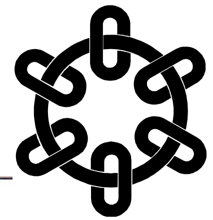
Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, May 19, 2010

Dear Sir/Madam

Exposure Draft, ED/2010/1 Measurement of Liabilities in IAS 37

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit comments on the exposure draft Measurement of Liabilities in IAS 37.

We have concerns with certain proposals in the exposure draft. Firstly, we share the concerns of the dissenting IASB board members regarding lack of guidance on risk adjustments, and how the risk adjustment should be determined. Secondly, we do not support at this point in time a value based approach to measuring obligations fulfilled by undertaking a service.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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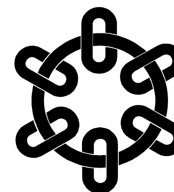


Question 1 – Overall requirements

The proposed measurement requirements are set out in paragraphs 36A–36F. Paragraphs BC2–BC11 of the Basis for Conclusions explain the Board's reasons for these proposals.

Do you support the requirements proposed in paragraphs 36A–36F? If not, with which paragraphs do you disagree, and why?

Profit margin (value based approach)

Applying the requirements in paragraph 36B and B8, implies a value based approach to measuring liabilities to be fulfilled by undertaking a service. The proposal is introducing an alternative-cost approach that is unfamiliar within the existing IFRS literature. The outflow concept in the IASB Framework is interpreted by reference to (a hypothetical) market value of costs incurred by an entity. A parallel of such an interpretation for asset measurements would be to capitalize the market value or a cost plus margin estimate for internally developed assets. In a value measurement regime we believe the proposal has merits. However, we do not believe in introducing value measurement on selected items without exploring the implications, consequences and challenges with respect to other items on a more general basis. Therefore, we find the proposal premature in reference to the ongoing framework project dealing with measurement attributes, the revenue recognition project dealing with measurement of performance obligations in customer contracts, and the insurance project dealing with measurement of insurance contracts.

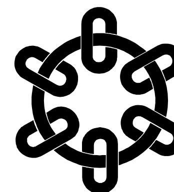
Also, we find the proposal somewhat contradictory to the approach adopted in IAS 39 Financial instrument - recognition and measurement and IFRS 9 Financial assets - classification and measurement. In these standards amortised cost is applied for financial liabilities not measured at fair value through profit and loss. Under the amortised cost approach, a liability is measured in reference to what outflows that will be required to settle the obligation, not in reference to (a hypothetical) market value.

Risk adjustment

We share the concerns expressed in the alternative view (AV 5 and AV 6) of the dissenting IASB members on the proposed risk adjustment. We believe the Board should clarify the purpose with the risk adjustment, and when adjustment for risk might be appropriate. We generally believe a rational third party would be reluctant to take on variable payment obligations in exchange for a fixed payment, and might therefore generally require an additional payment in excess of the amount that would be demanded for an obligation with contractually fixed payments, even though the expected values were the same. The premium required would depend on how the third party might be able to use the proceeds of the fixed payment prior to meeting the obligation. If the variability of the outcome could be matched with the outcome by investing in an asset that is negatively correlated, the third party would require little or no risk premium and indeed could even be willing to accept a risk discount. We therefore believe the standard should clarify that a risk adjustment should be included only to the extent that the risk is non-diversifiable. Hence, risk adjustment should not be included for risk that is diversifiable.

Non-performance risk (own credit risk)

To avoid any uncertainty as to whether the liability should be adjusted for non-performance risk, the Board should explicitly clarify the role of non-performance risk under each of the three alternatives in paragraph 36B.



Borrowing cost

Paragraph 36F states that "*changes in the carrying amount of a liability resulting from the passage of time are recognized as a borrowing cost*". Since it comes under the heading "Subsequent measurement" we assume that it refers only to measurement, and not presentation. Preferably this should be made explicit in the Basis for Conclusions.

Also, we believe the Board should include a definition of "*borrowing cost*" in appendix A, or at least include a reference to IAS 23 *Borrowing Costs*, if the term is to be understood similarly to "*borrowing costs*" as defined in IAS 23.

Question 2 – Obligations fulfilled by undertaking a service

Some obligations within the scope of IAS 37 will be fulfilled by undertaking a service at a future date. Paragraph B8 of Appendix B specifies how entities should measure the future outflows required to fulfil such obligations. It proposes that the relevant outflows are the amounts that the entity would rationally pay a contractor at the future date to undertake the service on its behalf. Paragraphs BC19–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you support the proposal in paragraph B8? If not, why not?

Under paragraph 36B, the liability should be measured at the lowest of three alternatives, with the present value of the resources required to fulfil the service obligation being the one addressed in this question. In paragraph B8 the present value measurement should be based on an observable market price or a cost plus margin estimate if no market for the service exists. As stated under question 1, we do not support at this point in time a value based approach to measuring liabilities to be fulfilled by undertaking a service. Rather, we believe an obligation to provide a good or service within the scope of IAS 37 should be measured at the expected cost of fulfilling the obligation.
However, provided that the Board decide to proceed with the current wording of B8, more guidance would be necessary on what constitutes a "*market*". As currently drafted, similar companies with different interpretation of "market", might measure similar liabilities differently unless more guidance is provided in this area.

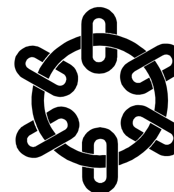
Question 3 – Exception for onerous sales and insurance contracts

Paragraph B9 of Appendix B proposes a limited exception for onerous contracts arising from transactions within the scope of IAS 18 Revenue or IFRS 4 Insurance Contracts. The relevant future outflows would be the costs the entity expects to incur to fulfil its contractual obligations, rather than the amounts the entity would pay a contractor to fulfil them on its behalf.

Paragraphs BC23–BC27 of the Basis for Conclusions explain the reason for this exception.

Do you support the exception? If not, what would you propose instead and why?

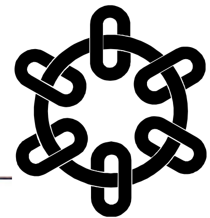
We do not object to the proposed exemption for onerous contracts arising from transactions within the scope of IAS 18 *Revenue* or IFRS 4 *Insurance Contracts*, as a temporary exemption pending completion of the separate projects on these issues. However, in BC 27 the Board argues that the exemption is provided "*to avoid imposing changes in practice now that it might or might not reverse when it issues new standards to replace IAS 18 and IFRS 4*". If this is the logic behind the



exemption, we question why exemptions are not provided for other items where ongoing projects might reverse a change in practice imposed by a revised IAS 37, such as for warranties.

Our support for the exemption should not be considered support of different accounting for similar contracts on a more general basis. We would not support conclusions in the upcoming exposure drafts on revenue and insurance contracts, which are contradictory to conclusions reached on similar contracts in this project.

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Oslo, 30 June 2010

Dear Sir/Madam

Exposure Draft Amortised Cost and Impairment

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) appreciates the opportunity to comment on the Exposure Draft on Amortised Cost and Impairment.

We believe changes in the current amortised cost model is warranted and we would offer strong support to a model which is based on an expected loss approach. However, we believe the model proposed by IASB is unnecessary complex and also that this model to some extent fail to be in line with the classification criteria for using amortised cost in IFRS 9.

IFRS 9 will contain two models for measurement of financial assets, fair value and amortised cost. The requirements for using amortised cost are a business model based on the intention to collect the contractual cash flows from instruments containing basic loan features (basic loan features as defined in IFRS 9.4.2(b)). Once an instrument with basic loan features becomes impaired we believe the intention of holding the instrument will change. As such we believe instruments which are individually impaired (in the meaning that it is more probable than not that at least some contractual cash flows will not be collected) should not be considered to be instruments which are held to collect contractual cash flows. Hence we would ask IASB to reconsider whether the amortised cost measurement category should include financial assets that have become individually impaired.

We have in appendix A to this letter inserted a more detailed description of an alternative model which in our view would be more principle based since it captures only instruments held to collect contractual cash flows, and with a different approach to recognising changes to expected cash flows.

We believe the "expected cash flows" should be assessed and estimated on a portfolio level. The reason being that the estimate at inception of each individual financial asset would be that the full contractual payments would be received over the life of the asset, otherwise it is unlikely that the financial asset has been originated within a business model that qualify for amortised cost. However, for a portfolio of assets the assessment would likely be different since it is expected, even at inception, that some of the contractual cash flows from the portfolio would not be received even though it may not be known which specific assets in the portfolio that will not perform. As such, it could be argued that it makes more sense to apply

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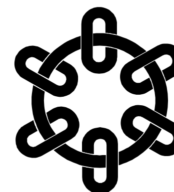


the expected loss approach on initial recognition and in subsequent measures on a portfolio level.

Our responses to the questions raised by IASB are attached in Appendix B to this letter.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

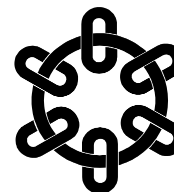
Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

Appendix A: Alternative model recommended by the Norwegian Accounting Standards Board

Appendix B: The Norwegian Accounting Standards Board's response to the questions asked in the ED

Appendix C: Excel model comparing the alternative model with the staff example of the exposed model



Appendix A

Alternative Model recommended by the Norwegian Accounting Standards Board

Background[1]
IFRS 9 contains two models for measurement of financial assets, fair value and amortised cost. Financial assets not measured at amortised cost will be measured at fair value and visa versa. In this respect it is important to develop clear and precise principles for distinguishing between these two measurement categories, hence the objective of the amortised cost model has to be assessed on this background.

What is then the "amortised cost"?

- ⇨ A method of spreading income (interest income less expected impairment) and expenses over the holding period of a financial asset or financial liability[2].

Before we elaborate further on the content of amortised cost, taking into consideration the aim of reducing complexity, the goal of internal consistency and the constraint of cost and benefits of different alternatives, we should consider:
A) When is amortised cost considered[3] more relevant than fair value?

- ⇨ When the financial instrument is held to receive contractual cash-flows over the expected term of the instrument,

and
B) When is amortised cost not to be applied?

- ⇨ When the contractual cash-flow of the financial instrument represents something else than repayment of principal and interest payment on outstanding principal.
- ⇨ When the business model relevant for the holding of the financial instrument is something else than to hold the instrument to expected contractual maturity and to receive contractual cash-flows in the period up to and including expected contractual maturity.

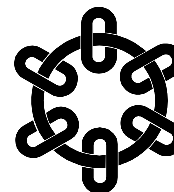
Further on the scope of amortised cost
Based on the present wording of IFRS 9 it could be questioned if the business model relevant for the holding of a financial instrument is consistent with measurement at amortised cost if for that specific financial instrument the entity is not foreseeing to receive or pay all contractual cash-flows in the period up to and including expected contractual maturity. This assessment has to be made at each reporting date.

Judgement must be applied in determining whether a financial instrument or a portfolio of financial instruments is held as part of a business model qualifying for amortised cost.

The following are indicators that a financial instrument is not held as part of a business model qualifying for amortised cost:

- ⇨ The probability of receiving or paying all contractual cash-flows of the financial instrument up to and including expected contractual maturity is less than 50 percent.

[1] In this appendix expected is defined as the probability weighed expected outcome of an uncertain future cash-flow or event.
[2] Going forward we will in this appendix focus the discussion on financial assets.
[3] In a modified IFRS 9 model as indirectly laid out in this appendix.



- ⇨ The financial instrument is held in a separate portfolio consisting of financial instruments which due to increased risk of non-performance has been separated from the portfolio in which it was previously managed to receive a special management aimed at recouping maximal possible cash-flow as opposed to all contractual cash-flows.
- ⇨ The entity is in process of renegotiating or marketing the financial instrument in a way that reflects a significant expectation of not receiving or paying all remaining contractual cash-flows on the instrument up to and including expected contractual maturity.
- ⇨ The contractual payments on the financial instrument are past-due and the entity has transferred it to a portfolio of non-performing financial instruments that are managed differently from financial instruments in which the entity foresees to receive all contractual cash-flows up to and including expected contractual maturity.

The following fact patterns are in isolation not inconsistent with a business model qualifying for amortised cost:

- ⇨ A financial instrument that is part of a portfolio of financial instruments managed together based upon the assumption that all contractual cash-flows up to and including expected contractual maturity is to be paid or received, but where at a portfolio level an expectation exists that not all contractual cash-flows up to and including expected contractual maturity is to be paid or received.
- ⇨ A downgrading of a financial instrument indicated that it is a increased risk that not all contractual cash-flows up to and including expected contractual maturity is to be paid or received, but the entity still managed the cash flows based upon an expectation that the counterpart will meet its contractual obligations.

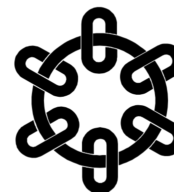
The following are indicators that a <u>portfolio of financial instruments</u> might not be held as part of a business model qualifying for amortised cost:

- ⇨ The portfolio is managed by a unit or group within the entity that focus on managing high risk loan or loans in default.
- ⇨ The portfolio is acquired at a price that indicates that significant contractual cash-flows identifiable on a single asset level are not expected to be honoured.
- ⇨ A portfolio of financial instruments is managed based on the explicit assumption that contractual cash-flows are not to be received or paid.
- ⇨ Interest rate risk management is significantly adjusted to take into consideration credit related non-performance risk.

Amortised cost model

We believe an effective interest rate model with reassessed expected losses is an appropriate model for amortised cost measurement. Some of the specifics related to this model include:

- ⇨ Impairment is only to be recognised on recognised financial assets.
- ⇨ Impairments are to be recognised using an allowance account.
- ⇨ Financial assets measured at amortised cost are to be presented at amortised cost that is net of impairments in the statement of financial position.
- ⇨ Impairment of assets continuing to be measured at amortised cost is only recognised at a portfolio level.
- ⇨ Impairment is the incurred time fraction of the net present value of contractual cash-flows not expected to be received, that is the expected losses, up to and including expected contractual maturity.



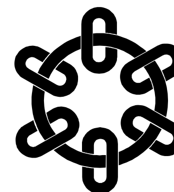
- ⇨ The standard should not regulate further technically how impairment is to be calculated.
- ⇨ The discount rate used in measuring impairment could be either the reassessed effective discount rate at the level of the individual asset or at the level of the portfolio, the contractual effective interest rates, or a risk-free interest rate.
- ⇨ The entity has to evaluate and document its assessments of how assets that are derecognised or reclassified from amortised cost to another category effect impairment of financial assets belonging to the relevant portfolio(s) that continues to be measured at amortised cost.

