19 May 2006

Director, Accounting Standards
Canadian Accounting Standards Board
277 Wellington Street West
Toronto ON M5V 3H2
CANADA

Discussion Paper
Measurement Bases on Financial Accounting – Measurement on Initial Recognition

We are responding to your invitation to comment on the above discussion paper on behalf of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We have a number of general comments on the setting of this discussion paper. The discussion paper is to represent the first step of IASBs due process for the measurement aspects within the broader conceptual framework project. We believe a measurement discussion preferably should be based on an updated existing framework dealing with the objective and qualitative characteristics of accounting, or alternatively be discusses as a broad solution that includes measurement after initial recognition and framework development. Without yet having received any due process paper form the conceptual framework project we find it hard to comment on this measurement paper as a free standing paper.

Especially we find it difficult to conclude upon measurement on initial recognition when it is not clear to us what the purpose of initial recognition measurement is in relation to the economic performance that the financial statements should portray. Hence, without having a clear understanding of this we are not able to conclude, agree or disagree upon the view that fair value should be the preferred measurement basis on initial recognition. Further to this we would like to emphasize that we also believe that the distinction between entry and exit values should be clarified and discussed in relation to initial recognition and subsequent measurement.

However, we believe that this paper represents a valuable staring point on the current work of IASB on future measurement basis to be applied in accounting standards and a reference for the work on the measurement chapter in a revised framework. We believe that the paper adequately highlights the need for more analysis, research and testing to be carried out before conclusions can be drawn.

It is our understanding that this paper represents an early phase in along term project to come up with an improved framework and basis for development of future accounting standards and not a first step to the development on a general standard for initial measurement. However, as emphasised above, we do strongly believe there is a need to develop and clarify the proposals set forth in this paper in relation to the main elements of the framework.

The way we read the discussion paper the argument is largely driven by comparative analysis of different measurement basis’s for individual assets or liabilities. We believe that there, at this stage, also is a strong need for analysis of the information content of aggregations (e.g. line items, total assets or total liabilities) of the different measurement basis’s and the aggregations of different measurement basis’s.

From financial instruments we have seen a large number of practical challenges in relation to day 1 profit. Based on these experiences we do believe that a discussion of day 1 gains or losses should be included in the discussion of measurement on initial recognition.

A discussion of market based fair values requires a precise understanding of what constitutes a, or the, market and when a market is present. We believe that more work is warranted in connection with these issues. We are also concerned that the discussion paper seems to assume that efficient markets exists for most assets and liabilities, while we are of the opinion that such markets normally are more of an exception than a norm. Especially we see a large number of departures from the assumption of efficient markets in connections with business combinations, intangible assets and long term contracts.

An issue possibly closely related to the market issue is the issue of what is the proper "unit of account". We see a principle based and operational resolution of this issue as a key measurement issue and crucial to achieve comparability and enforceability of any standards on measurement.

In recognition of the existing incompleteness of market based fair value measures the discussion paper recommends a hierarchy of measurement basis to be applied. When ever a hierarchy of measurements is to be applied we see a need for clear principles to ensure comparability between entities in the application. Therefore we would like to see an expanded discussion of connections to the qualitative characteristics given in the framework, linkage to general economic measurement theory and practicable enforceability.

Given these general comments we strongly support and recommend further work and research along the issues for further research outlined in the discussion paper and in our general comment above and special answers below.

Our answers to your specific questions are attached below and should be read in conjunction with our general comment above. A number of answers are limited to the phrase "We provide no answer to this question". When this is the case we are refraining from presenting a view and therefore neither supporting nor opposing any views inclined in the question. Generally this is the case when we have a wide divergence of opinions internally and thus no united view externally.

Yours sincerely
Norsk RegnskapsStiftelse

Erik Mamelund
Chairman

Appendix - responses to specific questions

Q1. Do you agree that the list of identified possible measurement bases sets out the bases that should be considered? If not, please indicate and explain any changes that you would make.
We agree that the list of identified possible measurement bases contains the bases that should be considered.

Q2. Do you agree with the working terms and definitions, and supporting interpretations, of each of the identified measurement bases? If not, please explain what changes you would make. In particular, do you have any comments on the term "fair value" and its definition?
We have not done a thorough analysis of this, but on an overall level we agree with the definitions of each of the identified measurement bases as working term definitions at the current stage of the measurement project. We expect a need to reconsider wordings at a later stage in the project.

We would also like to emphasize that we believe there is a need to clarify the concept of fair value, especially in relation to market values vs entity specific values, entry and exit values and transaction costs.

Q3. It is proposed that there are two fundamental sources of differences between the identified bases for measuring assets and liabilities on initial recognition:
(a) market versus entity-specific measurement objectives, and
(b) differences in defining the value-affecting properties of assets and liabilities.
This proposal and its conceptual implications are the subject of chapters 4 and 5. Do you agree that these are the fundamental sources of differences between asset and liability measurement bases on initial recognition? If not, please indicate the fundamental sources of differences you have identified, and provide the basic reasons for your views. For any different fundamental sources you have identified, please indicate how these might be examined and tested.
We do currently not have sufficient knowledge on market measurement to conclude that the sources described in a) and b) above are the only set of fundamental sources of differences between asset and liability measurement bases. We believe that there is a need for a better understanding, within the accounting literature and profession, of what constitutes a market and thus when a market measure exists. We currently see a fundamental difference between a market measure and a measure derived by <u>any</u> sub group or observer of the market including the entity preparing the financial statement. Before we have a more thorough understanding of market and market measure we are not able to conclude that the only fundamental different measure is the market measure and the entity-specific measure as opposed to the measure of any individual or group of market participants or observers.

Q4. The paper analyzes the market value measurement objective and the essential properties of market value.
(a) Do you believe that the paper has reasonably defined the market value objective and the essential properties of market value for financial statement measurement purposes? If not, please explain why not, and what changes you would propose, or different or additional considerations that you think need to be addressed.
(b) Do you agree with the proposed definition of "market"? If not, please explain why you disagree, and indicate any changes you would make and any issues that you believe should be given additional consideration.
(c) Do you agree with the fair value measurement objective as proposed, and its derivation from the market value measurement objective?

a) We provide no answer to this question.
b) While not disagreeing with the market definition in the paper we fear that the proposed definition includes too much subjectivity to serve well as a definition for measurement purposes. While knowledgeable, willing and sufficiently are discussed to some extent we fear that it remains too much uncertainty around these terms including what constitutes a (sufficient) body to result in an operating definition of market.
When this is said we believe that the definition can serve as a valuable tool in forthcoming phases of this project. We strongly support further work in this area.
c) We provide no answer to this question.

