Question 4 – Allocating goodwill to cash-generating units

The Exposure Draft proposes that for the purpose of impairment testing, acquired goodwill should be allocated to one or more cash-generating units.

(a) Should the allocation of goodwill to one or more cash-generating units result in the goodwill being tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format (see proposed paragraphs 73-77 and paragraphs C18-C20 of the Basis for Conclusions)? If not, at what level should the goodwill be tested for impairment, and why?

(b) If an entity disposes of an operation within a cash-generating unit to which goodwill has been allocated, should the goodwill associated with that operation be included in the carrying amount of the operation when determining the gain or loss on disposal (see proposed paragraph 81 and paragraphs C21-C23 of the Basis for Conclusions)? If not, why not? If so, should the amount of the goodwill be measured on the basis of the relative values of the operation disposed of and the portion of the unit retained or on some other basis?

(c) If an entity reorganises its reporting structure in a manner that changes the composition of one or more cash-generating units to which goodwill has been allocated, should the goodwill be reallocated to the units affected using a relative value approach (see proposed paragraph 82 and paragraphs C24 and C25 of the Basis for Conclusions)? If not, what approach should be used?

(a) The wording of the proposed paragraphs 73-77 is slightly different from the corresponding US GAAP text. Some may read a stricter requirement to test for impairment on a lower level than under US GAAP. We fully support the proposal insofar it does not create new differences to US GAAP.

In addition, we recommend that the word "management" as used in paragraph 74 of the Exposure Draft should be more precisely defined: e.g. does the definition include entity or segment's management or subsidiary's management? We believe that without such additional guidance the standard may create a lack of comparability in the levels at which goodwill's impairment is tested.

We agree with the Board's proposal that a cash generating unit to which goodwill is allocated should not be larger than a segment based on the entity's primary reporting format determined in accordance with IAS 14 Segment Reporting.

(b) For the reasons explained in the Basis for Conclusion, we agree with the Board's proposal that, if an entity disposes of an operation within a cash generating unit to which goodwill has been allocated, the goodwill associated with that operation should be:

- included in the carrying amount of the operation when determining the gain or loss on disposal; and

- measured on the basis of the relative values of the operation disposed of and the portion of the cash generating unit retained.

(c) For the reasons explained in the Basis for Conclusion, we agree with the Board's proposal, that when an entity reorganises its reporting structure in a way that changes the composition of cash generating units to which goodwill has been allocated, the goodwill should be reallocated to the units affected using a relative value approach similar to the one used when an entity disposes of an operation within a cash generating unit.

Question 5 – Determining whether goodwill is impaired

The Exposure Draft proposes:

(a) that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price (see proposed paragraphs 5 (definition of recoverable amount) and 85 and paragraph C17 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount of the unit be measured?

(b) the use of a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash-generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount (see proposed paragraph 85 and paragraphs C42-C51 of the Basis for Conclusions).

Is this an appropriate method for identifying potential goodwill impairments? If not, what other method should be used?

(c) that if an entity identifies goodwill allocated to a cash-generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see

proposed paragraphs 85 and 86 and paragraphs C28-C40 of the Basis for Conclusions).

Is this an appropriate method for measuring impairment losses for goodwill? If not, what method should be used, and why?

a) We agree that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price.

b) We regard as appropriate the use of a screening mechanism for identifying potential goodwill impairment whereby, if the recoverable amount of the cash-generating unit exceeds its carrying amount including goodwill, the goodwill allocated to that unit shall be regarded as not impaired.

c) We consider the use of the proposed screening mechanism as appropriate.

Question 6 – Reversals of impairment losses for goodwill

The Exposure Draft proposes that reversals of impairment losses recognised for goodwill should be prohibited (see proposed paragraph 123 and paragraphs C62-C65 of the Basis for Conclusions).

Is this appropriate? If not, what are the circumstances in which reversals of impairment losses for goodwill should be recognised?

We agree that reversals of impairment losses recognised for goodwill should be prohibited as:

- this would achieve convergence with US and many other national GAAP;
- we have accepted that no distinction can be made between originally aquired goodwill and additional internally generated goodwill and therefore reversal of impairment losses resulting from internally generated goodwill would not be acceptable.

Question 7 – Estimates used to measure recoverable amounts of CGUs containing goodwill or intangible assets with indefinite useful lives

The Exposure Draft proposes requiring a variety of information to be disclosed for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives (see proposed paragraph 134 and paragraphs C69-C82 of the Basis for Conclusions).

(a) Should an entity be required to disclose each of the items in proposed paragraph 134? If not, which items should be removed from the disclosure requirements, and why?

(b) Should the information to be disclosed under proposed paragraph 134 be disclosed separately for a cash-generating unit within a segment when one or more of the criteria in proposed paragraph 137 are satisfied? If not, why not?

(b) We consider proper disclosure of the underlying assumptions to be important to the users of the financial statements. However, we question whether it is too burdensome to set up strict rule-based requirements. A more principle-based approach should be considered. Also, the disclosures may be subject to limitations, especially for cash-generating units where the recoverable amount is materially above the carrying value. Some of the requirements seem difficult to present meaningfully as different cash-generating units within a segment may have very different assumptions underlying the cash flow projections etc.

(c) No comment in addition to the above.

Question 1 – Identifiability

The Exposure Draft proposes that an asset should be treated as meeting the identifiability criterion in the definition of an intangible asset when it is separable or arises from contractual or other legal rights (see proposed paragraphs 10 and 11 and paragraphs B6-B10 of the Basis for Conclusions).

Are the separability and contractual/other legal rights criteria appropriate for determining whether an asset meets the identifiability criterion in the definition of an intangible asset? If not, what criteria are appropriate, and why?