Issues relating to reclassification
The proposed model will require reclassification between amortised cost and an "impairment category" when a financial asset or financial liability no longer qualifies for amortised cost. This might be the situation when an entity assesses that for a specific financial asset it does no longer expect to receive all contractual cash inflows due to credit deterioration.

- ⇨ A decrease in the carrying amount resulting from a financial asset transferring from being recognised at amortised cost to being recognised as an "impaired asset" is to be presented as impairment in the statement of comprehensive income.
- ⇨ If an entity has classified a financial assets at fair value per IFRS 9.4.2(b) and now expects to receive or pay all remaining contractual cash-flows up to and including expected contractual maturity and thus is applying a business model reflecting this expectation the financial instrument is to be measured at amortised cost using fair value at that date as a deemed cost.

List of benefits
In our view the proposed model features the following important benefits:

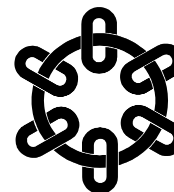
- ⇨ Most institutions manage their financial assets on the basis of open portfolios. Since our understanding is that IASB`s ECF approach requires a closed portfolio, that is a steady population of items, it is not in accordance with how most financial and non-financial institutions manage their business. In contrast our model will work well on both open and closed portfolios, and thus reflect the operations of businesses.
- ⇨ In the discussions of the Expert Advisory Panel one of the operational difficulties that have been identified with the IASB's ECF approach is that it features an integrated EIR calculation that would require integration of the data in the accounting and risk systems, data that financial institutions store under separate systems today. In our model this operational issue is not present because the calculation of the effective interest rate is decoupled from the calculation of impairment. Respondents to the IASB`s Request for information have also raised concerns about the necessary system changes and how variable rate instruments would be treated. Since our model is build on a "decoupling" approach it will be easier to apply to variable rate instruments, and will require minimal requirements for changes in existing IT systems. Because of this it could also be implemented with a short lead-time.
- ⇨ The proposed model maximises the use of data known to the reporting entity (effective interest rate based upon contractual versus expected cash flows thus also no re-estimate of estimated effective interest rates neither at instrument nor portfolio level, impairment based upon expected losses on a portfolio level versus based upon expected cash flows at instrument level). We expect that it will be easy to estimate fair value of individually impaired financial assets as the entity will already have at hand



identified expected cash flows, generally the cash flows will be of short duration or in the case of traded bonds there will be market data available.

- ⇨ In the basis for conclusions to the ED, impairment based on fair value is rejected by the IASB on the grounds that it is considered inconsistent with a cost-based approach. Under our proposed model this basis for rejection is not valid. This is because we argue that a cost-based approach in itself is not appropriate for individual identified impaired loans under the Business model approach in IFRS 9. Our proposed model therefore contributes to an internal consistent model for financial instruments both as to when amortised cost is to be applied and in the calculation of amortised cost.
- ⇨ The application guidance to the ED includes in B17 a practical expedient that is given in order to facilitate a cost-effective and simplified way of determining amortised cost. Since our model is largely consistent with that method, we believe that our proposal will reduce complexity and at the same time result in an outcome that is an appropriate approximation of the outcome that would result from applying the method in the exposure draft.

Please see the attached excel file for a further explanation of the alternative model proposed and a comparison of this model with the example provided by IASB staff of the exposed model.



Appendix B

The Norwegian Accounting Standards Board's response to the questions asked in the ED

Objective of amortised cost measurement (paragraphs 3–5)
Question 1
Is the description of the objective of amortised cost measurement in the exposure draft clear? If not, how would you describe the objective and why?

As described in the front letter and in appendix A we believe that amortised cost measurement should only be used for instruments which meet the classification criteria in IFRS 9; ie that instruments are held to collect contractual cash flows. As such we believe individually impaired loans and receivables would not meet the "held to collect contractual cash flows" test and that accounting for these instruments should not be combined with the accounting for financial instruments which are not individually impaired. For a more elaborate description of our views on this we refer to appendix A.

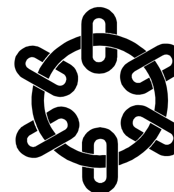
Based on this we do not agree with the description of the objective of amortised cost measurement in the exposure draft since we believe it is not fully consistent with the basic principles in IFRS 9.

Also, the objective of amortised cost measurement needs to be clear both for the amortised cost measurement of assets and the amortised cost measurement of liabilities. In the proposed wording in paragraph 3 "effective return" is used to describe this objective. This expression is not defined and although it is easy to understand "effective return" if we consider an asset we question whether this wording is suitable regarding the objective for measurement of liabilities. In our view "effective return" is not commonly used in the context of measurement of financial liabilities, hence we would request the Board to rewrite the objective to make the objective of amortised cost measurement for financial liabilities clearer.

Question 2
Do you believe that the objective of amortised cost set out in the exposure draft is appropriate for that measurement category? If not, why? What objective would you propose and why?

We believe that the methodology for the calculation of amortised cost should be made separately from the measurement of impairment charges. Therefore we believe that the last part of the sentence in paragraph 5 should be deleted: "as well as the initial estimate of expected credit losses on a financial asset". Our proposed methodology (as described in appendix A) would also align the measurement objective of amortised cost for both assets and liabilities. We are also convinced that such choice of methodology will make it easier for the users of the financial statements to predict future cash flows, thereby better fulfilling the objective described in paragraph 1 "useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of future cash flows".

In addition, the costs of implementing and applying the principles and approaches proposed in the exposure draft may be higher than the expected benefits. We are uncertain as to whether



the precision requested in the exposure draft is possible to apply in order to receive the best and most accurate estimate. We believe it is difficult (and sometimes impracticable) to assess and set a timing for probability weighted expected losses on individual loan engagements. We envisage that it would only be in rare circumstances entities would be able to have a reliable estimate on the timing of expected future losses, especially at inception of the loan engagement. In most cases we believe entities are predicting estimated losses on a portfolio level, and that the expectation is not materialized in cash flows at given times, but more as an estimate of the size of future credit losses.

However, the "concept" of a portfolio also needs to be further developed or elaborated upon in the exposure draft. In order to secure a consistent application it is important to clarify how a portfolio approach should be applied. In the model proposed in the ED the initial estimate of expected credit losses is critical since the current proposal would not allow an entity to change this estimate on subsequent measurement. All subsequent reassessments would be recognised in comprehensive income immediately. As such, it is essential that the approach on initial recognition represents the best estimate, and we believe such an estimate would more often be obtained using a portfolio approach rather than to use a "single asset" approach.

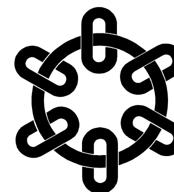
Measurement principles (paragraphs 6–10)
Question 3
Do you agree with the way that the exposure draft is drafted, which emphasises measurement principles accompanied by application guidance but which does not include implementation guidance or illustrative examples? If not, why? How would you prefer the standard to be drafted instead, and why?

In principle we believe it is important to have clear and precise measurement principles accompanied by an equally clear and precise application guidance in order to secure or facilitate a consistent approach throughout different jurisdictions and different entities applying IFRS. However we also believe it is important to include illustrative examples and implementation guidance. We acknowledge that IASB has set up an expert panel which will help out in this respect, but nevertheless we believe the application of the standard in a consistent manner is dependent upon clear guidance and good illustrative examples which consider the practical implications of applying the requirements in the exposure draft.

We would also ask the Board to consider whether paragraph 9 in the exposure draft is justified. In our view this paragraph is not necessary and could be deleted.

Question 4
(a) Do you agree with the measurement principles set out in the exposure draft? If not, which of the measurement principles do you disagree with and why?
(b) Are there any other measurement principles that should be added? If so, what are they and why should they be added?

a)
On an overall basis, we believe that the measurement principles should provide decision useful information to debt and equity investors. As such we believe that an expected loss model represents an improvement compared to current requirements in IAS 39. An incurred



loss model would always bear the risk of recognizing losses later than most users and regulatory authorities would view as optimal. An expected loss approach would in many instances have a conceptually sounder starting point than an incurred loss model.

We have stated elsewhere in this response that we believe the amortised cost model should only be applied on financial instruments which are not impaired since impaired financial instruments would not pass the "held to collect contractual cash flows" criteria. We would therefore ask IASB to reconsider the accounting for impaired instruments.

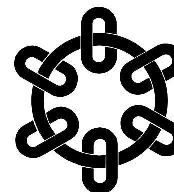
There are also several aspects of the proposed model we would urge the Board to clarify and make more explicit in order to increase a common understanding on how the proposed changes should be applied. The increased use of unobservable input combined with removing the "incurred loss trigger" would automatically increase the use of management judgements in the financial statements. As a consequence of this we would like to see more elaborated principle based guidance on the application of the proposed expected loss model. We acknowledge that it is difficult to develop requirements related to assessing forward looking information which would lead to consistent application.

In addition we believe it is important to consider whether the proposed accounting for effects of changes in estimates would represent the most decision useful information for the primary users or whether other approaches would be better. In the proposal, expected credit losses would be estimated at the inception of the asset and then at each subsequent measurement date. No gain or loss would be recognized at inception since the estimated initial expected loss would be allocated over the expected life of the asset. Gains or losses arising as a consequence of subsequent reassessment would be recognized immediately in the statement of comprehensive income. We do not agree with this approach. Estimates of future credit losses are subject to many uncertain factors which potentially could vary much from one period to the other. As expressed above (under 2) it is in our view difficult to assess and set the timing for expected losses on initial recognition. In many instances a more precise estimate is possible to make as the assets matures. We would therefore prefer a model where the initial estimate is updated at subsequent measurement dates in order to reflect the best estimate. It is clearly expressed in IAS 8.36 that a change in accounting estimate "shall be recognised prospectively by including it in profit and loss in (a) the period of the change, if the change affects that period only, or (b) the period of the change and future periods if the change affects both."

Both the initial estimate and subsequent assessment of expected credit losses would impact the effective return of the asset. As such, we would ask the Board to clarify why subsequent reassessments should be recognized immediately in the statement of comprehensive income instead of updating the initial estimate made. The latter approach would imply that the portion of "gain or loss" related to future cash flows should be amortised over the remaining life of the asset.

It follows from paragraph 7 in the exposure draft that "Amortised cost reflects at each measurement date current input regarding the cash flow estimates." This is further elaborated in Appendix B paragraph B8 of the exposure draft from which the following is excerpted;

"Historical data such as credit loss experience are adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on



which the historical data are based (...) Estimates of changes in expected cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of credit losses on the financial asset or in the group financial assets and their magnitude.)"

This should be further clarified. For example, the unemployment rate in Norway in December 2009 was 3.3 %, but expectations at that point in time were that the unemployment rate would rise to higher levels. If this rate affects impairment should then the assessment as of December be based on the current observable rate or expectations about increases in the unemployment rate in future periods (when the asset matures.)?

In order to clarify the principle underlying estimations of future cash flows we should therefore ask the Board to clarify whether;

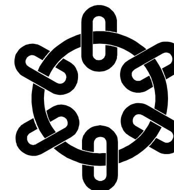
- The estimation of future cash flows should be based on conditions existing at the balance sheet date or whether (for instance observable unemployment rates, observable prices etc)
- The estimation of future cash flows should be based on expectations of future changes in conditions existing at the balance sheet date.

We acknowledge that the latter approach would increase the use of management judgements in the estimates, but at the same time we also believe that information should be included in the assessment of future credit losses.

b)
As described under a) we believe impaired financial instruments would not meet the criteria in IFRS 9 with regards to be classified in a category where amortised cost would be the measurement attribute. This is further elaborated in appendix A.

Objective of presentation and disclosure (paragraphs 11 and 12)
Question 5
(a) Is the description of the objective of presentation and disclosure in relation to financial instruments measured at amortised cost in the exposure draft clear? If not, how would you describe the objective and why?
(b) Do you believe that the objective of presentation and disclosure in relation to financial instruments measured at amortised cost set out in the exposure draft is appropriate? If not, why? What objective would you propose and why?

We believe the description of the objective and disclosure in relation to financial instruments measured at amortised cost has to be more precise and more aligned with the objective of amortised cost. In this respect we also question whether the current wording gives a precise and accurate description. The "financial effect" is in our view not a very precise description. Also, we believe "the quality of financial assets" should be further clarified.



Presentation (paragraph 13)
Question 6
Do you agree with the proposed presentation requirements? If not, why? What presentation would you prefer instead and why?

We have some comments related to the proposed presentation requirements, but in principle we broadly agree with the proposal.

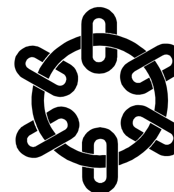
We acknowledge that practical expedients already included in the current proposal can justify a simplified approach for those entities where the effect of discounting is immaterial. Therefore we believe that it is rational to have the same presentation requirements regardless if the business model is earn interest income or if interest income is just a minor part of the income for the entity.

However, we presently fail to understand why the extra burden imposed on the calculation of the effective interest rate by introducing a requirement to calculate the effect interest rate both for contractual and expected cash flows are motivated. We therefore urge the Board to clarify why this additional burden on preparers (compared to current requirements) is necessary.

Disclosure (paragraphs 14–22)
Question 7
(a) Do you agree with the proposed disclosure requirements? If not, what disclosure requirement do you disagree with and why?
(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) and why?

a) and b)
We broadly agree with the principles underlying the proposed disclosure requirements but believe that further refinement is needed in order to make sure that the requirements meets the information requirements from primary users and stays relevant in situations of open portfolios. In particular we are concerned of the lack of information related to the segregation (if any) into portfolios. We believe it is important to understand and have transparency into which particular portfolios entities have grouped their financial instruments subject to amortised cost.

We believe that it is questionable as to whether disclosing stress testing information (paragraph 20) would give primary users decision useful information. The disclosure requirements could in some instances incentivise entities to not perform severe stress testing, but instead use internal stress testing that produces a desired outcome since the disclosure requirement is linked to internal risk management procedures. Furthermore, stress testing is normally made of an estimated future performance. There might be severe legal risks in certain jurisdictions to display such information. It is normally also part of the hearth of the business which may be damaging for the entities competitive advantage to display such information to competitors. Also, we would like the Board to clarify what would qualify as “stress testing” for the purpose of disclosure requirements.



Effective date and transition (paragraphs 23–29)
Question 8
Would a mandatory effective date of about three years after the date of issue of the IFRS allow sufficient lead-time for implementing the proposed requirements? If not, what would be an appropriate lead-time and why?

We believe a mandatory effective date of three years after the requirements are issued would allow sufficient lead-time for implementing the new requirements. We would however ask the Board to clarify whether implementation is dependent upon adopting other phases of IFRS 9.