Q5. Do you agree with the definition and discussion of entity-specific measurement objectives and their relationship to management intentions? If not, please explain why you disagree.
We agree with the discussion and conclusions of the paper on entity-specific measurement objectives and their relationship to management intentions.

Q6. Do you agree with the comparison of market and entity-specific measurement objectives and with the proposed conclusion that the market value measurement objective has important qualities that make it more relevant than entity-specific measurement objectives for assets and liabilities on initial recognition? If not, please explain your views.
The comparison of market and entity-specific measurement objectives is based on an implicit assumption that there is a clear understanding of what constitutes market measurements. We find this not always to be the case in practice. In situations where there is a clear understanding of what constitutes a market measurement we agree with the comparison of market and entity-specific measurement objectives.

Q7. (a) It is reasoned that there can be only one market (fair) value for an asset or liability on a measurement date. Do you agree with this conclusion? If not, please explain why you disagree.
(b) It is proposed that differences between apparent market values for seemingly identical assets or liabilities on initial recognition may be attributable to:
(i) differences between the value-affecting properties of assets or liabilities traded in different markets, or
(ii) entity-specific charges or credits.
However, the paper notes the existence of multiple markets for some assets and liabilities, and the possibility that they may be due to market access restrictions that require further investigation.
Do you agree with these proposals, within the caveats and discussion presented? If not, please explain why you disagree.

a) We agree with the conclusion that there can bee only one market value for an asset or liability on a measurement point in time. However as indicated in our answers to question 3 and 4 b) seemingly different “market” values might also be due to lacking understanding on when a market value exist and when a fair value is implied from incomplete market data.
b) We agree with the need for further investigations into the reasons for differences between apparent market values for seemingly identical assets or liabilities at the same points in time.

Q8. Do you agree that a promise to pay has the same fair value on initial recognition whether it is an asset or a liability, and that the credit risk associated with a promise to pay enters into the determination of that fair value with the same effect whether it is an asset or liability? If you do not agree, please explain the basis for your disagreement.
We agree that a promise to pay has the same fair value whether it is an asset or a liability.

Q9. The paper makes the following proposals with respect to defining the unit of account of the asset or liability to be measured on initial recognition:
(a) The appropriate individual item or portfolio unit of account on initial recognition is generally the unit of account in which the reporting entity has acquired the asset or incurred the liability.
(b) The appropriate level of aggregation for non-contractual assets on initial recognition is the lowest level of aggregation at which an identifiable asset is ready to contribute to the generation of future cash flows through its sale or use.
Do you agree with these proposals within the caveats and discussion presented? If not, please explain why, and in what respects, you disagree.
We strongly support the indications in the paper that further analyses and testing has to be carried out on the appropriate unit of account for measurement purposes. We are challenged to identify the principle that is underlying the proposal in (a). We see the proposals in (a) and (b) as starting working hypotheses, but do not see how these hypotheses constitutes a part of a coherent and working measurement theory. Before conclusions can be drawn from the recommended further analysis and testing, we can not give a clean statement of agreements on the propositions regarding the relationship of a portfolio, as opposed to the individual items making it up, or what constitutes the appropriate unit of account or level of aggregation.

Q10. It is suggested that, in many cases, the best market source on initial recognition is the market in which the asset or liability being measured was acquired or issued. However, some significant situations are noted in which a different source may be appropriate, and research is proposed into possible multiple markets. Do you agree that the paper provides a reasonable analysis of market sources and their implications on initial recognition? If not, please provide reasons for disagreeing, and indicate any additional analysis or research you would think should be carried out.
We would like to refer to our initial comments.

Q11. The paper concludes that transaction costs, as defined, are not part of the fair value of an asset or liability on initial recognition. Do you agree with the proposed definition of transaction costs? Do you agree with the above conclusion? If you disagree, please explain your reasons and what you believe the implications of your different view would be for fair value measurement of assets and liabilities on initial recognition.
We do not provide an answer to this question. Our preliminary view, however, is that we do not disagree with the conclusion that transaction costs, as defined, are not part of the fair value of an asset or liability.

Q12. Do you agree with the proposal that, when more than one measurement basis achieves an acceptable level of reliability, the most relevant of these bases should be selected? If not, please explain why you disagree, and indicate how you would settle trade-offs between the relevance and reliability of alternative measurement bases.
We feel compelled by the proposal that, when more than one measurement basis achieves an acceptable level of reliability, the most relevant of these should be selected, however do to the lacking discussions of the information content and relevance of aggregations of different measurement basis's we are not able to draw a final conclusion on this issue.

Q13. Do you agree with the two proposed sources of limitations on measurement reliability — estimation uncertainty and economic indeterminacy — and supporting discussion? If not, please explain your view.
We agree with the discussion in the paper on this issue.

Q14. Do you agree that fair value is the most relevant measure of assets and liabilities on initial recognition of assets and liabilities, and therefore should be used when it can be estimated with acceptable reliability? If not, please explain why.
We provide no answer to this question. The reason is that we find it difficult to conclude upon measurement on initial recognition when it is not clear to us what the purpose of this exercise is in relation to the economic performance that the financial statements should portray. Hence, without having a clear understanding of this we are not able to conclude or agree upon the view that fair value should be the preferred measurement basis on initial recognition.

Q15. Do you agree that fair value is not capable of reliable estimation in some common situations on initial recognition? More specifically, do you agree that:
(a) A single transaction exchange price should not be accepted to be equal to fair value unless there is persuasive evidence that it is, and
(b) A measurement model or technique cannot be considered to achieve a reliable estimation of the fair value of an asset or liability when the estimate depends significantly on entity-specific expectations that cannot be demonstrated to be consistent with market expectations?
Please provide explanations for your views on these questions if they differ significantly from the conclusions and supporting arguments presented in the paper.
d) We agree, but even though it is easy to agree with this wording it would probably be many times in practice that these situations might occur. As we have mentioned earlier, the understanding of what constitutes a market is important to clarify, and in this relation it is key underlying factor in determining whether the exchange price for the asset in question should be accepted to be equal to fair value. In reality, even if there is not persuasive evidence that a single exchange price would be equal to fair value, the transaction price paid or received could be assumed to be a reasonably approximation or a reasonable representation of fair value at initial recognition.
e) We agree, but the difference between "market expectations" and "entity specific expectations" are not always easy to differentiate. Even though this distinction clearly can be described theoretically, in practice many of the expectations of the market participants are influenced by entity specific expectations.

