Norsk RegnskapsStiftelse

8 June 2005

Patrina Buchanan
Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Ms Buchanan,

Re: ED of Proposed Amendments to IFRS 6 Exploration for and Evaluation of Mineral Resources and IFRS 1 First-time Adoption of International Financial Reporting Standards

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - NASB) is pleased to comment on the Exposure Draft of Proposed Amendments to IFRS 6 *Exploration for and Evaluation of Mineral* Resources and IFRS 1 *First-time Adoption of International Financial Reporting Standards.* We support the proposed adjustments.

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

Norsk RegnskapsStiftelse

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9 June 2005

Gilbert Gélard
Acting Chairman IFRIC
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Gilbert,

IFRIC Draft Interpretations on Service Concessions

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board - NASB) appreciates the opportunity to respond to the Draft Interpretations.

Scope
We are concerned about the scope of the draft interpretations that do not cover the accounting by grantors.

Distinction between the financial asset and the intangible asset models
On distinguishing whether an operator has a financial or an intangible asset on the identity of the payer, we are concerned that the distinction will result in that similar transactions will be accounted for in different ways.

Draft Interpretation D12 – Determining the Accounting Model

Q1 *The proposal in paragraph 5 of the draft Interpretation reflects the IFRIC's decision that whether an operator recognizes service concession infrastructure as its property, plant and equipment should depend on whether it controls the use of that infrastructure. The IFRIC selected this approach instead of one based on the extent to which the risks and rewards of ownership lie with the operator. The rationale for selecting this approach is explained in paragraphs BC9-BC11 of the Basis for Conclusions. Do you support the approach selected?*

The NASB has concerns with the control approach proposed by the IFRIC. There is clear connection between the control approach and the risks and rewards approach. The determination of which party has control of the asset of the infrastructure requires an assessment of the extent to which each party bears the risks and rewards. We believe that there will be circumstances where the operator will recognise service concession infrastructure as its own property, plant and equipment. The solution in D12 seems to go further than in IAS 17 and IFRIC 4.

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<u>Question 2</u>:

Paragraph 11 of the draft Interpretation proposes that the operator should apply the financial asset model only if the grantor has primary responsibility to pay for the concession services. The rationale is explained in paragraphs BC24-BC43 of the Basis for Conclusions. Do you agree with this proposal? If not, what criteria would you use to determine whether the financial asset model should apply? How would you reconcile those criteria to the definition of a financial asset set out in IAS 32 Financial Instruments: Disclosure and Presentation?

We would have preferred the Interpretation to be based more on substance than on form in which case more SCA might have fallen under the financial asset model. We understand that the mandate of IFRIC is to interpret existing standards, the fact that under IAS 39 only contractual rights can be recognized as financial assets supports the conclusion drawn by IFRIC.

<u>Question 3</u>:

As explained in paragraph BC44 of the Basis for Conclusions, paragraph 13 of the draft Interpretation proposes that the identity of the party or parties with primary responsibility to pay for the concession services should be determined by reference to the substance of the contractual arrangements (which would not be affected by, for example, changing the parties through whom payment is routed). Do you agree with this proposal?

According to the Framework transactions should be accounted so that it reflects economic reality and not only the legal form. We therefore support the proposal in BC 44.

<u>Question 4</u>:

The IFRIC aims to issue this and the two other proposed Interpretations on service concessions (D13 and D14) in final form before the end of 2005. It proposes that, subject to it achieving this aim, the three Interpretations should be applied for annual periods beginning on or after 1 January 2006. Do you agree with this proposal?

Yes, we support the proposal to issue an interpretation on SCA as soon as possible and that it should be applied for annual periods beginning on or after 1 January 2006. But, we also believe that it is important to have enough time to implement the interpretation. And we would prefer a new standard dealing with all questions related to SCA.

Draft Interpretation D13 – The Financial Asset Model

Question 1:

As discussed in paragraphs BC3-BC5, the proposals in the draft Interpretation are based on a conclusion by the IFRIC that the discharge of each contractual obligation (including obligations to repair and maintain the infrastructure) gives rise to revenue for the operator. Do you agree with this conclusion? (Question 3 in the Invitation to Comment on draft Interpretation D14 Service Concession Arrangements—the Intangible Asset Model poses a similar question in relation to the intangible asset model.)