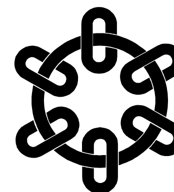
Question 9
(a) Do you agree with the proposed transition requirements? If not, why? What transition approach would you propose instead and why?
(b) Would you prefer the alternative transition approach (described above in the summary of the transition requirements)? If so, why?
(c) Do you agree that comparative information should be restated to reflect the proposed requirements? If not, what would you prefer instead and why? If you believe that the requirement to restate comparative information would affect the lead-time (see Question 8) please describe why and to what extent.

a), b) and c)
We do not agree with the proposed transition requirements since we believe retrospective application would increase the burden on preparers on initial application and could in some instances make the required lead-time to implement the proposal to short. We believe a simplified approach could be justified in order to make the implementation period as short as possible and also in order to make as many preparers as possible able to implement the new requirements earlier than they otherwise would be able to do. As such we would favour a solution where comparative information were not restated and where expected credit losses were included in the initial estimate.

As explained in our answer above we would prefer a model were the initial estimates were updated in subsequent periods. Such a model would be easier to implement.

Question 10
Do you agree with the proposed disclosure requirements in relation to transition? If not, what would you propose instead and why?

We do not agree with the proposed disclosure requirements related to transition. We believe the requirement proposed in paragraph 28 is burdensome to fulfil and we do not see that this information provides decision useful information to primary users. If IASB would like to keep paragraph 28 in the final version we would request IASB to include a description of why the benefits of such disclosures outweigh the cost of producing it.



Practical expedients (paragraphs B15–B17)
Question 11
Do you agree that the proposed guidance on practical expedients is appropriate? If not, why? What would you propose instead and why?

We support the inclusion of practical expedients in the proposal and we believe the proposed guidance on practical expedients is appropriate. However, we believe further guidance is needed. See our answer below.

Question 12
Do you believe additional guidance on practical expedients should be provided? If so, what guidance would you propose and why? How closely do you think any additional practical expedients would approximate the outcome that would result from the proposed requirements, and what is the basis for your assessment?

We believe additional guidance on practical expedients should be provided. The proposals included in the exposure draft would significantly change the current accounting for financial instruments measured using amortised cost. As such we believe the proposal would represent considerable operational challenge for many entities, hence practical expedients are necessary in order to ensure a less costly and more efficient transition to a new standard than otherwise would be the outcome. The Expert Advisory Panel would probably develop further practical guidance in this respect. We would especially welcome more guidance related to non financial institutions since we are of the opinion that many of these entities would find the new requirements burdensome and would like further guidance in relation to the application of "immaterial". This should especially be considered for disclosure requirements where the practical expedients included in the proposal provides little relief for non financial institutions.

We believe it is important to conclude and finalise the objective and measurement principles related to amortised cost before further guidance is developed.

Additional comment
We would like to bring to the attention of IASB that there is a technical incorrectness in the description in paragraph B1. Please consider the following financial instrument that for the sake of this argument is measured at amortised cost and have the following features. It is initially issued at par. It is repaid at par after 4 years. It is AAA rated. It has a predetermined annual interest rate of 3 % for the first 2 years and 4 % for the last two years. Based upon this it has an effective interest rate of 3.4829 %. The amortised cost value at end of year 1, 2 and 3 can not be reached by applying the description in paragraph B1 (nor the current description in IAS 39.9).

Appendix C: Excel model comparing the alternative model with the staff example of the exposed model

This example demonstrates the calculation mechanics of our proposed approach on fixed rate financial instruments. It is build on the IASB staff examples posted on the IASB webpage under the title *Amortised cost and impairment of financial assets.* Assumptions are adjusted to aggregate to the same assumptions that is assumed in the IASB staff example.

This example illustrates a pool of 100 loans with nominal amount of 10 000 per loan, a contractual interest rate of 10% and a maturity of 5 years.

At the end of period 2, the originally expected loss estimates are revised in order to reflect higher per annum defaults than originally expected. As a consequence, the allowance account at the end of period 2 is adjusted to reflect the revised estimates. No further adjustments are made in periods 3 to 5 as there are no further revisions of estimates, neither for individually identified impaired loans or the portfolio. The change in the allowance account is due to changes in the risk-free interest rates, the time fraction and individual loans being transferred out of measurement at amortised cost to measurement at fair value.

At the end of period 3 the bank incurs a loss of 2 000 on 10 identified loans. The expected future losses on these loans are 3 552 in period 4 and 88 746.20 in period 5. These loans are no longer managed under a business model with the intention to collect the contractual cash flows and they are therefore now measured at fair value. The rest of the expected losses, that is 2 368 in period 4 and 59 164,2 in period 5, are linked to the portfolio (not identified to specific loans).

At the end of period 4 the bank incurs a loss of 5 920, which 2 368 are related to 5 new identified loans. The expected loss in period 5 on these loans are 44 373.10. The rest of the expected loss in period 5 are linked to the portfolio and the other previously individually identified loans.

In the last period the bank incurs a loss of 147 910.40, which 14 791 are related to 2 new identified loans. The bank no longer expects losses on the loans in the portfolio.

IASB MODEL

P&L	1	2	3	4	5
Gross interest revenue	100 000	100 000	100 000	100 000	100 000
Initial expected credit losses allocated to the period	-11 603,94	-12 629,68	-19 745,00	-21 313,58	-22 674,32
Net interest revenue	88 396,06	87 370,32	80 255,00	78 686,42	77 325,68
Gains and losses resulting for changes in estimates	-	-67 863,88	-	-	-0,00
Interest expense	-	-	-	-	-
Profit before income tax	88 396,06	19 506,44	80 255,00	78 686,42	77 325,68
Balance sheet					
Loan	988 396,06	907 902,50	890 157,50	874 763,92	0
Cash	100 000,00	200 000,00	298 000,00	392 080,00	1 344 169,60
Total assets	1 088 396,06	1 107 902,50	1 188 157,50	1 266 843,92	1 344 169,60
Equity	1 088 396,06	1 107 902,50	1 188 157,50	1 266 843,92	1 344 169,60
Total equity and liabilities	1 088 396,06	1 107 902,50	1 188 157,50	1 266 843,92	1 344 169,60

Reconciliation of allowance account	1	2	3	4	5
Opening balance allowance	-	11 603,94	92 097,50	109 842,50	125 236,08
Allocation of initial expected credit losses	11 603,94	12 629,68	19 745	21 313,58	22 674,32
Increase/decrease due to changes in loss estimates	-	67 863,88	-	-	-0,00
Recorded loss/Reversals	-	-	2 000	5 920	147 910,40
Closing balance allowance	11 603,94	92 097,50	109 842,50	125 236,08	-

ALTERNATIVE MODEL

P&L	1	2	3	4	5
Interest income	100 000	100 000	100 000	90 000	85 000
Credit loss (expense)/recovery allowance	-10 842,09	-40 868,79	9 172,86	20 214,03	11 009,96
Net interest income	89 157,91	59 131,21	109 172,86	110 214,03	96 009,96
Loss/recovery due to reclassification	-	-	-68 481,59	-39 609,00	-14 443,02
Net interest income after credit loss expense	89 157,91	59 131,21	40 691,27	70 605,03	81 566,94
Fair value changes	-	-	-	1 446,94	1 570,30
Profit before income tax	89 157,91	59 131,21	40 691,27	72 051,96	83 137,25
Balance sheet					
Loans at amortised cost	989 157,91	948 289,12	865 772,44	838 642,02	-
Loans at fair value	-	-	25 207,96	30 310,34	-
Cash	100 000	200 000	298 000	392 080	1 344 169,60
Total assets	1 089 157,91	1 148 289,12	1 188 980,39	1 261 032,35	1 344 169,60
Equity	1 089 157,91	1 148 289,12	1 188 980,39	1 261 032,35	1 344 169,60
Total equity and liabilities	1 089 157,91	1 148 289,12	1 188 980,39	1 261 032,35	1 344 169,60

Reconciliation of allowance account	1	2	3	4	5
Opening balance allowance	-	10 842,09	51 710,88	34 227,56	11 357,98
Write-offs/Reversals	-	-	-8 310,46	-2 655,55	-348,02
Increase/(decrease) in credit loss allowances and provisions recognized in the income statement	10 842,09	40 868,79	-9 172,86	-20 214,03	-11 009,96
Closing balance allowance	10 842,09	51 710,88	34 227,56	11 357,98	-

10 000,00	Nominal amount of each loan
10 %	Coupon interest rate
100	# loans
1 000 000,00	Total lending volume
10 %	EIR (excluding future losses)
8,840 %	EIR (expected cash flow approach)

Initial Default Rates

Period	Contractual CF	Per annum	Cumulative	Expected CF%	Expected CF
0	-1 000 000,00				-1 000 000,00
1	100 000,00	0,00 %	0,00 %	100,00 %	100 000,00
2	100 000,00	0,00 %	0,00 %	100,00 %	100 000,00
3	100 000,00	1,00 %	1,00 %	99,00 %	99 000,00
4	100 000,00	2,00 %	2,98 %	97,02 %	97 020,00
5	1 100 000,00	3,00 %	5,89 %	94,11 %	1 035 203,40

Updated Default Rates (end of period 2)

Period	Contractual CF	Per annum	Cumulative	Expected CF%	Expected CF
3	100 000,00	2,00 %	2,00 %	98,00 %	98 000,00
4	100 000,00	4,00 %	5,92 %	94,08 %	94 080,00
5	1 100 000,00	8,00 %	13,45 %	86,55 %	952 089,60

Amortised cost, interest revenue and gain/loss from revision of estimates

Period	Opening balance	Interest revenue	Cash flows	Balance before re-estimate	Impairment loss	Closing balance
1	1 000 000,00	88 396,06	100 000,00	988 396,06	-	988 396,06
2	988 396,06	87 370,32	100 000,00	975 766,38	-67 863,88	907 902,50
3	907 902,50	80 255,00	98 000,00	890 157,50	-	890 157,50
4	890 157,50	78 686,42	94 080,00	874 763,92	-	874 763,92
5	874 763,92	77 325,68	952 089,60	-	-	-0,00

P&L	**1**	**2**	**3**	**4**	**5**
Gross interest revenue	100 000,00	100 000,00	100 000,00	100 000,00	100 000,00
Initial expected credit losses allocated to the period	(11 603,94)	(12 629,68)	(19 745,00)	(21 313,58)	(22 674,32)
Net interest revenue	88 396,06	87 370,32	80 255,00	78 686,42	77 325,68
Gains and losses resulting for changes in estimates	-	(67 863,88)	-	-	(0,00)
Interest expense	-	-			
Profit before income tax	88 396,06	19 506,44	80 255,00	78 686,42	77 325,68

Balance sheet					
Loan	988 396,06	907 902,50	890 157,50	874 763,92	0,00
Cash	100 000,00	200 000	298 000	392 080,00	1 344 169,60
Total assets	1 088 396,06	1 107 902,50	1 188 157,50	1 266 843,92	1 344 169,60
Equity	1 088 396,06	1 107 902,50	1 188 158	1 266 843,92	1 344 169,60
Total equity and liabilities	1 088 396,06	1 107 902,50	1 188 157,50	1 266 843,92	1 344 169,60

Reconciliation of allowance account	1	2	3	4	5
Opening balance allowance	-	11 603,94	92 097,50	109 842,50	125 236,08
Allocation of initial expected credit losses	11 603,94	12 629,68	19 745,00	21 313,58	22 674,32
Increase/decrease due to changes in loss estimates	-	67 863,88	-	-	-0,00
Recorded loss/Reversals	-	-	2 000,00	5 920,00	147 910,40
Closing balance allowance	11 603,94	92 097,50	109 842,50	125 236,08	-

10 000,00	Nominal amount of each loan
10 %	Coupon interest rate
100	# loans
1 000 000,00	Total lending volume
10,00 %	EIR (excluding future losses)

Spot (risk free zero-coupon) and forward rates 0	1	2	3	4	5	
Spot rates	5,00 %	5,84 %	6,16 %	6,35 %	6,49 %	
Forward rates	5,00 %	6,68 %	6,79 %	6,92 %	7,05 %	
End of period 1						
Spot rates		6,68 %	6,74 %	6,80 %	6,86 %	
Forward rates		6,68 %	6,79 %	6,92 %	7,05 %	Forward rates = Actual spot rates
End of period 2						
Spot rates			7,14 %	7,22 %	7,30 %	Change in rates
Forward rates			7,14 %	7,30 %	7,46 %	
End of period 3						
Spot rates				4,74 %	4,46 %	Change in rates
Forward rates				4,74 %	4,18 %	
End of period 4						
Spot rates					4,18 %	
Forward rates					4,18 %	Forward rates = Actual spot rates

Initial Default Rates

Period	Contractual CF	Per annum	Cumulative	Expected CF%	Expected loss portfolio
0	-1 000 000,00				
1	100 000,00	0,000 %	0,000 %	100,000 %	-
2	100 000,00	0,000 %	0,000 %	100,000 %	-
3	100 000,00	1,000 %	1,000 %	99,000 %	1 000,00
4	100 000,00	2,000 %	2,980 %	97,020 %	2 980,00
5	1 100 000,00	3,000 %	5,891 %	94,109 %	64 796,60

Updated Default Rates (end of period 2)

Period	Contractual CF	Per annum	Cumulative	Expected CF%	Expected loss portfolio
3	100 000,00	2,00 %	2,00 %	98,00 %	2 000,00
4	100 000,00	4,00 %	5,92 %	94,08 %	5 920,00
5	1 100 000,00	8,00 %	13,45 %	86,55 %	147 910,40

Overview of loss estimates

		2	3	4	5
	Individual loans identified impaired in period 2 (Actual and expected losses) - 0 loans	-	-	-	-
	Portfolio	-	2 000,00	5 920,00	147 910,40
Expectations as of end of period 2	Total	-	2 000,00	5 920,00	147 910,40
			3	4	5
	Individual loans identified impaired in period 2 (Actual and expected losses) - 0 loans		-	-	-
	Individual loans identified impaired in period 3 (Actual and expected losses) - 10 loans		2 000,00	3 552,00	88 746,24
	Portfolio		-	2 368,00	59 164,16
Expectations as of end of period 3	Total		2 000,00	5 920,00	147 910,40
				4	5
	Individual loans identified impaired in period 2 (Actual and expected losses) - 0 loans			-	-
	Individual loans identified impaired in period 3 (Actual and expected losses) - 10 loans			3 552,00	88 746,24
	Individual loans identified impaired in period 4 (Actual and expected losses) - 5 loans			2 368,00	44 373,12
	Portfolio			-	14 791,04
Expectations as of end of period 4	Total			5 920,00	147 910,40
					5
	Individual loans identified impaired in period 2 (Actual and expected losses) - 0 loans				-
	Individual loans identified impaired in period 3 (Actual and expected losses) - 10 loans				88 746,24
	Individual loans identified impaired in period 4 (Actual and expected losses) - 5 loans				44 373,12
	Individual loans identified impaired in period 5 (Actual and expected losses) - 2 loans				14 791,04
	Portfolio				-
Expectations as of end of period 5	Total				147 910,40