Q16. Do you agree with the paper's analyses and conclusions with respect to the comparative relevance and reliability of:
(a) historical cost;
(b) current cost - reproduction cost and replacement cost;
(c) net realizable value;
(d) value in use; and
(e) deprival value?
(f) Please provide reasons for any disagreements, and any advice you may have as to additional analysis or research that you believe should be carried out.
The description and discussion in the paper clearly is focusing on the strengths of fair value and the weakness of historical cost. Even though this could be theoretically correct we do believe that the

discussion paper should try to elaborate more on the weaknesses of fair value and the strengths of historical cost. One important aspect that could have been discussed in more “in-depth” detail is the fact that it will in many instances not be an efficient market for the asset or liability in question. Based on this we have some problems to see why historical cost can not be used as a reasonably approximation to fair value. Historical cost is not subject to the same degree of entity specific measurement influence as other entity specific measures.

Q17. The paper discusses substitutes for fair value when the fair value of an asset or liability cannot be reliably estimated on initial recognition. Do you agree that, when other measurement bases are used as substitutes for fair value on initial recognition, they should be applied on bases as consistent as possible with the fair value measurement objective? If not, please explain why.
We do believe it is difficult, without clarifying and further strengthening the understanding of what constitutes a market, to understand the full meaning of “consistent as possible with the fair value measurement objective”. We do therefore believe that this should be elaborated and described in more clarity in the discussion paper. We believe more clarity is needed to ensure that entities, in circumstances where efficient markets don’t exist, are able to have a clear understanding of which other measurement basis is most consistent with fair value.

Q18. Do you agree with the proposed hierarchy for the measurement of assets and liabilities on initial recognition? If not, please explain your reasons for disagreeing and what alternatives you might propose.
Based on our initial comments we are not in a position to answer this question. We need to see the other pieces of the measurement puzzle before we can have a firm view on this.

Q19. Do you have comments on any other issues or proposals, including the proposals for further research? If so, please provide them.
Please see our initial remarks on information content of aggregated numbers based on mixed measurement basis’s.

Norsk RegnskapsStiftelse

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Oslo, June 2nd, 2006

Jenny Lee
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IFRS 2 Amendment
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Dear Ms Lee,

Proposed Amendments to IFRS 2 Share-based Payment

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the proposed amendments to IFRS 2 Share-based Payments.

The exposure draft proposes to (1) define vesting conditions and to (2) clarify the accounting treatment of cancellations by parties other than the entity. Even though we agree that IFRS 2 needs to be revised with respect to both issues, we have concerns with the proposed definition of vesting conditions and the proposed treatment of cancellations by parties other than the entity.

In the following we will express our concerns with the two proposals by responding to your questions in the exposure draft.

Question 1 – The Exposure Draft proposes that vesting conditions should be restricted to performance and service conditions. Do you agree? If not, what changes do you propose, and why?

Vesting conditions must be satisfied for the counterparty to become entitled to receive the consideration in the arrangement. According to the definition of vesting conditions in IFRS 2.Appendix A, vesting conditions include service conditions and performance conditions. In addition to service and performance conditions, so-called market conditions are defined in Appendix A as conditions that are related to the market price of the entity's equity instruments.

In the ED the definition of vesting conditions are restricted to performance and service conditions, and thus it is clear from the proposed definition that market conditions are not to be considered vesting conditions. However, in the ED, no change is proposed in IFRS 2.19, in which the following statement clearly assumes that market conditions are vesting conditions: *"Vesting conditions, other than market conditions, shall not (...)".* In other words, market conditions are considered vesting conditions, even though the definition in the ED explicitly excludes market conditions from the definition of vesting conditions. At a minimum, this inconsistency in the exposure draft must be eliminated.

In the ED, contribution requirements and requirements to hold an initial grant of shares are used to illustrate the problem of the current version of IFRS 2. According to the ED, these conditions are not vesting conditions because they do not ensure that the counterparty provides the services required to "pay" for the underlying equity instrument.

We agree that these additional features are different from service and performance conditions since they apparently do not have a direct impact on the service of the counterparty. However, the consequence of the restriction is that conditions other than service and performance conditions for accounting purposes are treated similar to market conditions. In our opinion the additional features are not similar to market conditions and we are therefore not convinced that they should be treated as such. Moreover, since one of the major differences between service and performance conditions and market conditions is that the counterparty may impact directly on the former conditions and the additional features, but not on the market conditions, we are inclined to suggest that the additional features should be treated similar to performance and service conditions.

Based on the above, we find that the proposal to restrict the definition of vesting conditions to service and performance conditions is not sufficiently supported. Even though we acknowledge that additional features may not have the same impact on the service performed as service and performance conditions, we also recognize that the additional features are not similar to market conditions. Furthermore, at a minimum, we encourage the IASB to make necessary changes in IFRS 2.19 to make it consistent with the proposed definition of service and performance conditions.

Question 2 – The Exposure Draft proposes that cancellations by parties other than the enity should be accounted for in the same way as cancellations by the entity. Do you agree that all cancellations should be treated in the same way? If not, please specify the nature of any differences between types of cancellations and explain how they influence the selection of appropriate accounting requirements.

It can be inferred from the ED that cancellation by counterparties refers to the counterparty's failure to meet conditions that are not vesting conditions (ED IFRS 2.28). However, from the same paragraph one may interpret a failure to meet vesting conditions also to be a cancellation, even though such a cancellation is treated differently for accounting purposes. In our opinion, the ED is unclear with respect to what is considered a cancellation.

If a vesting condition is not met, expense charged to date is reversed. This is not considered a relevant treatment for cancellations by counterparties because the services required to pay for the equity instrument have been rendered anyhow. The same argument relates to forfeiture when vesting conditions are not met (the counterparty or third party has rendered the service even if performance conditions or service conditions (at least until the time of the forfeiture) are not met). Thus, in our opinion, the argument does not explain why a cancellation should be treated differently than a failure to meet vesting conditions. Furthermore, the applicability of this argument to both cancellations relating to vesting conditions and additional features supports including the latter in the definition of vesting conditions as discussed in the context of Question 1 above.

The Board proposes that cancellation by counterparties or third parties should be accounted for in the same manner as cancellations by the entity; that is, accelerating the recognition of the remaining expense. We agree that different treatment of cancellations by the entity and counterparties/third parties would either require the development of adequate criteria to distinguish cancellation by the entity from other cancellations, or alternatively would leave room for potential earnings management. The first alternative is rejected by the Board with reference to a cost-benefit analysis. The second alternative may be difficult to avoid in a principle-based system since bright-line rules is not allowed for in such a system and bright-line rules may be the only way to eliminate room for earnings management in this particular case, but we agree that it as such is an undesirable consequence.