We agree with the Board that the usefulness of financial statements would be enhanced if intangible assets acquired in a business combination were distinguished from goodwill.
We also agree that "identifiability" was not defined nor clearly articulated in the old IAS 38 and clarification was needed.

The separability criterion already exists in IAS 38 paragraph 11 and does not constitute a change from the existing standard but will require additional guidance to be consistently applied. We agree with the Board that separability is not the only criterion of identifiability and that, although contractual or other legal rights do not form par of the definition of an asset, they provide a strong indication that the entity controls the futures economics benefits embodied in the item. We therefore believe that the application of such criteria should result in more recognition and reporting uniformity in the intangible assets that are recognised apart from goodwill.

Question 2 – Criteria for recognising intangible assets acquired in a business combination separately from goodwill

This Exposure Draft proposes clarifying that for an intangible asset acquired in a business combination, the probability recognition criterion will always be satisfied and, with the exception of an assembled workforce, sufficient information should always exist to measure its fair value reliably (see proposed paragraphs 29-32 and paragraphs B11-B15 of the Basis for Conclusions). Therefore, as proposed in ED 3, an Exposure Draft of a proposed International Financial Reporting Standard Business Combinations, an acquirer should recognise, at the acquisition date and separately from goodwill, all of the acquiree's intangible assets, excluding an assembled workforce, that meet the definition of an intangible asset (see proposed paragraphs 36, 43 and 44 of ED 3).

Do you agree that, with the exception of an assembled workforce, sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination? If not, why not? The Board would appreciate respondents outlining the specific circumstances in which the fair value of an intangible asset acquired in a business combination could not be measured reliably.

We have no comments to this question.

Question 3 – Indefinite useful life

The Exposure Draft proposes to remove from IAS 38 the rebuttable presumption that an intangible asset's useful life cannot exceed twenty years, and to require its useful life to be regarded as indefinite when, based on an analysis of all of the relevant factors, there is no foreseeable limit on the period of time over which the asset is expected to generate net cash inflows for the entity (see proposed paragraphs 85-88 and paragraphs B29-B32 of the Basis for Conclusions).

Is this appropriate? If not, under what circumstances, if any, should an intangible asset be regarded as having an indefinite useful life?

Yes, in those rare cases where such indefinite useful life exist.

Question 4 – Useful life of intangible asset arising from contractual or other legal rights

The Exposure Draft proposes that if an intangible asset arises from contractual or other legal rights that are conveyed for a limited term that can be renewed, the useful life shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost

(see proposed paragraphs 91 and 92 and paragraphs B33-B35 of the Basis for Conclusions).

Is this an appropriate basis for determining the useful life of an intangible asset arising from contractual or other legal rights that are conveyed for a limited term that can be renewed? If not, under what circumstances should the useful life include the renewal period(s)?

Yes, we support the useful life requirements in paragraphs 91 and 92.

Question 5 – Non-amortisation of intangible assets with indefinite useful lives

The Exposure Draft proposes that an intangible asset with an indefinite useful life should not be amortised (see proposed paragraphs 103 and 104 and paragraphs B36-B38 of the Basis for Conclusions).

Is this appropriate? If not, how should such assets be accounted for after their initial recognition?

Yes, if there is no foreseeable limit on the time over which the future economic benefits embodied in an asset are expected to be consumed, amortisation of that asset over an arbitrary determined period would fail to reflect the underlying economics. We therefore agree that an intangible asset with an indefinite useful life should not be subject to the amortisation requirements in IAS 38 but should be tested for impairment only.

Norsk RegnskapsStiftelse

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July 7, 2003

International Financial Reporting Interpretations Committee
Chairman Kevin Stevenson
30 Cannon Street
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UK

Re: Comments on IFRIC Draft Interpretation 1 Emission Rights

On behalf of the Norwegian Accounting Standards Board (NASB) I am writing to comment on the draft of the IFRIC Interpretation 1 on Emission Rights (D1).

Use of historical cost for emission rights
Paragraph 6 of D1 requires that allowances shall be accounted for under IAS 38 Intangible Assets. Consequently, emission rights shall be measured at either historical cost (benchmark treatment) or at fair value with changes in value above cost reported in equity and changes in value below cost reported in the income statement (allowed alternative treatment).

As emissions are made, paragraph 8 of D1 requires that a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. The liability shall be measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date, normally the present market price of the number of allowances required to cover emissions made.

If an entity applies the benchmark treatment under IAS 38 Intangible Assets, emission rights would be carried at historical cost less any accumulated impairment losses. However, the liability recognised when emissions are made must be measured at fair value (best estimate).

We are concerned that the outcome of such accounting may be inappropriate. If the fair value of emission rights has increased, from the time of purchase or the time allocated by government until year-end, D1 requires that the emission rights continues to be carried at historical cost. On the other hand the liability must be recognised at fair value, and an increase in the liability due to changes in fair value must be recognised as a loss. Subsequently, if the obligation is settled a short time after year-end, a gain shall be recognised for almost (depending on changes in fair value) the same amount at the date of settlement.

We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

The Norwegian Accounting Standards Board

for Idar Eikrem
Chairman

24 October 2003

Anne McGeachin
Project Manager
International Accounting Standards Board
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United Kingdom

Dear Ms McGeachin,

ED 4 - Disposal of Non-current Assets and Presentation of Discontinued Operations

On behalf of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – NASB), I am writing to comment on the Exposure Draft *Disposal of Non-current Assets and Presentation of Discontinued Operations.*

ED 4 arises from the IASB/FASB convergence agreement and IASB`s consideration of SFAS 144. NASB supports the convergence project and extensive work being done in this respect. One aspect of the project is to achieve high quality accounting solutions. In this respect, we believe it is important to consider both IFRSs and US GAAP, and to choose the best solution of either accounting regime.