Yes, we agree with the conclusion.

Question 2:

As explained in paragraphs BC6 and BC7, the IFRIC has concluded that, applying IAS 11 Construction Contracts, operators might recognise different profit margins on different activities undertaken within a single service concession contract. Do you agree with this conclusion?

Yes, we agree with the conclusion.

Draft Interpretation D14 - Intangible Asset Model

<u>Question 1</u>:

In the intangible asset model on which this draft Interpretation is based, the service concession operator is regarded as receiving an intangible asset from the grantor in exchange for the construction or other services it provides to the grantor. Paragraph 7 of the draft Interpretation proposes that the operator should recognise revenue and profit or loss on that exchange. The rationale for this proposal and for an alternative view—ie that no revenue or profit should be recognised on the exchange—is set out in paragraphs BC7-BC14 of the Basis for Conclusions. Do you agree with the proposal? If not, how would you reconcile non-recognition of revenue and profit to the requirements of existing IFRSs?

The NASB is uncomfortable with the possibility that the outcome where total revenue exceeds total cash inflows. We believe that the operator has a continuing involvement with the infrastructure and will benefit from its operating performance post-construction.

<u>Question 2</u>:

As explained in paragraph BC6 of the Basis for Conclusions, the draft Interpretation does not specify the timing of recognition of the intangible asset. The IFRIC identified three possible approaches. Do you agree that the proposed Interpretation should remain silent on this matter? If not, which of the three approaches do you think should be specified and in what circumstances?

We believe that the Interpretation should not be silent on the timing of recognition of the intangible asset and we would prefer that either alternative c) is permitted.

<u>Question 3</u>:

As explained in paragraph BC16 of the Basis for Conclusions, the proposed requirements for maintenance and repair obligations in this draft Interpretation are different from those in D13 Service Concession Arrangements—The *Financial Asset Model. Do you agree that the IFRIC has interpreted existing IFRSs correctly in respect of these proposals?*

Yes

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

29 June 2005

Warren McGregor
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Warren,

Draft Memorandum of Understanding on the Role of Accounting Standard Setters and their relationship with the IASB

1. Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – NASB) would express the support of issuing a memorandum of understanding on the relations between national accounting standard setters and the IASB and is pleased to submit its comments.

2. We support broadly the proposals in the MoU which we believe will benefit the users of financial reporting standards as well as national and international standard setters.

3. We will recommend that the MoU should deal both with the relationship between the IASB and national standard setters and between the IASB and regional organisations such as EFRAG. European standard setters have a close relationship with each others and with EFRAG. The MoU should also cover the meetings between standard setters at different levels.

4. The memorandum of understanding should address the issues of translation and copyright.

5. Section 7 discusses the role of national accounting standard setters in the interpretation process and suggests (7.7) that national standard setters, in certain circumstances, can issue their own interpretations. We support the proposal. We assume that it will be costly and time inefficient to involve IFRIC in all details on how IFRSs should be understood. National standard setters could work together or in understanding with IFRIC/IASB so that clearly national topics can be interpreted. As for the Nordic region the national standard setters are also working close together, examining and informing each others on important topics. A model like this on regional level could be used elsewhere.

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On matters that are not national topics, interpretations could be issued after a statement from IFRICs agenda committee that will not deal with the topic. An alternative to interpretations in these cases, is that national standard setters issue guidelines on how to understand the standards.

Standard setters could further have a role in feeding information to IFRIC and in preparing solutions. It is important that topics raised by organisations in one country, involve the national standard setter to secure a faithful presentation.

Detailed comments

6. Paragraph 2.3 of the draft MoU states that national standard setters should take a responsibility to identify regulatory barriers to adopting IFRS. In many countries the standard setters are not in a position to remove the barriers, but should propose to national governments to remove the barriers.

7. We support the idea that seems to be the basis for paragraph 3.20 for coordination of national topics that are raised with the IASB. But we believe it is little realistic that governmental agencies will raise topics with IASB through national standard setters. Receiving such questions, the IASB should involve the national standard setter both receive input to the interpretation and to secure that the question gives a faire presentation of the problem.