However, as argued above in our answer to Question 1, we tend to believe that additional features should be considered vesting conditions. Thus, in our opinion, one should consider further the implications of having different treatment of cancellations by the entity and cancellations by counterparties. We believe that whether the entity or the counterparty cancels the counterparty's participation in the plan always can be determined by evaluating the fact and circumstances in each case, such that the accounting treatment is based on the substance, not the form of the cancellation.

Question 3 – The proposed changes would apply to periods beginning on or after 1 January 2007, and would be required to be applied retrospectively. Earlier application would be encouraged. Are the proposed effective date and transition appropriate? If not, what do you propose, and why?

We believe the appropriate effective date is dependent upon when the amendments are finalized. Also, we encourage the IASB to consider the need for time to adopt the amendment in national regulation when effective date is set. We agree with the proposal to require retrospective application.

Yours faithfully
Norsk RegnskapsStiftelse

PP Hege Korsmo Sæther
Erik Mamelund
Chairman

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Oslo, July 6nd, 2006

IAS 1 Amendments
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Exposure Draft of Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation

We are responding to your invitation to comment on the above exposure draft on behalf of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We would initially emphasize that we do not see the need to change the standard before the performance reporting project has been completed. Even though the proposed changes does not significantly alter the current regulation in IAS 1, changes would require more effort and additional costs for the preparers. We therefore question the need for the proposed changes in general.

We do also believe it would be beneficial to investigate or discuss further with major users (investors and creditors) of financial statements whether the proposed changes will be helpful in their analysis of financial statements. As we question the need for the proposed changes as such, our detailed comments are only relevant to the extent that our objections to the proposal as such are rejected.

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

Yours faithfully
Norsk RegnskapsStiftelse

pp Hege Korsmo Sæther

Erik Mamelund
Chairman

Appendix - responses to specific questions

Questions 1 and 2 - A complete set of financial statements

The Exposure Draft proposes that the titles of the financial statements should be as follows:

(a) statement of financial position (previously 'balance sheet');

(b) statement of recognised income and expense;

(c) statement of changes in equity; and

(d) statement of cash flows (previously 'cash flow statement').

The Board does not propose to make the changes of nomenclature mandatory (see paragraph 31 of the draft Standard and paragraphs BC4 and BC5 of the Basis for Conclusions).

Question 1 - Do you agree with the proposed titles of the financial statements (bearing in mind that an entity is not required to use those titles in its financial statements)? If not, why?

We do not have any strong views about the proposed name changes. One may question whether the balance sheet really reflects the financial position of a company in an economic sense. We agree that "balance sheet" does not really refer to the content of the statement, but considering that it is widely accepted even across different languages it may be agreed that there is no need to replace it with a term that may not be very precise in reflecting the content of the statement.

The Exposure Draft introduces a requirement to present a statement of financial position as at the beginning of the earliest period presented in the financial statements. Therefore, in addition to notes, an entity would be required to present three statements of financial position, and two of each of the other statements that form part of a complete set of financial statements (see paragraphs 31 and 39 of the draft Standard and paragraphs BC6-BC9 of the Basis for Conclusions).

Question 2 - Do you agree that a statement of financial position as at the beginning of the period should be part of a complete set of financial statements, and that an entity presenting comparative information should therefore be required to present three statements of financial position in its financial statements? If not, why?

Although we do not have any strong objections to this proposal we would like to question whether this would be considered to be useful for the users of the financial statements. We are not able to see that any convincing arguments in this respect has been included in the exposure draft.

Until such convincing arguments are put forward we would question whether this proposal is necessary since it will require more effort and additional costs for the preparers.

Questions 3-5 - Reporting owner changes in equity and recognised income and expenses

The Exposure Draft proposes to require entities to present all changes in equity arising from transactions with owners in their capacity as owners (ie 'owner changes in equity') separately from other changes in equity (ie 'non-owner changes in equity' or 'recognised income and expense'). Non-owner changes in equity would be presented in either (a) a single statement of recognised income and expense, or (b) two statements: a statement displaying components of profit or loss and a second statement beginning with profit or loss and displaying components of other recognised income and expense (see paragraphs 81 and 82 of the draft Standard and paragraphs BC11-BC20 of the Basis for Conclusions).

Question 3 - Do you agree that non-owner changes in equity should be referred to as 'recognised income and expense' (bearing in mind that an entity is not required to use the term in its financial statements)? If not, why?

Is the terminology used in the Standard important if entities are permitted to use other terms in their financial statements? If so, what term would you propose instead of 'recognised income and expense'?

We do not have any strong views about this proposal.

Question 4 - Do you agree that all non-owner changes in equity (ie components of recognised income and expense) should be presented separately from owner changes in equity? If not, why?

We agree.

Question 5 - Do you agree that entities should be permitted to present components of recognised income and expense either in a single statement or in two statements?

If so, why is it important to present two statements rather than a single statement?

If you do not agree, why? What presentation would you propose for components of recognised income and expense that are not included in profit or loss?

We do not have any strong objections to permitting entities to present components of recognised income and expense in either a single statement or in two statements. This is based on the requirement to present the separate statement of profit and loss immediately before the statement of recognised income and expense if the two statements approach is elected.

Questions 6 and 7 - Other recognised income and expense - reclassification adjustments and related tax effects

The Exposure Draft requires the disclosure of reclassification adjustments relating to each component of other recognised income and expense (see paragraphs 92-96 of the draft Standard and paragraphs BC21-BC23 of the Basis for Conclusions).

Question 6 - Do you agree with this proposal? If not, why?

We support this requirement.

The Exposure Draft requires the disclosure of income tax relating to each component of other recognised income and expense (see paragraph 90 of the draft Standard and paragraphs BC24 and BC25 of the Basis for Conclusions).

Question 7 - Do you agree with this proposal? If not, why?

Even though we have no strong objections to the proposal as such we do not agree since it will give entities a choice as to whether they want to present the components either net of tax or not. We do not believe users of financial statements will benefit from allowing entities to use different presentation format. Only one method should be permitted.

Question 8 - Presentation of per-share measures

The Exposure Draft does not propose changes to IAS 33 *Earnings per Share*. Therefore, earnings per share will be the only per-share measure presented on the face of the statement of recognised income and expense. If an entity presents any other per-share measure, that information is required to be calculated in accordance with IAS 33 and presented in the notes (see paragraph BC26 of the Basis for Conclusions).

Question 8 - Do you agree that earnings per share should be the only per-share measure that is required or permitted to be presented on the face of the statement of recognised income and expense? If not, which other per-share measures should be required or permitted to be presented on the face of a statement and why?

We do agree with the proposal.

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8 September 2006

PAAinE Discussion Paper Conceptual Framework

We are responding to your invitation to comment on the preliminary draft of the first paper of the PAAinE Conceptual Framework Group. Given the short notice, we have not been able to investigate the issues raised and explored in the paper in depth, and our comments are therefore not as detailed as we would have preferred.