Another aspect of the process is consistence with the IASB Conceptual Framework and the ongoing discussion regarding the framework and the principle based system, which is the basis for IFRSs.

From the viewpoint of convergence, we agree in principle with the accounting solutions reflected in ED 4. Please find in appendix 1 our answers to the questions raised in the comment letter.

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

Q 1. Classification of non-current assets held for sale

The Exposure Draft proposes that non-current assets should be classified as assets held for sale if specified criteria are met. (See paragraphs 4 and 5 and Appendix B.) Assets so classified may be required to be measured differently (see question 2) and presented separately (see question 7) from other non-current assets.

Does the separate classification of non-current assets held for sale enable additional information to be provided to users? Do you agree with the classification being made? If not, why not?

We agree with the proposal to classify separately non-current assets held for sale. We believe that a separate classification, measurement and presentation of non-current assets held for sale will improve the information available for users in assessing the timing and amount of future cash flows.

However, according to SFAS 144, long-lived assets that are to be exchanged for similar productive assets cannot be classified as held for sale, for reasons mentioned in BC 15. According to IAS 16, the cost of property, plant and equipment acquired in an exchange transaction is normally measured at fair value. We would also like to emphasise the importance of convergence in this respect.

Q2. Measurement of non-current assets classified as held for sale

The Exposure Draft proposes that non-current assets classified as held for sale should be measured at the lower of carrying amount and fair value less costs to sell. It also proposes that non-current assets classified as held for sale should not be depreciated. (See paragraphs 8-16.)

Is this measurement basis appropriate for non-current assets classified as held for sale? If not, why not?

In view of convergence, we agree with the proposed measurement basis.

Q3. Disposal groups

The Exposure Draft proposes that assets and liabilities that are to be disposed of together in a single transaction should be treated as a disposal group. The measurement basis proposed for non-current assets classified as held for sale would be applied to the group as a whole and any resulting impairment loss would reduce the carrying amount of the non-current assets in the disposal group. (See paragraph 3.)

Is this appropriate? If not, why not?

We agree with the measurement basis proposed for a disposal group.

Q4. Newly acquired assets

The Exposure Draft proposes that newly acquired assets that meet the criteria to be classified as held for sale should be measured at fair value less costs to

sell on initial recognition (see paragraph 9). It therefore proposes a consequential amendment to [draft] IFRS X Business Combinations (see paragraph C13 of Appendix C) so that non-current assets acquired as part of a business combination that meet the criteria to be classified as held for sale would be measured at fair value less costs to sell on initial recognition, rather than at fair value as currently required.
Is measurement at fair value less costs to sell on initial recognition appropriate? If not, why not?

In the view of convergence, we agree with the classification and measurement basis of newly acquired assets that meet the criteria for classification as held for sale. However, as discussed in BC30 in more common cases the difference between fair value and fair value less costs to sell is recognised in goodwill. We therefore believe it will be appropriate to address this item in the Business Project phase 2.

Q5. Revalued assets
The Exposure Draft proposes that, for revalued assets, impairment losses arising from the write-down of assets (or disposal groups) to fair value less costs to sell (and subsequent gains) should be treated as revaluation decreases (and revaluation increases) in accordance with the standard under which the assets were revalued, except to the extent that the losses (or gains) arise from the recognition of costs to sell. Costs to sell and any subsequent changes in costs to sell are proposed to be recognised in the income statement.
(See paragraphs B6-B8 of Appendix B.)
Is this appropriate? If not, why not?

According to B8, a subsequent increase in fair value shall be recognised to its full extent. This measurement basis is inconsistent with the measurement basis in paragraph 8. B8 should be adjusted accordingly. In addition, to clarify the method described in B8, it would be appropriate to give examples.

Q6. Removal of the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale
The Exposure Draft proposes a consequential amendment to draft IAS 27 Consolidated and Separate Financial Statements to remove the exemption from consolidation for subsidiaries acquired and held exclusively with a view to resale. (See paragraph C3 of Appendix C and paragraphs BC39 and BC40 of the Basis for Conclusions.)
Is the removal of this exemption appropriate? If not, why not?

We agree with the proposal of removing the exemption form consolidation of subsidiaries acquired and held exclusively with a view to resale.

Q7. Presentation of non-current assets held for sale
The Exposure Draft proposes that non-current assets classified as held for sale, and assets and liabilities in a disposal group classified as held for sale,

should be presented separately in the balance sheet. The assets and liabilities of a disposal group classified as held for sale should not be offset and presented as a single amount. (See paragraph 28.)
Is this presentation appropriate? If not, why not?

We agree with the proposal, as we believe that a separate presentation the balance sheet improves the information to the users of the financial statements.

Q8. Classification as a discontinued operation

The Exposure Draft proposes that a discontinued operation should be a component of an entity that either has been disposed of, or is classified as held for sale, and:
(a) the operations and cash flows of that component have been, or will be, eliminated from the ongoing operations of the entity as a result of its disposal, and
(b) the entity will have no significant continuing involvement in that component after its disposal.
A component of an entity may be a cash-generating unit or any group of cash-generating units. (See paragraphs 22 and 23.)
These criteria could lead to relatively small units being classified as discontinued (subject to their materiality). Some entities may also regularly sell (and buy) operations that would be classified as discontinued operations, resulting in discontinued operations being presented every year. This, in turn, will lead to the comparatives being restated every year. Do you agree that this is appropriate? Would you prefer an amendment to the criteria, for example adding a requirement adapted from IAS 35 Discontinuing Operations that a discontinued operation shall be a separate major line of business or geographical area of operations, even though this would not converge with SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets. How important is convergence in your preference?
Are the other aspects of these criteria for classification as a discontinued operation (for example, the elimination of the operations and cash flows) appropriate? If not, what criteria would you suggest, and why?