Initial expectations of development of allowances (at time 0)						
		1	2	3	4	5
	1					
	2	-	-			
	3	292,58	624,25	1 000,00		
	4	611,61	1 304,92	2 090,38	2 980,00	
	5	9 937,90	21 203,55	33 966,30	48 421,69	64 796,60
Allowance before write-offs/reversals		10 842,09	23 132,73	37 056,68	51 401,69	64 796,60
Updated expectations of development of allowances (at end of period 2)			2	3	4	5
	2					
	3		1 244,48	2 000,00		
	4		2 574,78	4 137,93	5 920,00	
	5		47 891,62	76 966,62	110 113,64	147 910,40
Total allowance before write-offs/reversals			51 710,88	83 104,55	116 033,64	147 910,40
Updated expectations of development of allowances (at end of period 3)				3	4	5
	3					
	4			1 695,63	2 368,00	
	5			32 531,94	45 431,93	59 164,16
Total allowance before write-offs/reversals				34 227,56	47 799,93	59 164,16
Updated expectations of development of allowances (at end of period 4)					4	5
	4					
	5				11 357,98	14 791,04
Total allowance before write-offs/reversals					11 357,98	14 791,04
Updated expectations of development of allowances (at end of period 5)					4	5
	5					-
Total allowance before write-offs/reversals						-

Cash flows			Accumulated actual and expected cash flows of loans individually identified as impaired in period 3 - 10 loans	Accumulated actual and expected cash flows of loans individually identified as impaired in period 4 - 5 loans	Accumulated actual and expected cash flows of loans individually identified as impaired in period 5 - 2 loans	Accumulated actual and expected cash flows of loans in the remaining portfolio at AC
	1	100 000,00				100 000,00
	2	100 000,00				100 000,00
	3	98 000,00	8 000,00			90 000,00
	4	94 080,00	6 448,00	2 632,00		85 000,00
	5	952 089,60	21 253,76	10 626,88	7 208,96	913 000,00

		Loans individually identified as impaired in period 3 - 10 loans	Loans individually identified as impaired in period 4 - 5 loans	Loans individually identified as impaired in period 5 - 2 loans	
	Amortized cost for individual impaired loans	101 689,54			
	Fair value of expected future cash flows	25 207,96			1,00 %
	Cash flow	8 000,00			
3	Individual impairment	-68 481,59			

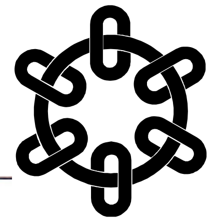
	1	2	3	4	5
Amortized cost for individual impaired loans			52 344,45		
Fair value of expected future cash flows		20 206,89	10 103,45		1,00 %
Cash flow		6 448,00	2 632,00		
Individual impairment			-39 609,00		
4 Fair value change		1 446,94			
Amortized cost for individual impaired loans				21 651,98	
Fair value of expected future cash flows		-	-	-	
Cash flow		21 253,76	10 626,88	7 208,96	
Individual impairment				-14 443,02	
5 Fair value change		1 046,87	523,43		
Notional balance	1 000 000,00	1 000 000,00	900 000,00	850 000,00	-
Loan loss account	-10 842,09	-51 710,88	-34 227,56	-11 357,98	-
Net balance loans in portfolio	989 157,91	948 289,12	865 772,44	838 642,02	-
Individual loans identified impaired	-	-	25 207,96	30 310,34	-
Total	989 157,91	948 289,12	890 980,39	868 952,35	-

P&L	**1**	**2**	**3**	**4**	**5**
Interest income	100 000,00	100 000,00	100 000,00	90 000,00	85 000,00
Credit loss (expense)/recovery allowance	-10 842,09	-40 868,79	9 172,86	20 214,03	11 009,96
Net interest income	89 157,91	59 131,21	109 172,86	110 214,03	96 009,96
Loss/recovery due to reclassification	-	-	-68 481,59	-39 609,00	-14 443,02
Net interest income after credit loss expense	89 157,91	59 131,21	40 691,27	70 605,03	81 566,94
Fair value changes	-	-	-	1 446,94	1 570,30
Profit before income tax	89 157,91	59 131,21	40 691,27	72 051,96	83 137,25

Balance sheet					
Loans at amortised cost	989 157,91	948 289,12	865 772,44	838 642,02	-
Loans at fair value	-	-	25 207,96	30 310,34	-
Cash	100 000,00	200 000,00	298 000,00	392 080,00	1 344 169,60
Total assets	1 089 157,91	1 148 289,12	1 188 980,39	1 261 032,35	1 344 169,60
Equity	1 089 157,91	1 148 289,12	1 188 980,39	1 261 032,35	1 344 169,60
Total equity and liabilities	1 089 157,91	1 148 289,12	1 188 980,39	1 261 032,35	1 344 169,60

Reconciliation of allowance account	**1**	**2**	**3**	**4**	**5**
Opening balance allowance	-	10 842,09	51 710,88	34 227,56	11 357,98
Write-offs/Reversals	-	-	-8 310,46	-2 655,55	-348,02
Increase/(decrease) in credit loss allowances and provisions recognized in the income statement	10 842,09	40 868,79	-9 172,86	-20 214,03	-11 009,96
Closing balance allowance	10 842,09	51 710,88	34 227,56	11 357,98	-

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 9 July 2010

Dear Sir/Madam

ED/2010/2: Conceptual Framework for Financial Reporting – The Reporting Entity

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the Exposure Draft on *Conceptual Framework for Financial Reporting – The Reporting Entity*.

We support the Boards' effort to develop a single set of high quality and globally accepted accounting standards through convergence. Furthermore, we believe a common conceptual framework shared by the IASB and the FASB is a viable foundation of developing a single set of high quality accounting standards. The Framework should deal with concepts and principles, while the Boards should apply these concepts and principles in the development of standards. Thus, we believe the concept statement on reporting entity should define the reporting entity, but not regulate whether for example consolidated financial statements should be prepared or not. We find that the Boards have not been quite clear on this distinction throughout the ED, as exemplified by RE8.

We agree that the control concept should be defined in the Framework, but we are not convinced that it should be given a separate definition for the purpose of identifying reporting entities. That is, the concept of control may play a role in defining assets as under the current Framework, as well as for other recognition purposes, as the case is for instance in the exposure draft on revenue recognition. We believe the Boards should address the concept of control on a general basis, before applying it in the context of reporting entities, assets, revenue recognition etc.

Our detailed comments to the questions in the order suggested by you are set out in the appendix to this letter.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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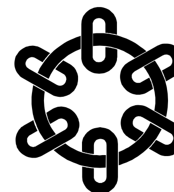


Appendix - Detailed comments on ED 2010/2

Specific questions

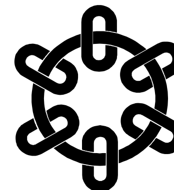
Question 1
Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4–BC7.) If not, why?

We agree that the conceptual framework should broadly describe a reporting entity. We also welcome the re-writing of the definition proposed in the discussion paper to replace the term "business activities" with "economic activities" as we find the latter term less restrictive and thereby reducing the risk of excluding the useful reporting of economic activities not qualifying as business activities. However, we are concerned that the reference to existing and potential equity investors, lenders and other creditors might unintentionally omit other existing and potential stakeholders as well as entities with no creditors and all owners represented in the governing board. Hence, we propose the following rewording of paragraph RE 2: *"…has the potential to be useful to existing and potential stakeholders who cannot directly obtain the information they need…"*.

We acknowledge the need for a boundary in order to distinguish economic activities comprised by a reporting entity from economic activities of other entities and from the economic environment in which the entity exist. In RE 3 the Boards propose the term "objectively distinguished" for determining this boundary. It is unclear to us how this term should be understood and we believe the Boards should clarify the term "objectively distinguished" within the conceptual framework.

Question 2
Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the definition of control of an entity? (See paragraphs RE7, RE8 and BC18–BC23.) If not, why?

We agree that if an entity that controls one or more entities prepares financial reports, this controlling entity should present consolidated financial statements. We also agree with the definition of control in paragraph RE 7. However, as explained in our cover letter we do not believe the Framework should address when the preparation of financial statements are required. Such a requirement should be set in a standard. Furthermore, also commented on in our cover letter, we believe the concept of control should be addressed on a more general



basis, acknowledging that the concept may play a role in for example recognition, before it is applied in the context of reporting entities.

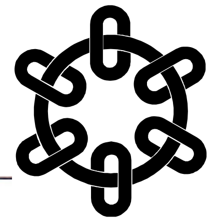
Question 3
Do you agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.) If not, why?

We agree that a portion of an entity could qualify as a reporting entity provided that the portion meets the description and features of a reporting entity as proposed in paragraphs RE 2 to RE 5.

Question 4
The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

As explained previously, we believe the Framework is a tool to be applied by the Boards in setting standards. Thus, the standards on consolidation should be developed on the basis of the Framework, including the reporting entity concept. In other words, we believe the reporting entity concept has to be completed before the standards on consolidation can be finalized.

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 16 July 2010

Dear Sir/Madam

Exposure Draft Fair Value Option for Financial Liabilities
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the Exposure Draft on Fair Value Option for Financial Liabilities. Please find our comments to the questions in the order suggested by you in the appendix to this letter.

We believe the financial crisis and the feedback from many preparers, auditors and users, who find the current requirements for reporting financial instruments under IAS 39 complex, as clearly warranting a need for change in the requirements both for financial assets and financial liabilities. Based on this we support the IASB's work, but we do not believe that the proposal in the ED achieve the ultimate objective of reduced complexity and international convergence. We are also concerned about the extended use of OCI before IASB has had a thorough and transparent discussion of the concept and principles guiding the use of OCI.

A consequence of the proposed presentation approach in the ED, which require an entity to present in OCI all changes in fair value resulting from changes in own credit risk of liabilities classified as fair value through profit or loss , is that it will increase the use of OCI. Before the IASB expands such use, we urge the Board to complete the financial statement presentation project and to articulate the purpose and underlying principles of the OCI presentation. We emphasize that this view is consistent with that of many of the respondents to the ED on classification and measurement of financial instruments and the DP on credit risk in liability measurement.

The underlying basis for IASBs project is that many preparers, auditors and users find the current requirements for reporting financial instruments under IAS 39 complex. Since the publication of the DP on reducing complexity in reporting financial instruments the IASB has had a declared objective of developing a new standard for financial reporting for financial instruments that is more principle-based and less complex than the present requirements. In the ED on financial instruments the IASB proposed an approach where financial assets and financial liabilities would have the same classification conditions and measurement attributes. Such symmetry is currently not present in IAS 39, and many of the respondents to the ED argued that such symmetry is not necessary or preferable. However, we are of a different opinion. The basis for our view is that IAS 39 to a large degree is rule-based, in contrast to the new model for financial assets in IFRS 9, which is based on a principal-based approach where one has to consider the business model of the entity and the contractual characteristics of the

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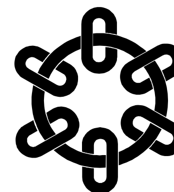


instrument. We believe that converging to such different conceptual models under the new IFRS 9 will result in a standard that is more complex than the prevailing one.

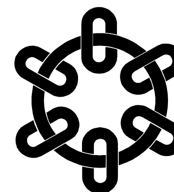
A consequence of the proposal in the ED is that changes in fair value resulting from changes in own credit risk of financial guarantee contracts and loan commitments designated at fair value to profit or loss will be presented in OCI. As the IASB has had a long-standing policy that derivatives should be measured at fair value, we believe that the standard should preclude the presentation approach for these financial instruments.

Without giving detailed comments on the Accounting Standards Update issued by the FASB in May, we would like to stress the importance that IASB and FASB adopt a common approach for reporting financial instruments with the objective of obtaining high quality, principle-based solutions.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Presenting the effects of changes in a liability's credit risk in profit or loss

Question 1
Do you agree that for all liabilities designated under the fair value option, changes in the credit risk of the liability should not affect profit or loss? If you disagree, why?

We disagree with the proposal in the ED that changes in fair value due to changes in pricing of credit risk of liabilities designated under the fair value option should be reported in other comprehensive income (OCI) and not affect profit or loss.

We do not support an extension of the use of OCI before the IASB has had an extensive discussion of what shall be the use of OCI. We do not find the proposed solution with the introduction of a new presentation method, that is, the use of OCI for financial liabilities, to be in the spirit of reducing complexity.

Question 2
Or alternatively, do you believe that changes in the credit risk of the liability should not affect profit or loss unless such treatment would create a mismatch in profit or loss (in which case, the entire fair value change would be required to be presented in profit or loss)? Why?

As stated in our answer to question 1, we are concerned about the extra complexity proposed by the Board. In case the Board wants to proceed with the special presentation rule for liabilities designated under the fair value option we do not support a further introduction of complexity by having the full fair value change of some liabilities designated under the fair value option reported in profit or loss, and a split between profit or loss and OCI for other liabilities.

Presenting the effects of changes in a liability's credit risk in other comprehensive income

Question 3
Do you agree that the portion of the fair value change that is attributable to changes in the credit risk of the liability should be presented in other comprehensive income? If not, why?

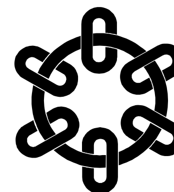
We disagree. Please see our answers to question 1 and 2 above.

Question 4
Do you agree that the two-step approach provides useful information to users of financial statements? If not, what would you propose instead and why?

We agree that the two-step approach, if seen in absolute isolation, provides useful information. However as stated in our answer to your next question, we do not agree with the two-step solution. We find that the information that is proposed to be stated on the face of the statement of comprehensive income is already presented today when taking into account the information required by IFRS 7.9.

Question 5
Do you believe that the one-step approach is preferable to the two-step approach? If so, why?

We believe that the one-step approach is preferable to the two-step approach as it is simpler and includes the same information content as the two-step approach.