Our comments fall into two categories, one dealing with due process and the other with the content of the paper.

First of all, we emphasize that we strongly support the PAAinE conceptual framework initiative and believe that this issue is of particular importance as the revised IASB Framework will provide the platform for the future development of IFRS.

<u>Due process</u>

It is somewhat unclear to us who the responsible author of the Discussion Paper on Conceptual Framework ("the Discussion Paper" in the following) is. The PAAinE is a joint-project between EFRAG and the European National Standard Setters, and the conceptual framework project is "led by the staff of the French Standard-setter, the CNC", assisted by a working group "with members from a variety of countries and backgrounds" (paragraph 1.5). The members of the working group were nominated by national standard setters, and as such are representatives of their respective national standard setters, even though the text in paragraph 1.5 may seem to indicate that they are personal representatives. Is the paper an EFRAG-paper, a CNC-paper, a paper of the European national standard setters, a paper of EFRAG and the European national standard setters, or a paper of the CNC and the national standard setters having nominated the representatives of the working group? We believe that the paper should unambiguously explain the responsibilities and roles of the involved parties. This is of particular importance since the paper has a form indicating majority and minority views.

If the intention with the hearing is that the national standard setters are invited to join in as responsible for the document, the NASB will abstain. Although we sympathize with many of the views expressed in the paper, the short deadline has not permitted a proper treatment of the entire document in the NASB bodies. We may change our position on this issue if we are given sufficient time to respond to a more final version, and assuming that our views are reflected in the final version.

In the following, for practical purposes, we refer to the working group as the authors of the preliminary draft.

<u>The paper</u>
Our comments on the paper are grouped into three; 1) General comments on the issues, 2) the form of the paper, and 3) specific comments.

General comments
In the paper, issues of critical importance to the conceptual framework are raised, and we agree with the working group in that all these issues are not sufficiently dealt with by the IASB and the FASB neither in their current frameworks, nor in the Discussion Paper on preliminary views issued in June 2006 ("the IASB Discussion Paper" in the following). In the IASB Discussion Paper the issues raised in the preliminary draft are either ignored or referred to as issues that will be dealt with at a later stage in the conceptual framework project. As all the issues raised necessarily will have an impact on the deliberations at each stage of the conceptual framework project, we believe, as the working group, that the IASB should do, and encourage others to do, additional research into these issues. We realize that firm evidence cannot be provided with respect to several of the issues. For instance, as past research has shown, it may be possible to find theoretical and empirical support for the concept of general purpose statements, as well as support for specific user needs and therefore rejection of the concept of general purpose statements. Nevertheless, the IASB should take advantage of the vast volume of existing research into this and the other issues before drawing any conclusions. Furthermore, the IASB should consider taking the initiative to new research, specifically tailored to the questions raised in a conceptual framework project. In our view, as already mentioned, the revised conceptual framework will provide the platform for future development of IFRS, and the IASB should therefore not under any circumstances prioritize timing over quality and in-depth analysis.

The form
As commented on above, further research is needed on all the issues raised in the paper. The working group has several places emphasized that it has not done or intended to do this research, but is still to a large extent providing lengthy discussions on each topic, and in certain cases views are supported by references to more or less relevant literature and research. If this form is to be applied, we believe the references to relevant literature should be far more exhaustive and thorough. To us the few references made to relevant literature in the paper are not convincing and there is far more authoritative and relevant literature that should be referred to. For instance, in the discussion of the purpose and status, one should take advantage of the comprehensive literature on the concept of fair presentation/true and fair

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view, in particular when exploring the role of the framework in the preparation of financial reporting and the authority of the framework. Another example is the discussion of long-term versus short-term investors and on current versus potential investors. We agree that these issues may be of relevance, but the somewhat incomplete discussion in the paper is not convincing. We think it would be better to raise the issues, and ask the IASB to explore it further.

We find that the discussion about the "definition of financial statements" is rather confusing. It seems to us that the working group mingles up two separate questions, namely, first, what should be included in the concept "financial statements", and, second, what should the prime outcome of those statements. The statement (in bold) that "the financial statements are not intended to provide users with a direct market valuation of an entity" is slightly off the playing field, since no party really advocates such an objective for the financial statements.

We believe, in particular given the relevant deadlines involved, that the working group rather than attempting to provide an exhaustive discussion on the different issues, should raise and explain issues, and leave up to others, that is, the IASB, the FASB, academics and others, to research them further. One may find it useful to express preferences, but we do not think it is necessary to refer to majority and minority views in a discussion paper like this. For instance, in the discussion on the authority of the Framework, one should explain the views that exist and why a firm position needs to be taken on this issue before developing the Framework, and leave it to the IASB, the FASB and others to research this further, so as to form a sound basis for taking a position. We believe this approach will reduce the risk of being accused of drawing premature and/or subjective conclusions, and also this approach will enhance the quality of the paper.

The draft is preliminary, and we expect a great deal of work will be done with respect to the structure and the language before the final paper is issued. In order to get the significant points across in an efficient manner, structure and language plays an important role. For instance, and in particular, the Executive Summary is not communicating the main proposals and views of the paper very well.

Specific comments
In our opinion, the discussion on users must necessarily be tied in to the discussion on objectives of financial information. However, as far as we understand, the objectives is one of the subjects of a second paper, a paper that we assume will represent a more direct response to the IASB Discussion Paper. The Discussion Paper suffers from this attempt to detach the two interrelated issues, for example when the issue of stewardship versus decision making is mentioned without any in-depth analysis. We believe the users issue should be coupled with the discussion on objectives of financial information, in this or a second paper.

We are somewhat surprised by the question and discussion on whether the Framework should "be continually evolving". It appears to be a discussion on whether the Framework should be transaction or event specific, or whether it should be lifted to allow new transaction structures and business models to occur without forcing amendments of the Framework. In our opinion,

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a conceptual framework must be evolving under any circumstances, but we agree with the ones arguing that one should strive to design a framework that is able to apply to new economic circumstances and transactions. In this context, we emphasize that we do not support the opinion expressed in the paper that a framework should be adjusted not to conflict with any local law or regulation (par. 2.4.3 and 5.4.3).

Also, we think the discussion on whether the issuance of standards and interpretations in conflict with the Framework should be allowed or not is somewhat formalistic. We agree in principle that all standards and interpretations should be consistent with the Framework, but whatever its content, any Framework may turn out unsuited to specific economic events. Whether the standard or interpretation is issued before the necessary amendments of the Framework are made under such circumstances, is not important in our view. However, we agree that if new events prove the Framework wrong, the Framework should be amended.