We agree with the criteria for classification of discontinued operations and with the timing for classification. However, it is important to emphasize the underlying assumption of cost/benefit, as the requirement may result in relatively small units being classified as discontinued operations.

Q9. Presentation of a discontinued operation

The Exposure Draft proposes that the revenue, expenses, pre-tax profit or loss of discontinued operations and any related tax expense should be presented separately on the face of the income statement. (See paragraph 24.) An alternative approach would be to present a single amount, profit after tax, for discontinued operations on the face of the income statement with a breakdown into the above components given in the notes.
Which approach do you prefer, and why?

We believe that a presentation of a single amount on the face of the income statement with a breakdown in the notes, will enhance the understandability and comparability of the financial information.

Other comments

First-time Adoption

As a consequence of IFRS 1, European entities who must adopt IFRS in 2005, will have to apply the standard for periods beginning on or after 1 January 2004. Considering the timetable, the Board should consider not requiring retrospective application of the standard.

Oslo, 31 October 2003

Colin Fleming
Project Manager
International Financial Reporting Interpretations Committee
International Accounting Standards Board
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Dear Mr. Fleming

Comment letter IFRIC D2 Changes in Decommissioning, Restoration and Similar Liabilities

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - NASB) is pleased to comment on the Draft Interpretation D2 *Changes in Decommissioning, Restoration and Similar Liabilities*. The issue addressed in the Draft Interpretation is of particular interest for NASB due to the significant oil and gas industry in Norway.

We recognise the need for an authoritative interpretation on this issue, as current practice varies from country to country among those currently preparing for the adoption of IFRS from 2005.

General remark

In dealing with the issue of how to account for changes in liabilities that upon origination was regarded as part of the acquisition cost of an asset, we believe this should be dealt with using an even broader scope. Other transactions may have the same characteristics but are dealt with differently under IAS. Following are examples on this:

- Contingent cost of acquisition in a business combination. All such changes are to be dealt with as part of the original acquisition cost, with consequential effect on goodwill.
- Provisions existing within a business acquired should be regarded as an adjustment to the cost of the assets (through reallocation) within 12 months after acquisition date, and taken through income after this period.
- Contingent Liabilities that are recognised according to the proposed ED 3 will not affect acquisition cost for the goodwill when subsequent re-measured based on new estimates
- When an asset is acquired outside a business combination, and where the consideration consist of accepting a contingent liability (such as buying potentially contaminated land), IFRS is silent on how subsequent changes in the contingent liability should be accounted for.

We think that measuring cost is a very basic feature of any accounting regime, and that IASBshould consider taking on an even broader project covering all aspects of this issue.

Specific remarks

1.
In general, we do not agree with the main proposal in the draft interpretation, namely to regard any changes in the liability as an adjustment to the cost of the related asset on a retrospective basis, and take a portion of the change in the liability as a catch-up adjustment in the income statement. NASB consider a prospective approach to be more meaningful to the users, as well as in conformity with the general rule in IAS 8.26 which is to treat changes in estimates prospectively if it affects future periods.

2.
We believe it is inappropriate to create a difference between IFRS and US GAAP at this moment in time. On the merits of convergence, the FAS 143 solution should not be discarded solely because it is inconsistent with IAS 37, as FAS 143 exempts the obligation from being revised to a current market-assessed discount rate. In this respect it may be mentioned that for example ED 3 will introduce inconsistencies towards IAS 37 by creating a separate class of contingent liabilities in business combination that are to be measured at fair value. As such, we believe the rationale given in BC14 of IFRIC D2 deserves a more thorough analysis.

3.
Apart from those points referred to above, we believe there are other reasons for applying a prospective approach as well. Below we will elaborate on a few of those:

a)
A prospective approach is consistent with the solution described in IAS 16 (after improvement) for changes in the residual value. A change in the residual value does not require a catch-up adjustment. Liabilities related to the decommissioning of an asset should in our opinion be regarded as a negative residual value. The interpretation should not introduce inconsistent treatment for similar events.

b)
IAS 16 (after improvement) clarifies that if liabilities related to the asset are incurred after the acquisition, such additional liabilities are depreciated on a prospective basis by adding the total increase in the liability to the cost of the asset. In practice, it is difficult to assess whether an increase in the liability stems from changes in the original estimate, or as a result of new liabilities incurred at a later point in time. This latter point is evidenced by the current debate in IASB related to what constitutes an obligating event, whether it is the activities that take place, or changes in regulations (see observer notes from the September meeting). To have a different approach for changes in estimates of the original liability opens up for accounting arbitrage which should be avoided.

c)
The draft interpretation requires a portion of both positive and negative changes in the estimate of future costs to be taken through the income statement. We believe there is a risk that due to this the liability is estimated with income statement effects in mind. By using a prospective approach there is less pressure on income statement management, thereby presenting a more reliable balance sheet figure. For cash flow predictions, we believe that a prospective approach is likely to increase the reliability of the accounts.

d)
For a large number of the entities where this interpretation applies, depreciation is allocated based on the unit-of-production method. When practiced under IAS 16 and IAS 8, this is a fully prospective method where depreciation of opening book value for the period is

calculated based of the production in the current period in relation to revised current estimates on future production. To require a cumulative catch-up effect for the change in the estimate of decommissioning only, does not provide transparency in the financial statements.

e)
Due to a long history of production for many of the entities for which the interpretation will apply, it is difficult to have the necessary information available to make a full retrospective adjustment. As such, differences between reporting entities may arise. By using a prospective approach, more consistent treatment will be achieved.