Question 6
Do you believe that the effects of changes in the credit risk of the liability should be presented in equity (rather than in other comprehensive income)? If so, why?

We do not believe that the effects of changes in fair value due to changes in pricing of credit risk of liabilities designated under the fair value option should be presented in equity as holders of liabilities are currently not owners of the entity.

Reclassifying amounts to profit or loss

Question 7
Do you agree that gains or losses resulting from changes in a liability's credit risk included in other comprehensive income (or included in equity if you responded 'yes' to Question 6) should not be reclassified to profit or loss? If not, why and in what circumstances should they be reclassified?

We are concerned about the extended use of OCI, with or without recycling, before IASB has had a thorough and transparent discussion of the concept and principles guiding the use of OCI. Until such discussion has been carried out we have no feedback on the reclassification or not of any gains or losses presented in OCI.

Determining the effects of changes in a liability's credit risk

Question 8
For the purposes of the proposals in this exposure draft, do you agree that the guidance in IFRS 7 should be used for determining the amount of the change in fair value that is attributable to changes in a liability's credit risk? If not, what would you propose instead and why?

We agree that a reference to IFRS 7 provide relevant guidance.

Effective date and transition

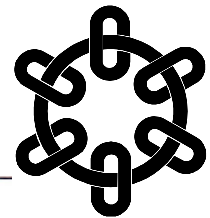
Question 9
Do you agree with the proposals related to early adoption? If not, what would you propose instead and why? How would those proposals address concerns about comparability?

We agree with the proposals related to early adoption.

Question 10
Do you agree with the proposed transition requirements? If not, what transition approach would you propose instead and why?

We disagree with the proposed transition requirements. We propose to require prospective application as of the beginning of the earliest comparative period. We do not expect the extra benefits of full retrospective application to exceed the related costs.

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 27 July 2010

Dear Sir/Madam

DP/2010/1: Extractive Activities

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the Discussion Paper on *Extractive Activities*.

We appreciate the Board's effort researching the accounting for extractive activities with the aim of potentially developing an accounting standard.

Generally we are in favour of principle based financial reporting standards and think the hurdle rate for when to potentially deviate from the framework or any IFRSs, and issue industry specific IFRSs, should be high. We are not convinced by the arguments of the project team that business activities, risks and uncertainties of extractive activities are sufficiently different from other activities to require a separate IFRS. We agree, however, that some of the specifics of extractive activities require separate disclosure guidance. We also agree with the project team that the disclosure requirements of reserves information should be unaudited information "supplementary" to or outside of the financial statements due to the significant degree of imprecision and subjective assessments required in estimating reserves.

Consistency in accounting standards world wide is an important objective, and we would suggest that the IASB work together with the FASB when potentially drafting a financial reporting standard for global industries like oil & gas and mining.

Our detailed comments to the questions in the order suggested by you are set out in the appendix to this letter.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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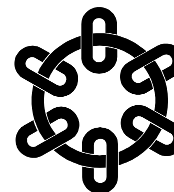


Appendix - Detailed comments on DP 2010/1

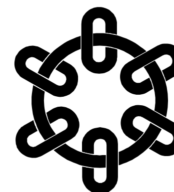
Specific questions

Question 1 – Scope of extractive activities
In Chapter 1 the project team proposes that the scope of an extractive activities IFRS should include only upstream activities for minerals, oil and natural gas.
Do you agree? Are there other similar activities that should also fall within the scope of an IFRS for extractive activities? If so, please explain what other activities should be included within its scope and why.

We are not convinced by the arguments of the project team that business activities, risks and uncertainties of extractive activities are sufficiently different from other activities to require a separate IFRS. Other activities such as pharmaceutical and software development activities share similar characteristics, risks and uncertainties. We are generally in favour of principle based financial reporting standards and think the hurdle rate for when to potentially deviate from the framework or any IFRSs, and issue industry specific IFRSs, should be high. We agree, however, that some of the specifics of extractive activities require separate disclosure guidance, which could be issued in the form of a separate disclosure IFRS. Given that a pure disclosure IFRS was to be issued, we do not think that the similarities between mining and oil & gas are so prevalent that they should be covered in the same write up sections. This is mainly due to the significant difference between the two suggested definition frameworks for estimation of reserves and resources, upon which a significant portion of the disclosures will be based.

Question 2 – Approach
Also in Chapter 1, the project team proposes that there should be a single accounting and disclosure model that applies to extractive activities in both the minerals industry and the oil and gas industry. Do you agree? If not, what requirements should be different for each industry and what is your justification for differentiating between the two industries?

As discussed under question 1 above, we are not convinced that the extractive activities are sufficiently different from other activities to require a separate accounting model, but agree that disclosure guidance is required. If the IASB decides to issue a disclosure IFRS for extractive activities, we believe the specifics of oil & gas activities are so different from the specifics of minerals activities that separate disclosure requirement sections would be required. One argument for separate disclosure requirements is that the current disclosures for the minerals versus the oil & gas activities are quite different. We believe these differences have evolved as a result of different needs of the users of the financial statements and differences in the way management looks at the business activities. Another argument for separating the requirements is the significant difference between the two suggested definition frameworks for estimation of reserves and resources, upon which a significant portion of the disclosures will have to be based. We believe the reasons set out by the project group in paragraph 2.25 for why an alignment of the CRIRSCO Template and PRMS reserve and resource classification systems and move to a common set of definitions “would be extremely difficult given the long history of each industry, wherein these terms and approaches have become embedded in practice” would also imply that different disclosure requirement descriptions are needed.



Question 3 – Definitions of minerals and oil and gas reserves and resources
In Chapter 2 the project team proposes that the mineral reserve and resource definitions established by the Committee for Mineral Reserves International Reporting Standards and the oil and gas reserve and resource definitions established by the Society of Petroleum Engineers (in conjunction with other industry bodies) should be used in an IFRS for extractive activities. Do you agree?
If not, how should minerals or oil and gas reserves and resources be defined for an IFRS?

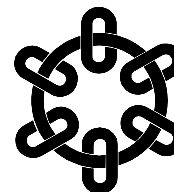
Assuming the IASB concludes that a set of definitions of reserves and resources should be included in a future IFRS for exploration activities, we think a principle based set of definitions should be developed. Existing definitions may be used for establishing the definition building blocks, but we do not believe direct references to external sources in IFRSs represent the best basis for setting definitions. An external source reference technique may be at odds with appropriate governance, and may also have a negative impact on the external sources as a result of apparent lack of independence from the IASB. Also, even though the CRIRSCO/PRMS definitions are widely accepted, there are still a significant number of countries relying on other classification systems.

When developing the set of definitions to be used, it is especially worth noting that reserves are used for different purposes in financial reporting and that users have expressed several different types of needs to be served by reserves and resources disclosures. On the one hand users need information about reserves estimates directly affecting amounts in the financial statements, such as the basis used to calculate depreciations, impairment write-downs and asset retirement obligations. On the other hand users need reserve information on a standardised basis to allow for comparability among disclosures. The latter may best be achieved by using a system and method that to a low degree factors in management's intentions and entity specific assumptions.

We believe comparability is the most important objective of reserves disclosures and that this objective is best achieved by providing disclosures of proved reserves under given (non-entity specific) assumptions for the main input factors (commodity prices).

Question 4 – Minerals or oil and gas asset recognition model—
Recognition
In Chapter 3 the project team proposes that legal rights, such as exploration rights or extraction rights, should form the basis of an asset referred to as a 'minerals or oil and gas property'. The property is recognised when the legal rights are acquired. Information obtained from subsequent exploration and evaluation activities and development works undertaken to access the minerals or oil and gas deposit would each be treated as enhancements of the legal rights.
Do you agree with this analysis for the recognition of a minerals or oil and gas property? If not, what assets should be recognised and when should they be recognised initially?

We note that the project team in paragraph 3.10 refers to the current asset recognition criteria, which includes a probability criterion, and that the project team in paragraph 3.11 anticipates that the probability criterion will be removed. Although it is stated in paragraph 3.11 that both alternative recognition criteria are analysed, we miss a thorough discussion and analysis under the current asset recognition criterion. In particular we would like to see an analysis of similarities and differences between extractive activities and activities within the scope of IAS 38. As discussed in our cover letter and under question 1 above, we are not convinced that the business activities, risks and uncertainties of extractive activities are sufficiently different from other activities, e.g. activities within the scope of IAS 38 *Intangible*



Assets, to require a separate IFRS. We believe other activities such as pharmaceutical and software development activities share similar characteristics, risks and uncertainties. In our view the research and development phases, as defined and described in IAS 38, paragraphs 54 – 59, include many of the same facets as extractive activities.

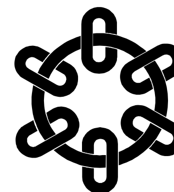
We agree with the project team's discussions and conclusions in paragraphs 3.13 – 3.16, in which it is argued that the initial costs of acquiring legal rights to explore a defined area meet the definition of an asset and is similar to IAS 38, paragraphs 25 and 26, and as such satisfy the intangible asset recognition criteria in IAS 38, paragraph 21. When it comes to enhancements of the legal rights (the "asset continuum model") discussions in paragraphs 3.18 – 3.21 (related to information) and paragraph 3.22 (related to additional rights and approvals), however, there are no references to IAS 38. As such it is unclear whether the project team has assessed similarities and differences between extractive activities and research and development activities for subsequent expenditures on information etc., which in IAS 38 is covered in the paragraphs 42 – 43. It is also unclear whether the project team has assessed potentially applying the "asset continuum" model to activities within the scope of IAS 38. We believe the separation between the research phase (expenditure recognised as an expense when it is incurred) and the development phase (recognised as assets if the entity can demonstrate that certain criteria have been fulfilled) in IAS 38 primarily has to do with the probability criterion and the thinking surrounding "contingent assets". In IAS 38 BC 18 it is stated that the recognition criterion in the *Framework* "should be considered more generally as part of a forthcoming Concepts project."

We acknowledge the fact that the asset recognition criteria are under review as part of the IASB/FASB conceptual framework project, that the revised IFRS 3 *Business Combinations* has introduced new thinking related to contingent assets and that the IASB as part of the deliberations on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, has decided to include probability assessments in the measurement of an asset or liability. However, we find it difficult to assess what implications a revised asset recognition (and measurement) model would have for extractive activities. We would suggest that the IASB assess the "asset continuum model" under a broader scope in light of the development on these other projects and particularly compare with activities within the scope of IAS 38. In particular we think it is worth noting that exploration activity generally has a success-rate significantly below 50%. I.e. the probability criterion is often not satisfied at the individual asset level.

An often used rule of thumb for oil & gas exploration drilling (assuming the activity is not very close to existing known reservoirs), for example, is a success-rate of 20%. Using the project team's suggested recognition model under this assumption (without going into the impairment criteria) and further e.g. assume an average evaluation period of 18 months, the result would be that 80% of the exploration expenditures would be recognised as expenses 18 months later than they were incurred. I.e. the majority of the projects will never be sanctioned and the related expenditures will not generate future economic benefits. We do not believe this model would give more useful information to the users than e.g. a model under which all exploration expenditures are recognised as expenses when incurred. In the latter model the income statement would reflect the level of exploration activity performed in the reporting period.

Based on the above, we cannot see that significant benefits would be achieved by introducing the suggested new model.

We believe the usefulness will be even more compromised under the suggested new impairment method which requires conclusive evidence that a project will not be developed



before a write-down of an exploration asset is made. We fear this, combined with a potentially difficult to apply unit of account model, will allow for earnings management.

We suggest that until a broader assessment of “the asset continuum model” has been performed, IFRS 6 is kept as is.

Question 5 – Minerals or oil and gas asset recognition model—unit of account selection

Chapter 3 also explains that selecting the unit of account for a minerals or oil and gas property involves identifying the geographical boundaries of the unit of account and the items that should be combined with other items and recognised as a single asset.

The project team’s view is that the geographical boundary of the unit of account would be defined initially on the basis of the exploration rights held. As exploration, evaluation and development activities take place, the unit of account would contract progressively until it becomes no greater than a single area, or group of contiguous areas, for which the legal rights are held and which is managed separately and would be expected to generate largely independent cash flows.

The project team’s view is that the components approach in IAS 16 Property, Plant and Equipment would apply to determine the items that should be accounted for as a single asset.

Do you agree with this being the basis for selecting the unit of account of a minerals or oil and gas property? If not, what should be the unit of account and why?

We are uncertain how the suggested unit of account would be applied in practice. Whatever unit of account selection is made, we think application guidance should be issued, e.g. in order for prepares to assess how to potentially allocate initial purchase prices to projects or assets that are expected to be managed and matured separately.

As discussed in relation to question 4 above, we do not think the “asset continuum model” described by the project team is appropriate for extractive activities. Potential alternative models, developed in light of the expected amendments to the Framework, and the asset recognition and measurement concepts in particular, would require this issue addressed in another frame of reference.

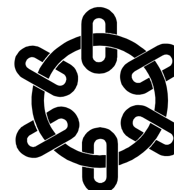
Question 6 – Minerals or oil and gas asset measurement model

Chapter 4 identifies current value (such as fair value) and historical cost as potential measurement bases for minerals and oil and gas properties.

The research found that, in general, users think that measuring these assets at either historical cost or current value would provide only limited relevant information. The project team’s view is that these assets should be measured at historical cost but that detailed disclosure about the entity’s minerals or oil and gas properties should be provided to enhance the relevance of the financial statements (see Chapters 5 and 6).

In your view, what measurement basis should be used for minerals and oil and gas properties and why? This could include measurement bases that were not considered in the discussion paper. In your response, please explain how this measurement basis would satisfy the qualitative characteristics of useful financial information.

We agree with the project team that historical cost should be used as the measurement basis for minerals or oil and gas assets. We think the historical cost measurement model provides reliable, clear and verifiable information in the financial statements.



Both fair value and current value models would to a significant degree be based on estimated and judgmental input, and the numbers would be strongly influenced by subjectivity. We are concerned that comparability across entities within the industry would suffer if fair value or current value models were chosen. The alternatives would also imply substantial effort and cost for the preparers without getting the equivalent benefit from improved quality in the reported numbers. We think the users' needs should be the main factor when determining the measurement model. As also noted by the project team it is our clear impression that current value or fair value measurement is not preferred by the users.

We note that the IASB are downgrading the importance of reliability and verifiability in financial reporting in the ongoing Framework project. In our view, however, it would be naive not to expect a significantly increased risk of earnings management if fair value measurements were introduced. Assets for which a liquid market exists would by definition have a low spread between the highest and lowest bidder, which provides a good basis for fair value measurement. For oil & gas licenses, prospects, etc., however, there are quite a few examples in which the bid of the highest bidder is more than ten times the bid of the lowest bidder.