The working group discusses “the validity of the concept of general-purpose financial statements”. To us it is somewhat unclear what the position of the group is; that financial statements aiming at providing useful information to a broad group of users should be disregarded, or that the subject needs to be researched further? In particular, the summary of the discussion in the Executive Summary seems to indicate that the group does not support general purpose statements. We do not think there is evidence to support such a view. If the alternative is a more specific purpose statement, we believe there may be important implications. For instance, the discussion on value-based accounting versus transaction-based historical cost accounting will clearly be influenced.

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

Yours faithfully

Erik Mamelund
Chairman NASB

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Thomas Seidenstein
International Accounting Standards Committee Foundation
30 Cannon Street
London EC4M 6XH
UK

Oslo, September 29nd, 2006

Dear Mr. Seidenstein,

Draft Due Process Handbook for the IFRIC

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) generally support the proposals put forward in the Draft Due Process Handbook for the IFRIC.

However, we want to raise one issue with respect to the refusal of agenda items, which is covered by the Due Process chapter, stage 2. We agree with the last part of para. 28 that a topic should be refused if the IFRS is clear, and with para 29 that the draft reason for refusal is published on the website. This should not be understood as permitting a refusal by a simple statement that the IFRS is clear. A refusal that is justified by the IFRS being clear, should explain why the IFRS is clear for this particular topic.

Yours faithfully
Norsk RegnskapsStiftelse

pp Helge Kvamme Sæther

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International Accounting Standards Board
IAS 23 Amendments
30 Cannon Street
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Oslo, 29 September 2006

Dear Sir/Madam

Exposure Draft of *Proposed Amendments to IAS 23 Borrowing Costs*

We appreciate the opportunity to comment on the Exposure Draft (ED) of *Proposed Amendments to IAS 23 Borrowing Costs*. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We support the objectives of the short-term convergence project. In this particular case, we think that the Board should have considered eliminating more of the differences between IFRS and US GAAP, and we also think the Board should have put more effort into describing why the proposed changes are necessary, and why the proposed changes lead to a higher quality accounting standard.

Below are more detailed responses to the questions raised in the ED.

Question 1 – This Exposure Draft proposes to eliminate the option in IAS 23 of recognising immediately as an expense borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Do you agree with the proposal? If not, why? What alternative would you propose and why?

We support the proposal to eliminate the option in IAS 23 of recognising immediately as an expense borrowing costs directly attributable. However, we question why the proposal only eliminates this one difference between IFRS and US GAAP. We would have preferred a proposal eliminating more of the differences.

Question 2 – This Exposure Draft proposes that entities should apply the amendments to borrowing costs for which the commencement date for capitalisation is on or after the effective date. However, an entity would be permitted to designate any date before the effective date and to apply the proposed amendments to borrowing costs relating to all qualifying assets for which the commencement date for capitalisation is on or after that date. Do you agree with the proposal? If not, why? What alternative would you propose and why?

Our understanding of the information published by IASB is that a revised IAS 23 will be effective starting January 1, 2009. In our opinion, an entity should not be permitted to designate any date before the effective date, consequently, not be allowed to apply the proposed amendments before January 1, 2009. A solution as the one proposed will affect comparability for a long period of time, consequently, we cannot support it.

Yours faithfully
Norsk RegnskapsStiftelse

pp Hege Korsmo Sæther
Erik Mamelund
Chairman

Norsk RegnskapsStiftelse

Mr. Li Li Lian
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

3 November 2006

Preliminary Views on an improved Conceptual Framework

We are responding to your invitation to comment on the preliminary views in the Discussion Paper on improvements in the IASB Framework (the "Discussion Paper" in the following).

We strongly support the IASB initiative to revisit the Framework. We believe conceptual frameworks can represent a useful frame of reference to standard setters, preparers, users of financial reports and others. The project is of great importance since the revised IASB Framework will provide the platform for the future development of IFRS, and as such the revised Framework will set down the concepts and principles to be applied by listed European entities, including Norwegian entities.

However, in our opinion, the Discussion Paper reveals an approach to the project that does not fully recognize the short-comings and inconsistencies in the current frameworks. When for instance the boards in P4 claim that the conceptual frameworks of the IASB and the FASB *"(…) articulate concepts that go a long way towards being an adequate foundation for consistent standards, and the boards have used them for that purpose"*, we find that the boards seem to ignore the conceptual framework literature suggesting the opposite (for instance Milburn (1991), Zeff (1995), Gore (1995), Chambers (1996), FEE (1997), AAA (2003), Kvifte (2003), Wilson et al (2004)), and the challenging inconsistencies between current standards and interpretations and the frameworks.

We believe the IASB and the FASB in the Discussion Paper prematurely draws conclusions on issues that logically should be dealt with at a later stage in the project. Furthermore, in our opinion the boards have to decide on what the purpose and status of the conceptual frameworks should be, and whether the frameworks should be designed to target all financial reporting or just financial reporting communicated through financial statements, before conclusions are drawn with respect to objectives and qualitative characteristics. Also, with respect to the primary issues raised in the Discussion Paper, we question the appropriateness of the general purpose financial statement concept when the objective of financial reporting is to provide decision useful financial information to the identified users.

Even more important, we are particularly concerned with the apparent lack of recognition given to the stewardship objective of financial reporting and the replacement of the qualitative characteristic of reliability with faithful representation.

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The Cross-Cutting Issues Approach

As explained in P7, the boards have concluded that the conceptual framework project should focus mainly on improving the framework, giving priority to issues that are likely to yield standard-setting benefits in the near term, as opposed to a more comprehensive reconsideration of the frameworks. This approach is often referred to as “the cross-cutting issues approach”.

The boards intend to improve the parts of the existing frameworks dealing with recognition and measurement (P6), and we are aware of that IASB currently is working on the measurement issue, as well as the recognition criteria (the asset and liability definitions in particular). Such improvements represent development of basic accounting concepts, and the IASB should recognize and communicate in a clear and consistent manner that the project involves more than merely *“updating and refining”* activities. Furthermore, recognizing that the current frameworks merely list a set of measurement attributes (failing to include fair value), include incomplete recognition criteria, and basically omit presentation and disclosure issues, we believe a more comprehensive approach should be adopted if the goal is to *“provide the best foundation for developing principles-based and converged standards”* (P6).

The conceptual framework approach

The boards have defined conceptual frameworks in S1 as *“(…) a coherent system of concepts that flow from an objective”* apparently recognizing the normative and deductive structure of the conceptual frameworks. Nevertheless, we are concerned that the current agenda fails to accommodate these relationships.