4.
We support the clarification in paragraph 6 that the unwinding of the discount should always be taken immediately through the income statement.

5.
In IAS 37 there is an illustrative example which covers decommissioning liabilities. In the example, a real interest rate is used to discount current estimates on the cost. When such a method is applied, only changes in the real interest rate will change the provision.

We believe it is appropriate to clarify, in the basis for conclusion in the interpretation, the difference between a change in the nominal interest rates and a change in the real interest rates. The illustrative example in the draft interpretation on a change in the discount rate is silent on whether the change reflects a change in the real interest rate, but as the nominal amounts are not changed it is likely that it is a change in the real interest rate. In such a case, the example should be redrafted to clarify this, and perhaps present a more realistic case (we believe a fall in the real interest rate of 2 percentage points is not very realistic for the economies of the industrialised world today). A comment on whether a change in the discount rate and a change in the nominal amounts should be treated separately when allocating the effect on prior and future periods, is also necessary.

Closing remark

NASB is of the opinion that the draft interpretation should not be issued as it now stands in its final form. We firmly believe that a prospective approach is consistent with the existing IAS 8, provides more reliable information in the balance sheet, reduces risk of income statement management, improves transparency and is more consistent with other areas of accounting for property, plant and equipment.

We welcome any questions you may have in connection to our comments produced in this letter.

Yours sincerely,
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

31 October 2003

Peter Clark
Senior Project Manager
International Accounting Standards Board
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United Kingdom

Dear Mr. Clark,

ED 5 – Insurance contracts

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – NASB) appreciates the opportunity to respond to the International Accounting Standards Board's Exposure Draft ED 5 - Insurance contracts. We support IASB's efforts in developing an accounting standard for insurance contracts.

The insurance business is a global industry and it is important that a comprehensive standard is issued enhancing the comparability of financial statements of insurance companies under different jurisdictions as well as the comparability between different types of financial institutions competing to a large extent in the same market place. However, ED 5 does not satisfy this demand as it only to a limited extent deals with the accounting of insurance contracts and allows non-uniform accounting of subsidiaries within a group. Also the proposal permits solutions that conflict with the IAS framework. We acknowledge the need for an exemption from the IAS 8 hierarchy, but do not support the sunset clause in ED 5.

We acknowledge that the two phase model is not ideal but necessary given the present status and difficulties in developing a comprehensive standard in time for IFRS to be implemented across EU in 2005. One of the objectives of ED 5 is to enable insurers to report under IFRS without having to implement costly system changes that may have to be changed once more within a short time horizon as phase II is implemented. Although we understand the need for a two phase model, we urge IASB to continue its efforts without delay so that a comprehensive IFRS on insurance contracts can be issued as soon as possible.

We agree with the approach that defines insurance contracts and makes the IFRS applicable to insurance contracts rather than insurance companies. We agree that IAS 39 should apply to financial instruments held by an insurance company although this may create volatility. We discuss how this could be dealt with under Question 1.

We encourage the Board to consider whether strengthening the loss recognition test is necessary in order to ensure that an appropriate liability is recognised for certain embedded derivatives. We do not believe that phase I should establish the accounting treatment for reinsurance contracts as long as such principles are not established for direct insurance. The issue of clearly unacceptable accounting for financial reinsurance can be dealt with without such requirements.

In general we agree with the proposed disclosure requirements except the requirement to disclose fair values in 2006. It's important that the Implementation Guidance isn't interpreted in a way that requires lots of detailed information. A balance between the broad wording of the paragraphs in the exposure draft and the implementation guidance is important. In this respect the Implementation Guidance should clarify that it displays only one possible solution.

Appendix 1 sets out our answers to the specific questions raised in ED 5. We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

Question 1 – Scope

(a) The Exposure Draft proposes that the IFRS would apply to insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. The IFRS would not apply to accounting by policyholders (paragraphs 2-4 of the draft IFRS and paragraphs BC40-BC51 of the Basis for Conclusions).

The Exposure Draft proposes that the IFRS would not apply to other assets and liabilities of an entity that issues insurance contracts. In particular, it would not apply to:

(i) assets held to back insurance contracts (paragraphs BC9 and BC109-BC114). These assets are covered by existing IFRSs, for example, IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 40 *Investment Property*.

(ii) financial instruments that are not insurance contracts but are issued by an entity that also issues insurance contracts (paragraphs BC115-BC117).

Is this scope appropriate? If not, what changes would you suggest, and why?

(b) The Exposure Draft proposes that weather derivatives should be brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract (paragraph C3 of Appendix C of the draft IFRS). Would this be appropriate? If not, why not?

NASB response

(a) We support the proposal in ED5 that the IFRS on insurance contracts should apply to insurance contracts, rather than entities. This leads to consistent accounting regardless of the type of entity issuing the contract. We also agree that all other IFRSs, including IAS 39, should apply to insurance companies as they apply to all other entities.

We agree with the proposal that the IFRS on insurance contracts should not apply to other assets and liabilities of an entity that issues insurance contracts. No separate category should be introduced for financial assets held to back insurance liabilities, nor should any further exemptions be provided to the held-to maturity category in IAS 39. The latter means that uncertainty about the maturity of liabilities because of uncertainties about the timing of insured events, possible prepayments, surrenders and lapses of insurance policies, are not valid reasons to escape the tainting rules for the held-to maturity category under IAS 39.

Applying the fair value measurement rules under IAS 39 to financial assets when an insurer either cannot or chooses not to measure its insurance liabilities at fair value, will lead to volatility, either in income or in equity. In Norway, the non-life insurance companies are already required to measure financial assets classified as current assets at fair value, whereas the insurance liabilities are not measured at fair value. We also note that this is the case for insurers issuing US Gaap figures measuring financial assets at fair value in accordance with FAS 115.