Historical cost is broadly accepted, more objective, and requires significantly less effort. It is more understandable to users and enhances comparability. Historical cost is necessary for determining the return on capital employed. The users also get insight into the cash investment practices of the company.

If the IASB was to change the measurement model for minerals or oil and gas assets, which would include reserves and resources, inventories, intangible assets and property, plant and equipment from historical cost to a current or fair value model, we question why this should be done only for extractive activities at this stage. One would be creating a measurement inconsistency between the extractive industries and other industries, which are not subject to fair value measurement. Certain industries, as agriculture and investment property companies, are subject to a fair value measurement requirement for certain assets, but not for other assets, while historical cost generally applies to most other industries.

Question 7 – Testing exploration properties for impairment

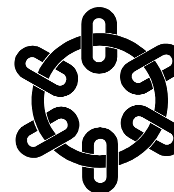
Chapter 4 also considers various alternatives for testing exploration properties for impairment. The project team's view is that exploration properties should not be tested for impairment in accordance with IAS 36 Impairment of Assets. Instead, the project team recommends that an exploration property should be written down to its recoverable amount in those cases where management has enough information to make this determination. Because this information is not likely to be available for most exploration properties while exploration and evaluation activities are continuing, the project team recommends that, for those exploration properties, management should:

(a) Write down an exploration property only when, in its judgement, there is a high likelihood that the carrying amount will not be recoverable in full; and

(b) Apply a separate set of indicators to assess whether its exploration properties can continue to be recognised as assets.

Do you agree with the project team's recommendations on impairment? If not, what type of impairment test do you think should apply to exploration properties?

We agree that under the suggested recognition model as well as under current models applied within oil & gas exploration activities, such as the successful efforts model, it is difficult to apply IAS 36 *Impairment of Assets* to extractive assets as expected cash flows are generally not prepared at this early stage. IAS 36 is not designed to properly cover assets recognised under a recognition model which sets aside the probability criterion in the



statement of financial position. Such a model would need further assessment before implemented for any activities. Without objective, clear and strict criteria for when an exploration asset should be impaired or derecognised, and when it should be carried in the statement of financial position, the task of determining in what period it is appropriate to recognise the expenditures as expenses becomes difficult and subjective. Altering the justification requirements, in a given financial reporting period, from being required to justify why some exploration expenditure is recognised as an asset to justify why it is expensed (conclusive evidence that the project is not going to be developed) would make it even more difficult for the preparers. We would also point to the fact, as noted above, that significantly less than 50% (on average maybe as low as 20%) of the exploration expenditures capitalised under the suggested model, will generate future economic benefits.

Question 8 – Disclosure objectives
In Chapter 5 the project team proposes that the disclosure objectives for extractive activities are to enable users of financial reports to evaluate:
(a) The value attributable to an entity's minerals or oil and gas properties;
(b) The contribution of those assets to current period financial performance; and
(c) The nature and extent of risks and uncertainties associated with those assets.
Do you agree with those objectives for disclosure? If not, what should be the disclosure objectives for an IFRS for extractive activities and why?

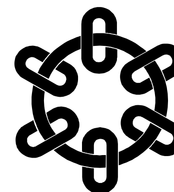
As discussed above we do not think extractive activities are sufficiently different from other activities to require a separate IFRS. We agree that the specifics of extractive activities require separate disclosure guidance and that such guidance could be issued in the form of a separate disclosure IFRS. However, we do not think the disclosure objectives for extractive activities are different from those of other activities. We believe the general basis and objectives of financial statements as set out in the Framework, in IAS 1 *Presentation of Financial Statements* and in the individual IFRSs are applicable to the activities and transactions affected by them and should be applied across all industries.

Question 9 – Types of disclosure that would meet the disclosure objectives
Also in Chapter 5, the project team proposes that the types of information that should be disclosed include:
(a) quantities of proved reserves and proved plus probable reserves, with the disclosure of reserve quantities presented separately by commodity and by material geographical areas;

We agree that disclosures of reserve quantities are important to users of financial statements and should be provided. As noted under question 3 above, we believe comparability is the most important objective of reserves disclosures and best achieved by providing proved reserves on a standardised assumptions basis.

As we see it proved plus probable reserves (2P) could be disclosed on a voluntary basis, but it is then important that the significant increase in subjectivity (e.g. related to management intentions and price assumptions) and uncertainty around reported reserves are clearly stated.

We support presenting quantities separately by commodity type. However, we do not believe that oil sands or other high cost operations should be disclosed separately. The actual sales product should be disclosed. A cost of operations separation would be arbitrary and disclosures about costs of production are part of the listing of other suggested disclosure.



We support presenting quantities by material geographical areas but are of the opinion that the level of aggregation for the reserves disclosures should be based on management's judgement.

(b) The main assumptions used in estimating reserves quantities, and a sensitivity analysis;

We fully support the rationale behind a potential requirement for a sensitivity analysis and agree that a well prepared and presented sensitivity analysis can provide relevant information. However, a sensitivity analysis is only useful when prepared to show the effect of a change in one variable. Reserves estimation requires evaluation of impact on other input factors resulting from changes in the main input factor and including static variables would distort the information in the analysis. We believe that there are too many weaknesses and too much subjectivity involved in such an analysis to make it meaningful. It would also not be possible to compare between companies. It should be noted that sensitivity analyses could be costly for the entities to develop depending on the nature of the assets and the contracts. E.g. it would normally be quite costly to run sensitivities on reserves in production sharing agreements (PSAs).

(c) A reconciliation of changes in the estimate of reserves quantities from year to year;

We support that a reconciliation of changes in the estimate of reserves quantities from year to year is disclosed at an aggregated level.

(d) A current value measurement that corresponds to reserves quantities disclosed with a reconciliation of changes in the current value measurement from year to year;

For the reasons explained above, we are not convinced that a current value measurement would provide benefits that exceed the costs of preparation.

(e) Separate identification of production revenues by commodity; and

We support that separate identification of production revenues by commodity is disclosed.

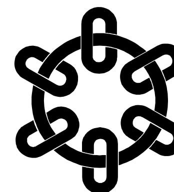
(f) Separate identification of the exploration, development and production cash flows for the current period and as a time series over a defined period (such as five years).
Would disclosure of this information be relevant and sufficient for users?

We believe separate identification of current period and time series of such *costs* are useful. However, we think providing information about these expenditures on a cost accrual basis would be more useful than on a *cash flows* basis. We think that cash flow information could be useful in relation to a current or fair value measurement basis, but for the reasons explained above, we are not convinced that a current value measurement would provide benefits that exceed the costs of preparation.

Are there any other types of information that should be disclosed? Should this information be required to be disclosed as part of a complete set of financial statements?

Question 10 – Publish What You Pay disclosure proposals

Chapter 6 discusses the disclosure proposals put forward by the Publish What You Pay coalition of non-governmental organisations. The project team's research found that the disclosure of payments made to governments provides information that would be of use to



capital providers in making their investment and lending decisions. It also found that providing information on some categories of payments to governments might be difficult (and costly) for some entities, depending on the type of payment and their internal information systems.
In your view, is a requirement to disclose, in the notes to the financial statements, the payments made by an entity to governments on a country-by-country basis justifiable on cost-benefit grounds? In your response, please identify the benefits and the costs associated with the disclosure of payments to governments on a country-by-country basis.

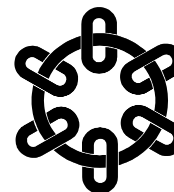
We generally support initiatives which promote greater transparency of payments to governments. We would, however, question using IFRSs as entry-points for addressing such issues. We are very concerned about potentially mixing objectives of financial statements with any other valid and commendable objectives (e.g. those of various special interest organisations). As such we seriously question the starting point for the discussion paper's considerations as to whether the suggested required disclosure information fits to the objective of general purpose financial reporting. The basis for disclosure requirements must be a risk and materiality assessment of the users' needs. This is the starting point for Chapter 5 in the discussion paper, which deals with disclosure requirements, and also the starting point for all other accounting standards. Starting the opposite way, e.g. by taking the PWYP suggested detailed disclosure information and assess whether this fits to the objectives, could lead to enormous amounts of information apparently becoming relevant. We see a risk that such an approach would make the financial statements too voluminous and not necessarily giving the most relevant information in relation to risk and materiality factors.

The discussion paper also recognises, in paragraph 5.15, that "It is not the intention of financial reporting to meet all of the information needs of users, nor would it be possible." 5.15 also refers to the IASC's Framework for the Preparation and Presentation of Financial Statements (Framework) which "acknowledges that, although financial reporting is primarily directed to meeting the needs of capital providers, it is not the only source of information that capital providers will rely on when making their investment decisions."

We believe it is important that preparers of financial statements strive to keep a reasonable balance between the extent of information given on a certain matter and the importance of it and the risks surrounding it, considering materiality of the reporting entity as a whole. We believe this is an important facet of the risk and materiality based view in the IFRSs. Disclosing detailed information about immaterial matters could mislead the users to think that other information in the financial statements is based on an unrealistically low level of granularity.

Hence, we believe that the accounting standards should not be used for this purpose. Should the IASB conclude, however, that the financial statements are the appropriate place for this type of information, the disclosure requirements would typically be set out in a general accounting standard, and not in an industry specific. The intentions and objectives of the suggested information requirements are, as we see it, valid for all industries and activities carried out, not only for extractive activities.

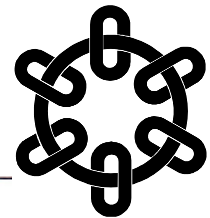
Should the IASB decide to include elements of the PWYP suggested disclosures, in any accounting standard, it is very important that the benefits of the requirements are assessed thoroughly against the costs of providing the information. The extent of such information requirements must, as for any other disclosure requirements, be based on risk and materiality assessments in relation to the reporting entity and at a reasonable level of detail and granularity. In such an assessment it is also important that the cost of internal controls and audit verifications are not underestimated. A potential disclosure requirement based on



lower materiality thresholds in this specific area would also have to include clear definitions of taxes, royalties, cost-oil, profit-oil, in-kind payments ets. The content of these terms vary greatly from country-to-country and are notoriously difficult to define in order to achieve comparability among entities etc.

We acknowledge the fact that PWYP has several commendable intentions and objectives, and we are not opposing that this type of information should be provided on a voluntary basis e.g. in some form of social responsibility reporting or similar. However, these intentions and objectives fall outside the objective of financial statements. We believe more appropriate bodies for establishing guidelines for such disclosures would be e.g. regulators or stock exchanges. IFRSs should continue to be developed on the basis of the objectives in the IASC Framework for the Preparation and Presentation of Financial Statements (Framework). We are afraid that adding objectives that are not serving financial statement purposes could undermine the credibility of financial statements among preparers and users. Also note that setting out additional requirements under the financial statement disclosure rules would imply comprehensive information system, internal control and audit verification procedures. We believe that the costs would by far outweigh the benefits.

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 6 September 2010

ED/2010/3: Defined Benefit Plans - Proposed amendments to IAS 19

IASB issued in April 2010 an exposure draft "Defined Benefit Plans. Proposed amendments to IAS 19". We appreciate the opportunity to comment on the paper. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We do support the work and the initiative of IASB in proposing these changes in IAS 19, as we see the need for amendments of the current accounting for pension benefits within the current measurement framework.

In general we agree with most of the suggested changes in IAS 19. One major comment from Norway is that we disagree with the suggested solution of calculating the net finance cost. We also believe, in general and for most plans, that the benefit obligation and plan assets should be presented gross in the statement of financial position, and likewise that there should be a gross presentation of finance cost and return on plan assets.

Please find our comments to your questions in the appendix.

Yours faithfully
Norsk RegnskapsStiftelse

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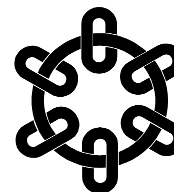


Question 1
The exposure draft proposes that entities should recognise all changes in the present value of the defined benefit obligation and in the fair value of plan assets when they occur. (Paragraphs 54, 61 and BC9–BC12) Do you agree? Why or why not?

We support the conclusions made by the Board. Entities should recognise all changes in the present value of the defined benefit obligation and the fair value of the plan assets in the period in which they occur. This is in line with the IASB Framework and with other IFRS standards such as IAS 37 and IFRS 2.

Question 2
Should entities recognise unvested past service cost when the related plan amendment occurs? (Paragraphs 54, 61 and BC13) Why or why not?

Entities should recognise all prior service cost in the same period as a plan amendment is made regardless of whether the prior service cost is vested or unvested. We believe this is in line with the IASBFramework .

Question 3
Should entities disaggregate defined benefit cost into three components: service cost, finance cost and remeasurements? (Paragraphs 119A and BC14–BC18) Why or why not?

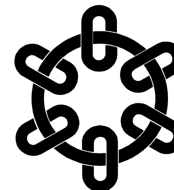
We agree that the defined benefit cost should be disaggregated, based on the nature of the items. This will give the users of the financial statements a better understanding of the nature of the items in the statement of profit or loss. As commented on in question 5 below, we believe that the finance component should be presented gross, leading to a disaggregation into four components with finance income as the last component. We believe this is in line with the new principles in the financial statement presentation project.

Question 4
Should the service cost component exclude changes in the defined benefit obligation resulting from changes in demographic assumptions? (Paragraphs 7 and BC19–BC23) Why or why not?

We agree that the service cost component should exclude changes in the defined benefit obligation resulting from changes in demographic assumptions. In our view those changes are remeasurements, and should be treated as such. (See however our comment on question 6.)

Question 5
The exposure draft proposes that the finance cost component should comprise net interest on the net defined benefit liability (asset) determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset). As a consequence, it eliminates from IAS 19 the requirement to present an expected return on plan assets in profit or loss.

Should net interest on the net defined benefit liability (asset) be determined by applying the discount rate specified in paragraph 78 to the net defined benefit liability (asset)? Why or why not? If not, how would you define the finance cost



component and why? (Paragraphs 7, 119B, 119C and BC23–BC32)

We disagree to the proposed measurement model. We believe that return on assets should be separately measured and presented as actual return on financial assets in accordance with IAS 39/IFRS 9, based on the best estimate of actual return. The return on assets will in this way be based on the composition of the pension assets in the pension plan. Accordingly we believe that return on pension assets should not be split into the two proposed components, but should in its entirety be recognised in the statement of profit or loss.