For instance, measurement attributes and recognition criteria should be derived from the objectives and qualitative characteristics. However, the IASB is currently working on revisions of the asset and liability definitions based on a particular accrual concept assuming that financial performance best is measured by changes in assets and liabilities, as opposed to the more traditional accrual concept as in IAS 1 (1998, before the Improvement Projects revisions).

In the Discussion Paper, one may be lead to believe that the same asset-liability approach to accrual accounting is adopted. It is argued that users are interested in an entity’s ability to generate future cash flows, and in explaining the concept of measuring financial performance by accrual accounting it is concluded that *“Information about an entity’s financial performance during a period measured by changes in its resources and the claims on them (…), is critical in assessing the entity’s ability to generate net cash inflows”* (OB23). “Resources” are assets and “claims” are liabilities (OB18). This accrual concept is further elaborated in BC1.30. The de-emphasizing of the traditional earnings concept (BC1.28) may also be considered an indication that the asset-liability approach to accrual accounting is adopted, without further consideration. If that is not the case, we believe the paragraphs referred to need to be revised to avoid confusion.

In this context, we believe two problems arise: 1) The recognition concept is decided even before the project on recognition, at least formally, has been initiated, and 2) conclusions on fundamental issues are drawn without argument and supporting evidence.

With respect to 1) above, the focus in the objectives project should be on who the users are and what kind of information they demand, not on how the information should be prepared (which should be the subject of the measurement and recognition projects). In other words, the emphasis should be on ends, not means. The details of the accrual concept, however, deals with the means applied to reach objectives, and should be dealt with at a later stage. This is the only way to achieve compliance with the normative and deductive structure of conceptual frameworks. On the other hand, statements such as the one put forward in OB23 claiming that *"An entity's financial performance provides information about the return it has produced on the economic resources it controls"* should be further explored. Refining the concept of "financial performance" and explaining how it may be helpful in "assessing (an entity's) capacity to generate net cash flows" is likely to be helpful in the later stages of the conceptual framework project.

As discussed above, assuming that an asset-liability approach to accrual accounting has been adopted in the Discussion Paper, 2) above is relevant. We call for further convincing evidence provided by empirical or analytical research before the accrual concept in the Discussion Paper is concluded to be more useful to the primary users of financial statements than the more traditional accrual concept. Therefore, before adopting any accrual concept, specifically tailored research projects should be initiated and carried out to gain insight into the issue. Only in this manner will the boards be able to deliver what the conceptual framework approach promises, namely concepts that logically flow from the objective.

Similarly, in explaining the faithful representation characteristic, the boards have gone far in concluding on measurement issues. Traditionally, and still in most countries, financial reporting relies on a transaction-based historical cost model. In QC18, the boards are claiming that this model does not meet the faithful representation qualitative characteristic. Again, as with the accrual concept, methodological inconsistencies are created in that 1) the measurement issue should be dealt with at a later stage in the project and 2), the arguments put forward to support the conclusion has not been substantiated in the Discussion Paper.

In this context, it is striking that no references to supporting literature and empirical and analytical evidence are provided in the Discussion Paper. This applies to the two above mentioned issues, but is generally true for the Discussion Paper as a whole.

The purpose of the Framework

We believe a more comprehensive approach should include work on significant issues prior to improvement of the content of the frameworks. For instance, before designing a conceptual framework, its purpose should be identified. In the current IASB Framework several potential beneficiaries are listed, and the ambition of the Framework seems to be that its use by standard setters and preparers will lead to consistent standard setter pronouncements and consistent accounting practices. In the Discussion Paper this ambition seems to be relaxed: *"The concepts are the goal or ideal towards which standard-setters and preparers of financial reports should strive. Like most goals, the framework's vision of the ideal financial reporting is unlikely to be achieved in full, at least not in the short term, because of considerations of technical feasibility and cost"* (OB 15). On the other hand, the boards suggest deferring the question of conceptual framework authority. In our opinion, the design of conceptual frameworks must reflect its purpose. If it is only a frame of reference that one will strive towards, recognition of practical constraints may for example be ignored. On the other hand, if the conceptual frameworks are to be applied by the standard setters and preparers under all circumstances, attention must be paid to practical constraints.

In this context, it should be acknowledged that for instance the SEC in the U.S. has suggested that a move from rule-based standard setting to principles-based standard setting should be accompanied by a move of the conceptual framework to the top of the hierarchy of sources (the SEC 2003-report on principles-based accounting systems). Currently under US GAAP, the conceptual framework is towards the bottom of the hierarchy. On the other hand, under IFRS, the conceptual framework is considered the primary source of guidance to preparers in the absence of standards and interpretations (IAS 8.10-12).

Recognizing the fundamentally different roles the frameworks have under US GAAP and IFRS, we believe the purpose and authority of the frameworks must be determined before redesigning them in a joint-project between the two boards.

We therefore encourage the boards to address both the issue of to whom the conceptual frameworks apply, i.e. standard setters and/or preparers, and what level of authority it should have for the relevant groups, before the objectives and qualitative characteristics are decided. Even though we cannot have firm opinions on these issues before they have been explored by the boards, our current position is that both standard setters and preparers should be required to comply with the conceptual frameworks, but the latter group only in the absence of standards and interpretations (as in the current IAS 8).

In this context, we emphasize that the view that the two constraints on the qualitative characteristics in the Discussion Paper, namely materiality and cost-benefit considerations, do not apply to both the preparers and the standard setters, poses a conceptual inconsistency. Materiality is considered a restraint that applies to preparers, while cost-benefit considerations should be carried out by the standard setters according to the Discussion Paper. If, by default, the preparers are guided back to the conceptual framework in the absence of standards and interpretations, the cost-benefit constraint will apply to them in these cases. Similarly, as long as the standard setters are not to deal with materiality constraints, this constraint should logically be excluded in a conceptual framework applying to them. Furthermore, we encourage the boards to further explore the cost-benefit constraint and its implications. In particular, we believe in accordance with the view of the FASB in their current framework that there may be circumstances where less than full disclosure may be warranted in reference to the cost-benefit constraint: *"The cost includes not only the resources directly expended to provide the information, but may also include adverse effects on an enterprise or its stockholders from disclosing it"* (CON 1.23).

Financial reporting vs. financial statements

Also, we believe the IASB before revisiting the objectives and qualitative characteristics, should explore the notion of financial reporting. The current IASB Framework refers to the "preparation and presentation of financial statements", while the Discussion Paper refers to "financial reporting". Obviously, financial reporting encompasses a much wider specter of financial information than what is included in the financial statements. Equally obvious, the emphasis put on different qualitative characteristics will be different in the context of a financial statement as opposed to for example a press release on a new contract and its impact on potential future earnings.