The insurer has the opportunity to accommodate the mismatch problem by discounting their insurance liabilities as such an improvement of accounting principle is allowed under ED 5.

However, most non-life companies don't discount under present local Gaap and life-insurance companies don`t use the current interest rate in their discounting of liabilities. Consequently, discounting the insurance liabilities would present practical difficulties and implementation costs and may not reflect the approach that the Board decides upon in phase II. We agree that this subject should be further developed in phase II and not a requirement under phase I.

As for insurance contracts containing a discretionary participation feature, typically found within life-insurance, the mismatch issue may be accommodated by the IFRS to some extent by allowing insurers to account for future appropriations to policyholders as liabilities or to be split between equity and liabilites. We comment further on this in our response to Question 9.

We agree with the scoping out of investment contracts from ED 5 as they should be accounted for under IAS 39.

(b) We agree that weather derivatives should be included in the scope of IAS 39 unless such contracts meet the definition of an insurance contract.

<u>Question 2 – Definition of an Insurance Contract</u>

The draft IFRS defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary' (Appendices A and B of the draft IFRS, paragraphs BC10-BC39 of the Basis for Conclusions and IG Example 1 in the draft Implementation Guidance).

Is this definition, with the related guidance in Appendix B of the draft IFRS and IG Example 1, appropriate? If not, what changes would you suggest, and why?

<u>NASB response</u>

Generally we find that the definition of an insurance as set out in ED 5 with related guidance in appendix A and B is acceptable. However, we are concerned that some of the guidance in appendix B apply the definition to broadly. The combined effect of an event needing to be merely "plausible" and a resulting loss being "more than trivial" may result in many contracts with insurance risk qualifying as an insurance contract and falling under the IFRS. There is a risk that the current definition might lead to construction of contracts with little insurance risk meeting the definition.

As to the definition of uncertain future event in appendix B, we do not agree that uncertainty in the form of how much an insurer will need to pay if an insured event occur, on its own, is an uncertain future event as that term is used in the definition of an insurance contract

<u>Question 3 – Embedded derivatives</u>

(a) IAS 39 *Financial Instruments: Recognition and Measurement* requires an entity to

separate some embedded derivatives from their host contract, measure them at fair value and include changes in their fair value in profit or loss. This requirement would continue to apply to a derivative embedded in an insurance contract, unless the embedded derivative:

(i) meets the definition of an insurance contract within the scope of the draft IFRS; or

(ii) is an option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate).

However, an insurer would still be required to separate, and measure at fair value:

(i) a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in an equity or commodity price or index; and

(ii) an option to surrender a financial instrument that is not an insurance contract.

(paragraphs 5 and 6 of the draft IFRS, paragraphs BC37 and BC118-BC123 of the Basis for Conclusions and IG Example 2 in the draft Implementation Guidance)

Are the proposed exemptions from the requirements in IAS 39 for some embedded derivatives appropriate? If not, what changes should be made, and why?

(b) Among the embedded derivatives excluded by this approach from the scope of IAS 39 are items that transfer significant insurance risk but that many regard as predominantly financial (such as the guaranteed life-contingent annuity options and guaranteed minimum death benefits described in paragraph BC123 of the Basis for Conclusions). Is it appropriate to exempt these embedded derivatives from fair value measurement in phase I of this project? If not, why not? How would you define the embedded derivatives that should be subject to fair value measurement in phase I?

(c) The draft IFRS proposes specific disclosures about the embedded derivatives described in question 3(b) (paragraph 29(e) of the draft IFRS and paragraphs IG54-IG58 of the draft Implementation Guidance). Are these proposed disclosures adequate? If not, what changes would you suggest, and why?

(d) Should any other embedded derivatives be exempted from the requirements in IAS 39? If so, which ones and why?

NASB response

a) In general we support the view that embedded derivatives should be separated from host insurance contracts in the same way as is required under IAS 39 for other types of host contact. Derivatives that are closely linked to the host contract or that meet the definition of insurance contract need not be separated.

As for insurance derivatives embedded in a host investment contract that is not closely related to the host contract, we believe that either separation should be required or the loss recognition test should be strengthened to ensure that the amount of the liability includes both the amount of the liability that would otherwise be recognised under IAS 39 for the

investment contract and an appropriate amount to cover the liability for the insurance component of the contract.

Also we recommend ED 5 to clarify that separation of a policyholder's option to surrender an insurance contract for a fixed amount also is not required where the surrender value is determined by the retrospective value of the insurance contract, i.e. as the premium with the addition of interest, deduction of cost, risk premiums and surrender charges.

b) See above

c) We agree with the proposals for the disclosure requirement

d) We see no other embedded derivatives that should be exempted from the requirements in IAS 39

<u>Question 4 – Temporary exclusion from criteria in IAS 8</u>

(a) Paragraphs 5 and 6 of [the May 2002 Exposure Draft of improvements to] IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* specify criteria for an entity to use in developing an accounting policy for an item if no IFRS applies specifically to that item. However, for accounting periods beginning before 1 January 2007, the proposals in the draft IFRS on insurance contracts would exempt an insurer from applying those criteria to most aspects of its existing accounting policies for:

(i) insurance contracts (including reinsurance contracts) that it issues; and

(ii) reinsurance contracts that it holds.

(paragraph 9 of the draft IFRS and paragraphs BC52-BC58 of the Basis for Conclusions).

Is it appropriate to grant this exemption from the criteria in paragraphs 5 and 6 of [draft] IAS 8? If not, what changes would you suggest and why?