We specifically disagree with the proposal to use the prescribed interest rate on high quality corporate bonds to measure net finance cost. This proposal is intended to only reflect the time value of money. However, when using the interest rate on high quality corporate bonds, the discount rate does not only reflect the time value of money, but also a credit risk element inherent in high quality corporate bonds. We thus believe that the Board does not reach its goal of only reflecting the net effect of passage of time. The method suggested would be more understandable if the interest rate to be used for calculating the obligation was a risk-free rate only.

For entities in Norway, where we have to use government bonds (risk-free rate) as the basis for determining the discount rate, this will result in a lower value of the effect of passage of time than for entities that can determine the discount rate with reference to the market yield on high quality corporate bonds. The consequence is that the remeasurement component related to assets will be different than for entities using high corporate bonds as the basis, giving rise to additional comparability problems between entities operating in different jurisdictions.

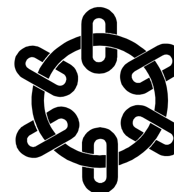
Question 6
Should entities present:
(a) service cost in profit or loss?
(b) net interest on the net defined benefit liability (asset) as part of finance costs in profit or loss?
(c) remeasurements in other comprehensive income?
(Paragraphs 119A and BC35–BC45) Why or why not?

As a practical solution on this short term improvement project, we support the suggested solution, adjusted for a split of the finance element into return on plan assets and interest on the gross defined benefit liability. However, we see the need for a more conceptual clarification of which types of remeasurements should be presented as Other Comprehensive Income and which types of remeasurements should be part of the Income Statement.

Question 7
(a) Do you agree that gains and losses on routine and non-routine settlement are actuarial gains and losses and should therefore be included in the remeasurement component? (Paragraphs 119D and BC47) Why or why not?

We agree. However, as settlement gains and losses should be included in the remeasurement component, there is a need for a clearer definition of the settlement amount related to retirement benefits. When introducing a different presentation for settlements than for other changes (plan amendments and curtailments), there is a need for a clearer definition of how to split the effect when a settlement occurs together with a curtailment.

(b) Do you agree that curtailments should be treated in the same way as plan amendments, with gains and losses presented in profit or loss?
(Paragraphs 98A, 119A(a) and BC48)



We agree. Curtailments are related to future vesting of benefits such as salary increases and hence, in a situation with a curtailment, the effect is similar to plan amendments that should be presented in the statement of profit or loss.

(c) Should entities disclose (i) a narrative description of any plan amendments, curtailments and non-routine settlements, and (ii) their effect on the statement of comprehensive income? (Paragraphs 125C(c), 125E, BC49 and BC78) Why or why not?

We agree. Plan amendments, curtailments and non-routine settlements are changes that normally do not happen regularly, but might have great impact on the accounting numbers. It is therefore important that information is given in the disclosures to describe what has happened and the impact on the financial statements. It would also be important to improve the definition of non-routine settlements in order to be able to distinguish between routine and non-routine settlements.

Question 8
The exposure draft states that the objectives of disclosing information about an entity's defined benefit plans are:
(a) to explain the characteristics of the entity's defined benefit plans;
(b) to identify and explain the amounts in the entity's financial statements arising from its defined benefit plans; and
(c) to describe how defined benefit plans affect the amount, timing and variability of the entity's future cash flows. (Paragraphs 125A and BC52–BC59)
Are these objectives appropriate? Why or why not? If not, how would you amend the objectives and why?

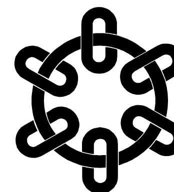
We agree with the objectives, but we would like to include in a) "to explain the risks and exposures the company is taking as part of its pension plans".

Question 9
To achieve the disclosure objectives, the exposure draft proposes new disclosure requirements, including:
(a) information about risk, including sensitivity analyses (paragraphs 125C(b), 125I, BC60(a), BC62(a) and BC63–BC66);
(b) information about the process used to determine demographic actuarial assumptions (paragraphs 125G(b) and BC60(d) and (e));
(c) the present value of the defined benefit obligation, modified to exclude the effect of projected salary growth (paragraphs 125H and BC60(f));
(d) information about asset-liability matching strategies (paragraphs 125J and BC62(b)); and
(e) information about factors that could cause contributions to differ from service cost (paragraphs 125K and BC62(c)).

Are the proposed new disclosure requirements appropriate? Why or why not? If not, what disclosures do you propose to achieve the disclosure objectives?

We agree in general with the new disclosure requirements. However, we have the following comments.

Ref b). We believe that the phrase "information about the process used to determine actuarial assumptions" is vague, and might be interpreted in different ways. We believe it would be helpful to use the same wording as is used in IAS 36.134 d) I-II.



Ref d). We would like to see in the disclosures a more general description of the investment strategies for pension assets. For many companies the fair value of the pension plan assets is among the largest items in the statement of financial position (when presented gross), and the value of the company depends on how the assets are managed and invested. We suggest the following description to be included as implementation guidance, in order to exemplify a description of the investment strategy:

1) investment strategy including assets classes etc.
2) who is investing and managing the assets (the company itself, an asset management company with a discrete mandate, an asset management company as part of regular investment funds, the life insurance company etc),
3) information regarding the regulatory framework, if any, for the management of the pension assets (e.g. any restrictions regarding type or size of assets which could be invested in),
4) information on currency risk strategies (only domestic securities, currency hedging strategies etc) and
5) any asset-liability management strategies.

Question 10
The exposure draft proposes additional disclosures about participation in multi-employer plans. Should the Board add to, amend or delete these requirements? (Paragraphs 33A and BC67–BC69) Why or why not?

We agree with the proposed additional disclosures.

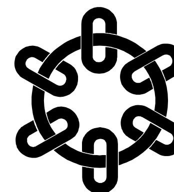
Question 11
The exposure draft updates, without further reconsideration, the disclosure requirements for entities that participate in state plans or defined benefit plans that share risks between various entities under common control to make them consistent with the disclosures in paragraphs 125A–125K. Should the Board add to, amend or delete these requirements? (Paragraphs 34B, 36, 38 and BC70) Why or why not?

We agree with the proposed additional disclosures.

Question 12
Do you have any other comments about the proposed disclosure requirements? (Paragraphs 125A–125K and BC50–BC70)

We agree in principle with the proposed additional disclosures, but we notice that the amount of disclosure requirements in IAS 19 will be enormous. There is a serious risk (as for IFRS in general), that the huge amount of detailed disclosures requirements are causing the preparers to be more focused on complying with all detailed regulations, rather than to focus on giving relevant disclosures in addition to the financial statements and to present the disclosures in a pedagogic manner in order to explain its financial results and position to the users. We believe the requirements could be more general, with examples of useful disclosures and leave it to the preparer to decide what is useful information.

Question 13
The exposure draft also proposes to amend IAS 19 as summarised below:
(a) The requirements in IFRIC 14 IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, as amended in November 2009, are



incorporated without substantive change. (Paragraphs 115A–115K and BC73)

We agree.

(b) 'Minimum funding requirement' is defined as any enforceable requirement for the entity to make contributions to fund a post-employment or other long-term defined benefit plan. (Paragraphs 7 and BC80)

We agree.

(c) Tax payable by the plan shall be included in the return on plan assets or in the measurement of the defined benefit obligation, depending on the nature of the tax. (Paragraphs 7, 73(b), BC82 and BC83)

We agree, but the requirement should also be expanded to include any tax (other than income tax) or social security tax payable by the employer in direct relation to pension plans. In many countries social security tax is payable on all or parts of the funding contributed to the plan, or on all pension payments from the plan. IAS 19 should clarify that such direct taxes should be measured as part of the defined benefit obligation (which is current practice in most countries).

(d) The return on plan assets shall be reduced by administration costs only if those costs relate to managing plan assets. (Paragraphs 7, 73(b), BC82 and BC84–BC86)

We agree.

(e) Expected future salary increases shall be considered in determining whether a benefit formula expressed in terms of current salary allocates a materially higher level of benefits in later years. (Paragraphs 71A and BC87–BC90)

We agree, and this is in accordance with current practice in Norway.

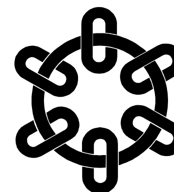
(f) The mortality assumptions used to determine the defined benefit obligation are current estimates of the expected mortality rates of plan members, both during and after employment. (Paragraphs 73(a)(i) and BC91)

We agree. But we would like IAS 19 to specify that in certain "hybrid" plans (plans with certain elements of multi-employer features, for instance the plans offered by life insurance companies in Norway and other countries), parts of the mortality and disability risk might be shared between employers. Such plans have a risk result each year related to mortality and disability. Employers with low mortality or high disability get funds transferred from the risk result. In such plans the relevant estimates are the expected mortality and disability rates of the plan members of all employers participating in the risk sharing plan within the insurance company.

(g) Risk-sharing and conditional indexation features shall be considered in determining the best estimate of the defined benefit obligation. (Paragraphs 64A, 85(c) and BC92–BC96)

We agree.

Do you agree with the proposed amendments? Why or why not? If not, what alternative(s) do you propose and why?



See above.

Question 14
IAS 19 requires entities to account for a defined benefit multi-employer plan as a defined contribution plan if it exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. In the Board's view, this would apply to many plans that meet the definition of a defined benefit multiemployer plan. (Paragraphs 32(a) and BC75(b))

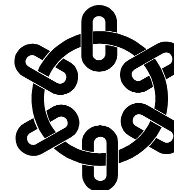
Please describe any situations in which a defined benefit multi-employer plan has a consistent and reliable basis for allocating the obligation, plan assets and cost to the individual entities participating in the plan. Should participants in such multi-employer plans apply defined benefit accounting? Why or why not?

An example of a scheme can be described as this: The scheme is financed on a pay-as-you-go basis, with a yearly calculation of funding needed. This is translated into a flat percentage of salary for each participating employee, a percentage that can vary from year to year. A possible solution is that the obligation, plan assets and cost can be allocated to each employer based on the numbers of employees and their salary level. Based on this, this plan should be accounted for as a defined benefit plan. Although some of the demographic risks in the plan are shared between the participating employers, the companies still retain the demographic and economic risk of fulfilling the pension promise for the employees taken as a whole. The risk sharing in the plan must be reflected in the measurement of the obligation, but the obligation is still a present obligation. To account for such a plan as if it was a defined contribution plan would not be in line with the general principles of IAS 19.

Question 15
Should entities apply the proposed amendments retrospectively? (Paragraphs 162 and BC97–BC101) Why or why not?

We agree that the amendments should be applied retrospectively in order to have comparable figures. However, we believe that retrospective application of sensitivity analysis will be a costly burden for the companies as they will need to rerun all actuarial calculation for prior years, and it does not give the users of the financial statements any specific useful information. Sensitivity analyses should hence be limited to prospective application only.

Question 16
In the Board's assessment:
(a) the main benefits of the proposals are:
(i) reporting changes in the carrying amount of defined benefit obligations and changes in the fair value of plan assets in a more understandable way.
(ii) eliminating some presentation options currently allowed by IAS 19, thus improving comparability.
(iii) clarifying requirements that have resulted in diverse practices.
(iv) improving information about the risks arising from an entity's involvement in defined benefit plans.
(b) the costs of the proposal should be minimal, because entities are already required to obtain much of the information required to apply the proposed amendments when they apply the existing version of IAS 19.



Do you agree with the Board's assessment? (Paragraphs BC103–BC107) Why or why not?

We agree with the Board that proposed changes in IAS 19 will cause the financial statements to be more understandable and useful. However, we believe that the increased disclosure requirements will increase the costs for the reporting entities and careful considerations should be made as to which requirements are truly necessary and not. Specifically, the actuarial calculations will for many companies be more costly due to the requirement to present sensitivity analyses.

Question 17
Do you have any other comments on the proposals?

"Hybrid plans"
As mentioned above we would like IAS 19 to specify that in certain "hybrid" plans (plans with certain elements of multi-employer features, for instance the plans life insurance companies are offering in Norway and other countries), parts of the mortality and disability risk might be shared between employers. Such plans have a risk result each year related to mortality and disability. Employers with low mortality or high disability get funds transferred from the risk result. These plans have elements of multi-employer plans, but the main features of standard single employer plan are retained. There is an employee-by-employee bookkeeping in the plans, and the premiums paid are related to each employee. The risk of turnover, salary increases and return on plan assets remain in full within each employer's plan.

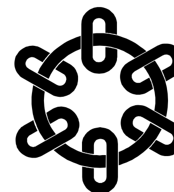
We would like IAS 19 to address such plans within the section of multi-employer plans in order to avoid any confusion of whether or not such plans shall be accounted for. In our view, such plans shall not be considered as multi-employer plans for accounting purposes.

Discount rate.
In our view, IAS 19 should only give guidelines on how to set an appropriate discount rate and what factors to include (time value of money, risks etc), but the discount rate should not be linked to a specific market rate (corporate bond market). We acknowledge that a fundamental review of the basis for the discount rate is not realistic to address in this short term improvement project, but the issue should be included in phase II of the employee benefit project.

However, we believe that it is relevant to address the consequences of the current interpretation of paragraph 78 for companies in countries that are integrated into international financial markets, but do not have developed local, domestic markets for high quality corporate bonds. These companies today have to use the government rate as the discount rate for their pension obligations.

We believe that the lack of such a bond market should not influence the present value of the pension obligation or the time value of pension assets, cfr this ED. Furthermore, the use of the government rate as the discount rate in such countriesmeans that the financial statements for companies operating in these countries are not comparable with the financial statements for similar companies operating in countries with a deep bond market.

Our view is that for pension plans in such countries one should be allowed to estimate a proper risk adjustment to the discount rate rather than being forced to use the government bond rate. Moreover, IAS 19 does not give any alternatives if the government bond market is inefficient. In many countries the market dept for government bonds may vary with the general market conditions and economic cycles.



In our opinion, countries with well developed financial markets do have access to high quality corporate bonds. The companies in such countries are able to utilize various financial strategies to accomplish the ultimate objective of obtaining high quality corporate bonds denominated in the countries' currency. We believe the utilization of such financial strategies should be consistent with the intent of paragraph 78 and we thus recommend that this issue is addressed in this short term improvement project.

Gross presentation in the statement of financial position.
Gross presentation of any item in the statement of financial position is the main rule in the framework and other standards such as IAS 8, IAS 32 etc. Indeed, under IAS 32 there are strict rules regarding when an entity is allowed to net financial instruments. We do not see that any of the conditions in IAS 32.42-50 is met for a standard pension plan, if IAS 32 were to be used analogous.