In our opinion, it is questionable whether a standard setter such as the IASB has authority to regulate financial reporting in its wider form. Furthermore, and in our opinion of greater importance, we doubt that conceptual frameworks targeting financial reports in its wider form can be as useful as conceptual frameworks specifically designed to deal with financial statements. We are therefore somewhat surprised by the assertions in OB16. Financial reporting is not defined, but news releases, management's forecasts, environmental reports and prospectuses are all considered financial reporting. When one states that *"(…), the objective pertains to all of financial reporting, not just financial statements, (…),* it may seem that the boards are planning to design conceptual frameworks applying to all types of financial reports, as for example the ones listed above. However, in BC1.4, it is specifically stated that this issue is to be deferred to a later stage in the conceptual framework project.

We encourage the boards to clarify the meaning of OB16. Furthermore, we ask the boards to reconsider the decision to defer the issue of defining the boundaries of financial reporting for the purpose of the conceptual frameworks, since in our opinion as explained above, one must necessarily have determined what one is to design a framework for, before one actually does it.

General purpose financial statements

The objective of financial reporting according to the Discussion Paper is to provide the users with decision useful information. Obviously, this objectives statement must be accompanied by an identification of the relevant users. The boards argue that the so-called “general purpose financial statements” concept, with an emphasis on investors and creditors and their advisors, will provide useful information to a long list of potential users. Thus, the boards intend to adopt the general purpose financial statements concept from the boards’ current frameworks.

In the Discussion Paper, the general purpose financial statements concept is not explored or supported by research findings. We find it difficult to take a position on any issue without a basis on which to evaluate it. Having said that, we believe the view of the boards on this issue potentially overlooks important differences between the user and their informational needs. We cannot rule out that there are differences between investors and creditors, and even between different types of investors, that may suggest that the identification of users must be more specific, and may target a narrower group of investors or a specific type of creditors.

In our opinion, if the boards intend to develop accounting pronouncements with the objective of providing decision useful information to investors and creditors, the decision usefulness of the financial reports may be less than if the differences between the potential user groups were taken into account. For instance, the investors in smaller private entities may have significantly different informational needs than the investors in large multi-national entities with a widely dispersed ownership. We therefore believe there is a need for further research on the issue before concluding that the general purpose financial statements concept should be adopted.

Stewardship

In the Discussion Paper the boards conclude that the primary objective is for financial statements to provide users with information helpful in making resource allocation decisions, which primarily refer to investment decisions (buy-and-hold decisions), but according to the boards also include decisions related to governance or stewardship.

To conclude that the change in objective represents an improvement, the boards recognize that two broad views exist; the one adopted in the Discussion Paper basically assuming that information needed for other resource allocation decisions will provide users with useful information for stewardship, and an alternative view which claims that stewardship may require different information than other resource allocation decisions and therefore should be considered specifically. One may argue that these two views do not conflict, as long as the first view does not claim that all useful stewardship information can be found in the financial information derived from the resource allocation decision objective. However, to the extent that stewardship demands information not requested by other resource allocation decisions, the two views will lead to different information content in financial statements.

We find that research tend to indicate that stewardship will require information not provided if the objective is to provide useful information in other resource allocation decisions. The AICPA has in their report on Financial Accounting and Reporting Standards for Private Entities (June 2006) explored the research literature on the stewardship objective, and concludes, based on existing empirical research, that financial statements of public companies *to some degree* satisfy both stewardship objectives and other resource allocation objectives. However, in reference to in particular Gjesdal (1981), the AICPA is concerned that a greater emphasis on stewardship might affect the type of information demanded in financial statements. In particular, it is suggested that so-called "soft" information is less useful in stewardship as compared to in other resource allocation decisions, and that an emphasis on stewardship would lead to more "hard" information in the financial statements. We do not believe the boards in the Discussion Paper have evaluated the evidence from the literature in a convincing manner, and we believe that in order for the financial statements to meet the demands of the stewardship objective, stewardship should be considered a primary objective of financial reporting. Thus, we agree with the alternative view of the two IASB board members dissenting on this issue.

Furthermore we encourage the boards to actively solicit the views of investors on this matter. The boards should also recognize that the legal framework of different jurisdictions may have bearing on this issue. Stewardship may be of somewhat greater importance outside the US.

Faithful representation

The boards suggest replacing "reliability" with "faithful representation", and have concluded that *"(…) faithful representation encompasses all of the qualities that the previous frameworks included as aspects of reliability"* (BC2.28) and that the two terms *"(…) mean essentially the same thing, (…)"* (BC 2.29). Thus, apparently the replacement is meant to be nothing more than a terminological improvement. However, elsewhere in the Discussion Paper there are clear indications that faithful representation is considered a much weaker constraint on financial reporting than reliability.

The proposed change is partly explained by difficulties in applying "reliability" in practice and that the term means different things to different people. We agree that the frameworks could be improved by further refining the term reliability and by giving additional guidance on how to apply this characteristic in standard setting and accounting practice. However, we do not believe the problem of different interpretations of the term will be solved by replacing it with another term that to most people, even people with English as a first language, does not carry any particular meaning. In this context, we may encourage the boards to explore and explain the difference between the fair presentation concept in IAS 1 and faithful representation.

Furthermore, we are somewhat puzzled by the assertion that the two terms are synonyms. In a number of current standards and interpretations, as well as in the IASB Framework, a certain level of reliability is called for in order to allow recognition and/or application of a particular measurement attribute. For instance, according to IAS 41.30 biological assets should be measured at cost if fair value estimates are "clearly unreliable". Faithful representation, defined as *"(…) correspondence or agreement between accounting measures or descriptions in financial reports and the economic phenomena they purport to represent (…)"* (BC 2.28), can hardly be used in the same manner to prohibit recognition of items not meeting a minimum threshold. In this case, it seems as if the only requirement that can be derived from the qualitative characteristics is that the estimate must be calculated using a consistent fair value model with reasonable inputs and full disclosures added. As far as we understand, cost may only result in faithful representation to the extent it approximates fair value (as in IAS 41.23). Therefore, as applied here in the context of biological assets, replacement of reliability with faithful representation will lead to different accounting.

Such an outcome may very well be warranted, but without evidence or documentation that such a change can be derived from the decision usefulness objective, we cannot support the proposal.

We hope our comments will be useful in the further work on the conceptual framework. As explained before, we believe the project is of the greatest importance. We strongly encourage the IASB to put strong conceptual foundations before timing constraints in the planning of the project, as a consistent conceptual framework will represent an effective tool both in standard setting and in accounting practice, while inconsistencies will reduce its usefulness dramatically.

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

Yours sincerely
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