(b) Despite the temporary exemption from the criteria in [draft] IAS 8, the proposals in paragraphs 10-13 of the draft IFRS would:

(i) eliminate catastrophe and equalisation provisions.

(ii) require a loss recognition test if no such test exists under an insurer's existing accounting policies.

(iii) require an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to report insurance liabilities without offsetting them against related reinsurance assets (paragraphs 10-13 of the draft IFRS and paragraphs BC58-BC75 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you propose, and why?

<u>NASB response</u>

a) We recognize the need for exemption from criteria in IAS 8 given the current status of the development of a complete standard under phase II of the project on insurance contracts.

   We do not agree with the use of a sunset clause. In our opinion the exemptions in ED 5 should be valid throughout the whole of phase I rather than stating a specific date. However, we recognise the need for a complete high qualitative standard to be developed as soon as possible and encourage the Board to put the necessary effort and commitment into finalising phase II in time for implementation to take place 01.01.2007.

b) In general we agree with the proposals. However some clarifications should be made. As regards paragraph 10(a) we assume the permission to keep catastrophe reserves and equalisation provisions for existing contracts should not cover renewals of contracts and consequently we suggest that the last four words "under future insurance contracts" are deleted to avoid confusion.

   We believe that further clarification should be made both to requirements needed in order to be able to apply local loss recognition tests and on how to apply IAS 37. We believe the test should at least include the fair value of any embedded derivatives that are not separated in phase 1. A high-level analysis ensuring that intrinsic value and deposit features not separated are at least covered by the insurance liability is sufficient. More guidance should also include the use of discount rates as well as the use of book of contracts vs contract-by-contract.

<u>Question 5 – Changes in accounting policies</u>

The draft IFRS:

(a) proposes requirements that an insurer must satisfy if it changes its accounting policies for insurance contracts (paragraphs 14-17 of the draft IFRS and paragraphs BC76-BC88 of the Basis for Conclusions).

(b) proposes that, when an insurer changes its accounting policies for insurance liabilities, it can reclassify some or all financial assets into the category of financial assets that are measured at fair value, with changes in fair value recognised in profit or loss (paragraph 35 of the draft IFRS).

Are these proposals appropriate? If not, what changes would you propose and why?

<u>NASB response</u>

We agree with the proposals in a) and b). However, we do in principle not support the application of non-uniform accounting policies for insurance liabilities for the various subsidiaries within a group but acknowledge the need for such a solution in an interim period in order to avoid costly system changes that may no longer be needed in phase II.

<u>Question 6 – Unbundling</u>

The draft IFRS proposes that an insurer should unbundle (ie account separately for) deposit components of some insurance contracts, to avoid the omission of assets

and liabilities from its balance sheet (paragraphs 7 and 8 of the draft IFRS, paragraphs BC30-BC37 of the Basis for Conclusions and paragraphs IG5 and IG6 of the proposed Implementation Guidance).

(a) Is unbundling appropriate and feasible in these cases? If not, what changes would you propose and why?

(b) Should unbundling be required in any other cases? If so, when and why?

(c) Is it clear when unbundling would be required? If not, what changes should be made to the description of the criteria?

NASB response

(a) We agree with the proposal for phase I but encourage further research into unbundling as part of the development of phase II. However, we suggest that the IFRS should further clarify to which contracts unbundling applies. We believe the criteria for unbundling should be changed from "the cash flows from the insurance component do not affect the cash flows from the deposit component" to "the cash flows of the insurance component and the investment component do not interact."

(b) We have not identified other cases where unbundling should be required.

(c) See comments under a) above.

Question 7 – Reinsurance

The proposals in the draft IFRS would limit reporting anomalies when an insurer buys reinsurance (paragraphs 18 and 19 of the draft IFRS and paragraphs BC89-BC92 of the Basis for Conclusions).

Are these proposals appropriate? Should any changes be made to these proposals? If so, what changes and why?

NASB response

We do not believe that Phase I should introduce principles for recognising gains and losses on reinsurance as long as such principles are not established for direct insurance contracts. This would allow the accounting for reinsurance to develop consistently with the accounting for direct insurance. In our opinion phase I should only seek to eliminate practices of accounting for reinsurance that is clearly unacceptable. This may be the case for financial reinsurance when the transfer of insurance risk is not significant. We believe this to a large extent will be achieved by applying the definition of insurance contracts and the unbundling requirements.

Question 8 – Insurance contracts acquired in a business combination

IAS 22 *Business Combinations* requires an entity to measure at fair value assets acquired and liabilities assumed in a business combination and ED 3 *Business Combinations* proposes to continue that long-standing requirement. The proposals in

this draft IFRS would not exclude insurance liabilities and insurance assets (and related reinsurance) from that requirement. However, they would permit, but not require, an expanded presentation that splits the fair value of acquired insurance contracts into two components:

(a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

(b) an intangible asset, representing the fair value of the contractual rights and obligations acquired, to the extent that the liability does not reflect that fair value. This intangible asset would be excluded from the scope of IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*. Its subsequent measurement would need to be consistent with the measurement of the related insurance liability. However, IAS 36 and IAS 38 would apply to customer lists and customer relationships reflecting the expectation of renewals and repeat business that are not part of the contractual rights and obligations acquired.

The expanded presentation would also be available for a block of insurance contracts acquired in a portfolio transfer (paragraphs 20-23 of the draft IFRS and paragraphs BC93-BC101 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you suggest and why?

NASB response

We support the proposal that require insurers to measure assets acquired and liabilities assumed in a business combination according to IAS 22 at fair value and the proposal to permit an insurer, during phase I, to use an expanded presentation as described. The IFRS should clarify that the carrying amount of the separated asset should not exceed the present value of the future profits that the entity expects to generate from contracts in force at the date of acquisition. It should not include the value of expected renewals or new business. The loss recognition test should be clarified to ensure that the separated amounts are deducted from the liabilities before applying the test.