8. We support the establishing of the database as presented in paragraph 3.7. Will the database be publicly available and how will it be linked with other databases such as databases held by regulators such as CESR.

9. We disagree with the assertion put forward in paragraph 5.1. The IASB states, in paragraph 5.1, that the views of national or regional standard-setters can be a valuable source of independent thought to complement the comments of those who have financial interest in the outcome of a project. The IASB should consider that also academics and professional bodies, for instance, comment on IFRS, but do not have a financial interest in the outcome of a project. Therefore, we like to suggest that paragraph 5.1 be amended to read as follows: "The views of national or regional standard-setters can be a valuable source of independent thought to complement the comments of specific interest groups."

10. We believe that neither the IASB nor the IASCF should be involved in education.

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

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman

29 June 2005

Paul Pacter
Director of Standards for SMEs
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Paul,

IASB staff questionnaire on recognition and measurement principles for small entities

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – NASB) is pleased to comment on the questionnaire from IASB on accounting standards for small and medium-sized entities (SMEs). Within the short time frame of the comment period NASB has not been able to allocate the resources needed to supply in any detail the rational for the suggested simplifications, but we will be pleased to explain our comments in further detail, and answer any questions you may have in connection with our comments.

In general, most fair value calculations are demanding exercises for smaller companies, who do not have the resources and/or skills to do so in-house. The use of fair values should not be mandatory, as user needs of SME accounts are not primarily used for company valuation. NASB is also concerned of the increasing use of fair values in the main standards (full IFRS's). We think the IASB is placing too much emphasis on what constitutes "relevant" information, and has given insufficient consideration to reliability. Fair value measures can be considered reliable only if the variability in the range of reasonable fair value estimates is not significant.

However, subject to a suitable use of fair value accounting in the full IFRS's, NASB believe that choosing fair value accounting as in the full IFRS's should be an allowed alternative for SMEs. We think the same set of standards will be suitable for all companies. However, due to cost/benefit considerations, additional simplifications should be allowed for SMEs.

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Some companies operate in businesses, where they may wish to use the same principles as their listed peers, or certain parts of full IFRS's are requested from their users. Those companies should be allowed to do so, on a standard by standard basis, without having to apply the complete set IFRS.

1. IFRS 3: simplify the intangible asset identification and instead recognise more such assets as goodwill than acceptable within full IFRS. The valuation of such assets requires expertise which is expensive and time consuming, and may in our experience not be justified by benefits of the users, especially in SMEs accounts, which as mentioned before are less used for valuations.
2. Not require use of IFRS 5 by SMEs
3. IAS 16: drop the component approach. This may be a very demanding and time-consuming exercise. Based on our experience the benefits received may not justify the expences.
4. IAS 27: allow deemed cost when investments in subsidiaries, associates and joint ventures previously have been accounted for by equity method or proportionate consolidation
5. IAS 38/36: allow SMEs to choose either annual impairment test in full IFRS's, or a requirement to depreciate goodwill and intangible assets with indefinite useful lives. A systematic annual impairment test is burdensome for the SMEs. Also we believe that the distinction between intangible assets with finite/indefinite lives need not be made for SMEs, all intangibles can be viewed as having finite lives and be amortised accordingly. The requirement to capitalise development costs if certain criteria are met should be deleted. We suggest that the standards should permit SMEs to expense internally generated intangible assets immediately in profit or loss.
6. IAS 39: exclude effective interest method (calculation is complex), paragraphs 5-7, use of bid offer price, day one profit concept, hierarchy of fair value. Requirements for documentation, which apply hedge accounting, are too extensive for SMEs. Identification of embedded derivatives is complex.
7. IAS 41: allow cost as alternative, as in IAS 40
8. IFRS 1: allow additional simplified transitional rules. No requirement for component approach for fixed assets by the transition. Prospective change of accounting principle should be allowed to a larger extent than full IFRS

Yours sincerely
Norsk RegnskapsStiftelse

Idar Eikrem
Chairman