Question 9 – Discretionary participation features

The proposals address limited aspects of discretionary participation features contained in insurance contracts or financial instruments (paragraphs 24 and 25 of the draft IFRS and paragraphs BC102-BC108 of the Basis for Conclusions). The Board intends to address these features in more depth in phase II of this project.

Are these proposals appropriate? If not, what changes would you suggest for phase I of this project and why?

NASB response

We acknowledge the challenges related to the accounting for discretionary participation features and support the proposal to address the accounting for such contracts in phase II. We agree that an intermediate category, neither liability nor equity, should not be permitted for the unallocated surpluses associated with discretionary participating features in insurance contracts. We encourage the Board to define the term "discretionary" and to clarify in the

IFRS that such discretionary features should be regarded as constructive obligations if market participants make the payment of the benefits reasonably certain. Consequently, we believe that where unrealised gains and losses resulting from carrying assets at fair value relate to participating contracts with discretionary features, during phase I they should be regarded as constructive obligations and not as equity. The Board should consider referring in the standard to the requirements in IAS 32 to determine whether a feature is truly "discretionary". For countries where the policyholders are legally eligible to participate in the insurer's profit, IAS 32 would account for such a right as a liability. We do not believe it is appropriate that an amount that would be classified as a liability under IAS 32 should be classified as equity for phase I.

Paragraph 25 of ED 5 states that paragraph 24 applies also to a financial instrument that contains participation features. In our opinion ED 5 should not provide exemptions from the requirements in IAS 32 and 39 for financial instruments whose insurance risk is not significant.

Question 10 – Disclosure of the fair value of insurance assets and insurance liabilities

The proposals would require an insurer to disclose the fair value of its insurance assets and insurance liabilities from 31 December 2006 (paragraphs 30 and 33 of the draft IFRS, paragraphs BC138-BC140 of the Basis for Conclusions and paragraphs IG60 and IG61 of the draft Implementation Guidance).

Is it appropriate to require this disclosure? If so, when should it be required for the first time? If not, what changes would you suggest and why

NASB response

We believe that until the Board has decided how the fair value of insurance contracts should be calculated, it is not appropriate to require disclosure of fair value from 2006. At present there is a variety of views as to which methods and assumptions should be used to arrive at fair value. As long as the methods for calculating fair value has not been determined the requirement may only lead to unreliable information that is not comparable. Also, the insurers are at risk of having to make costly system changes that would have to change once the Board determines how fair value should be calculated. Instead of setting a deadline in phase I, once guidance on fair value has been developed, the standard should be amended to incorporate that guidance and to require fair value disclosure allowing for reasonable time to implement.

Question 11 –Other disclosures

(a) The Exposure Draft proposes requirements for disclosures about the amounts in the insurer's financial statements that arise from insurance contracts and the estimated amount, timing and uncertainty of future cash flows from insurance contracts (paragraphs 26-29 of the draft IFRS, paragraphs BC124-BC137 and BC141 of the Basis for Conclusions and paragraphs IG7-IG59 of the draft Implementation Guidance).

Should any of these proposals be amended or deleted? Should any further disclosures be required? Please give reasons for any changes you suggest.

To a large extent, the proposed disclosures are applications of existing requirements in IFRSs, or relatively straightforward analogies with existing IFRS requirements. If you propose changes to the disclosures proposed for insurance contracts, please explain what specific attributes of insurance contracts justify differences from similar disclosures that IFRSs already require for other items.

(b) The proposed disclosures are framed as high level requirements, supplemented by Implementation Guidance that explains how an insurer might satisfy the high level requirements.

Is this approach appropriate? If not, what changes would you suggest, and why?

(c) As a transitional relief, an insurer would not need to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies the proposed IFRS (paragraphs 34, BC134 and BC135).

Should any changes be made to this transitional relief? If so, what changes and why?

NASB response

a) b) In general we support the other disclosures proposed in ED 5. The wording of the paragraphs in the exposure draft itself is broad and will allow for some flexibility in how to satisfy the requirements. The Implementation Guidance gives more details into how the requirements can be satisfied. However, it is important that the guidance isn't interpreted in a way that requires a mass of detailed information. The degree of qualitative versus quantitative information as well as the level of aggregation of quantitative information must be suited to the circumstances. The Implementation Guidance should clarify that it displays only one possible disclosure format and that the entity should tailor the available information in a format suitable to the circumstances.

c) We agree with the suggested transitional relief.

Question 12 – Financial Guarantees

The Exposure Draft proposes that the transferor of a non-financial asset or liability should apply IAS 39 *Financial Instruments: Recognition and Measurement* to a financial guarantee that it gives to the transferee in connection with the transfer (paragraphs 4(e) of the draft IFRS, C5 of Appendix C of the draft IFRS and BC41-BC46 of the Basis for Conclusions). IAS 39 already applies to a financial guarantee given in connection with the transfer of financial assets or liabilities.

Is it appropriate that IAS 39 should apply to a financial guarantee given in connection with the transfer of non-financial assets or liabilities? If not, what changes should be made and why?

NASB response

We agree with the proposal that IAS 39 should apply to a financial guarantee given in connection with the transfer of non-financial assts and liabilities.

Question 13 – Other comments

Do you have any other Comments on the Exposure Draft and Implementation Guidance?

NASB response

We suggest that like IAS 39, restatement of comparable figures for 2004 should not be required when implementing IFRS from 2005. Rather a reconciliation between 31 December 2004 and 1 January 2005 should be sufficient.