By presenting pension liability and plan assets net in the statement of financial position, the relevant risk exposure of the items in the statement of financial position, is concealed for the users of the financial statements.

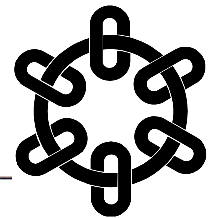
We acknowledge that this issue was briefly discussed in the introduction to the discussion paper (1.11), but we are not convinced that the conclusion was correct. Firstly, a vital issue for the users is the risk exposure, and thus not only whether or not the fund is controlled by the entity. Secondly, the assumption that the sponsor does not control the fund is weak and does certainly not apply to all pension plans/or countries. When the pension plan is organised in a separate pension fund, that fund is in many jurisdictions effectively controlled by the sponsor. When the pension plan is organised by a life insurance company, the management of the funds is outsourced to a life insurance company, which is managing the funds on the clients' behalf as any other fund administrator. If the client is not satisfied with the life insurance company, the client may move the funds to another provider.

In both these cases it is our view that the funds are controlled by the sponsor. Thus, we do believe that the funds and the pension liability should be presented gross in the statement of financial position. This will in our view give the best information to the users of the financial statements.

We acknowledge that this question can have different solutions for different pension plans. We hence ask the Board to consider a more general description of whether the obligation and plan assets should be presented net or gross, based on an assessment of facts and circumstances for each plan, by using the definitions of items in the statement of financial position given in the IASB Framework and in other IFRS standards.

The combination of post-employment benefits and other long-term benefits.
We also disagree with combining post-employment benefits and other long-term employee benefits into a single category. We do not believe that there is a substantive problem to be fixed for the current accounting treatment of other long-term employee benefits. As a result of the proposed changes, any differences between the original estimate and the actual result would be treated as an experience adjustment and recognised in other comprehensive income as opposed to the situation today where this difference is recognised in profit or loss.

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 7 September 2010

Dear Sir/Madam

ED/2010/7 Measurement Uncertainty Analysis Disclosure for Fair Value Measurement

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the Exposure Draft on Measurement Uncertainty Analysis Disclosure for Fair Value Measurement. Please find our comments to the questions in the order suggested by you in the appendix to this letter.

We express our general support for the proposed disclosure requirements on uncertainty analysis disclosures applicable to some fair value measurements categorised within level 3 of the fair value hierarchy.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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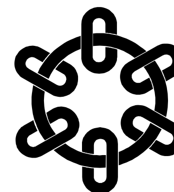


Appendix - Detailed comments on ED 2010/7

Specific questions

Correlation between unobservable inputs

Question 1
Are there circumstances in which taking into account the effect of the correlation between unobservable inputs (a) would not be operational (eg for cost-benefit reasons) or (b) would not be appropriate? If so, please describe those circumstances.

We agree with the suggestion that any correlation between unobservable inputs shall be taken into account when analysing the uncertainty of fair value measurements. We do not believe that there will be many situations where taking this into account would not be operational (for cost-benefit or other reasons) or would not be appropriate.

Question 2
If the effect of correlation between unobservable inputs were not required, would the measurement uncertainty analysis provide meaningful information? Why or why not?

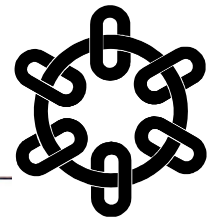
We find that, in situations where correlations between unobservable inputs are relevant in a fair value measurement, a measurement uncertainty analysis would potentially not provide meaningful information if these correlations are not taken into account.

Alternatives to measurement uncertainty analysis

Question 3
Are there alternative disclosures that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorised within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

We have no answer to this question at this time.

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 30 September 2010

Dear Sir/Madam

ED/2010/5 Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the Exposure Draft on Presentation of Items of Other Comprehensive Income (proposed amendments to IAS 1)

We express our general support for the proposed changes with exception for the issue raised in question 2; a requirement to present a single statement for profit and loss and other comprehensive income. We are of the opinion that such changes should be postponed. The option to present this as two statements should not be removed until we see the full effect of changes in other standards that will have impact on Other Comprehensive Income.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully
Norsk RegnskapsStiftelse

Erlend Kvaal
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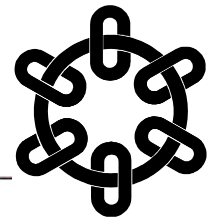

European Financial Reporting Advisory Group
commentletters@efrag.org

Oslo, 30 September 2010

Dear Sir/Madam

Consultation on Proactive Work

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) refers to your consultation paper on proactive work that has a comment deadline 30 September 2010. We are pleased to express our view on the matters taken up in this letter.

The NASB agrees with EFRAG that it is important for Europe to have a clear voice with respect to the global accounting development. In our view EFRAG by and large has succeeded in taking a leading role, especially through its thorough work with responses to IASB drafts and proposals. We are also very positive to the role that EFRAG has taken with respect to "outreach" to constituents with respect to ongoing projects in the IASB.

The NASB has some doubt about the contribution of the proactive work in this respect. Apparently an objective of the proactive work is to influence the agenda of the IASB, but it is not clear to us that this has been achieved. Our impression is also that quality of the projects has been somewhat variable.

In our view the whole idea of proactive work should be evaluated before further resources are channeled into it. For each of the projects undertaken an assessment should be made of what was achieved with the project relative to its objective.

We think that EFRAG instead of the proactive work should consider whether it could undertake projects in agreement with the IASB. Only very few national standard setters have the capacity to develop standards and drafts on behalf of the IASB. EFRAG would be able to pool resources from a number of European countries and by that making a powerful input.

It follows from the above that we have no priority proposal for the list of possible projects in your letter.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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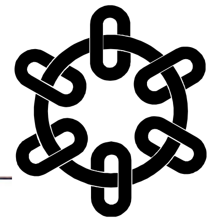

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 22 October 2010

Dear Sir/Madam

ED/2010/6 Revenue from Contracts with Customers

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the exposure draft on *Revenue from Contracts with Customers* ("the ED in the following). Please find our comments to the questions in the order suggested by you in the appendix to this letter. In addition to commenting on the questions in the ED we also comment on other issues that we believe the boards should pay particular attention to.

In summary, we support the boards' proposal to replace the existing standards dealing with revenue recognition with one based on a single revenue recognition principle. However, we are not sure whether the proposed customer contract-based revenue recognition principle meets the objective of financial reporting, namely to provide decision useful information to the primary users of the financial statements. Therefore, we do not offer full support to the proposal in the ED.

According to the ED, revenue recognition should be recognised when an entity has satisfied a performance obligation under a contract with a customer. A performance obligation is satisfied when control of the asset involved, a good or a service, is transferred to the customer. The control transfer may very well be occurring at other times than the activities producing the goods or services are being transferred. Thus, the proposed principle will not necessarily reflect the revenue generating activities. We believe that information about the revenue generating activities is decision useful. Moreover, we are not convinced that control transfer information is decision useful.

On this basis we ask the Board to reassess whether the transfer of control concept is the conceptually best concept with regards to revenue recognition in all instances. We find the reasons given by the Board in BC33 to reject an activity based model unconvincing. If a gradual fulfilment of a contract obligation is conceptually impossible for revenue recognition, the proposed standard for lease accounting seems doubtful. And the argument about possible abuses under an activity based model is hardly compatible with some other standards, such as fair value accounting for investment property and biological assets, or revaluation of fixed assets.

In our answers to your stated questions in the appendix we do not repeat our overall scepticism towards the general solution of the ED.

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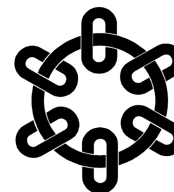
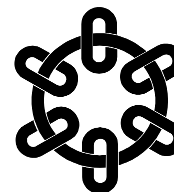


Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Appendix – NRS' responses to the questions asked in the ED

RECOGNITION OF REVENUE

Question 1

Paragraphs 12–19 propose a principle (price interdependence) to help an entity determine whether:
(a) to combine two or more contracts and account for them as a single contract;
(b) to segment a single contract and account for it as two or more contracts; and
(c) to account for a contract modification as a separate contract or as part of the original contract.

Do you agree with that principle? If not, what principle would you recommend, and why, for determining whether (a) to combine or segment contracts and (b) to account for a contract modification as a separate contract?

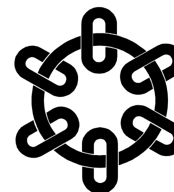
We agree with the principle of price interdependence to help the entity determine whether to combine two or more contracts and account for them as a single contract. Moreover, we agree with the logic of applying the same principle conversely to segment a single contract and account for it as two or more contracts.

Contract modifications are structured in various ways and under current requirements revenue recognition of modifications are to some extent susceptible to an entity's subjectivity. We agree that the principle of price interdependence would help to ensure similar accounting for similar rights and obligations, regardless of the form of a contract.

Question 2

The boards propose that an entity should identify the performance obligations to be accounted for separately on the basis of whether the promised good or service is distinct. Paragraph 23 proposes a principle for determining when a good or service is distinct. Do you agree with that principle? If not, what principle would you specify for identifying separate performance obligations and why?

We generally support the proposal that only a promised good or service that is distinct should be identified as a separate performance obligation. Moreover, we agree that the best evidence that a good or service is distinct is when the good or service is sold separately. However, we are concerned that the criteria set out in paragraph 23 (a) would result in segmentation of a contractual arrangement into multiple separate performance obligations, in cases where the economics of the arrangement are better reflected from an overall perspective. We do not agree that a good or service or a bundle of goods or services are distinct whenever another entity sells an identical or similar good or service separately. In many cases supply and installation are services closely related to other deliveries within a contract and should jointly be regarded as a single performance obligation, even if components of the contract could be



sold separately by another entity. Hence, we suggest that the Boards place more emphasis on an entity's own customary business practice in determining whether a good or service or bundle of goods or services are distinct.

Question 3

Do you think that the proposed guidance in paragraphs 25–30 and related application guidance is sufficient for determining when control of a promised good or service has been transferred to a customer? If not, why? What additional guidance would you propose and why?

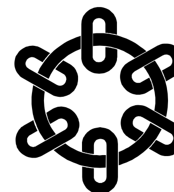
In general, we believe that the need for extensive guidance to clarify a principle is evidence for either the principle not being sufficiently robust, or the principle being poorly formulated. Hence, the need for extensive guidance to clarify the control concept is in our opinion an indication of this concept either not being sufficiently operational or not being adequately formulated for the purpose of revenue recognition in all instances.

Having said that, we believe the proposed guidance in paragraphs 25 – 30 and related application guidance provide useful guidance for determining when control of a promised good or service has been transferred to a customer in many instances. However, the proposed guidance may not be sufficient for determining when control has been transferred to a customer for all contract arrangements. In particular, we believe it is often difficult to determine when control has been transferred to a customer for services.

According to paragraph 26 of the ED control of a good or service is obtained when the customer has the ability to direct the use of, and receive the benefit from the good or service. Paragraph 30 presents four indicators as guidance for determining if the customer has obtained control of a good or service. Moreover, paragraph 31 explains that two of the indicators presented in paragraph 30 (physical possession and legal title) would not be relevant to services.

We would like to illustrate the difficulty of determining transfer of control for services by giving an example from the shipping industry. In so-called voyage charters, the performance obligation is a promise to deliver goods at a specific site. As an example of a voyage charter a customer orders shipment of goods from Port A to Port B within 60 days. Based on the guidance in ED it is unclear whether control of the service has been transferred to the customer in this shipping example. During the voyage the customer may have no control over how the service is performed, and may not receive any benefit from the good being transported. Under current industry practice, revenue is recognised on a discharge-to-discharge basis. That is, revenue is recognised during the voyage. It is not clear to us whether revenue recognition during the voyage would apply also under the proposed requirements in the ED.

We propose that paragraph 31 is added to the end of paragraph 30 to make it clearer that 31 do only reflect back to that paragraph.



MEASUREMENT OF REVENUE

Question 4

The boards propose that if the amount of consideration is variable, an entity should recognise revenue from satisfying a performance obligation only if the transaction price can be reasonable estimated. Paragraph 38 proposes criteria that an entity should meet to be able to reasonably estimate the transaction price.

Do you agree that an entity should recognise revenue on the basis of an estimated transaction price? If so, do you agree with the criteria in paragraph 38? If not, what approach do you suggest for recognising revenue when the transaction price is variable and why?

We agree that revenue from satisfying a performance obligation should be recognised only if the transaction price can be reasonable estimated. We would however like the Board to clarify in which circumstances using "a best estimate" approach would not give a conceptually sound solution. We would also like the Board to clarify whether an expected value approach or a probability weighted approach should be used or whether both these methods are acceptable.

Question 5

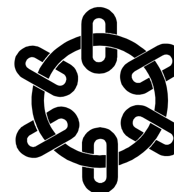
Paragraph 43 proposes that the transaction price should reflect the customer's credit risk if its effects on the transaction price can be reasonably estimated. Do you agree that the customer's credit risk should affect how much revenue an entity recognises when it satisfies a performance obligation rather than whether the entity recognises revenue? If not, why?

We agree that the customer's credit risk should be included in the determination of the transaction price and that this should affect the amount of revenue that is recognised when a performance obligation is satisfied. We believe that the last sentence relates to a financial instrument and should not be covered in this standard.

Question 6

Paragraphs 44 and 45 propose that an entity should adjust the amount of promised consideration to reflect the time value of money if the contract includes a material financing component (whether explicit or implicit). Do you agree? If not, why?

We agree that the amount of promised consideration should be adjusted to reflect the time value of money, and that such an adjustment is only warranted when the financing component is distinct. We recommend not including the word material in the wording of paragraph 44 as including material is some paragraphs might create confusion as to the application of materiality to other paragraphs. We believe that the last sentence relates to the presentation of revenue from a financial instrument and should be covered in IFRS 9 or a standard on presentation of financial statements.



Question 7

Paragraph 50 proposes that an entity should allocate the transaction price to all separate performance obligations in a contract in proportion to the stand-alone selling price (estimated if necessary) of the good or service underlying each of those performance obligations. Do you agree? If not, when and why would that approach not be appropriate and how should the transaction price be allocated in such cases?

We have some doubts regarding paragraph 50. This would in some instances give rise to onerous performance obligations although the contract which the performance obligation is related to is profitable. We question whether such an approach would result in decision useful information for the primary users of the financial statements. We would therefore ask the Board to reassess whether onerous performance obligations should give rise to day 1 losses in situations where the entity is making profit on the contract to which the performance obligation belongs.

CONTRACT COSTS

Question 8

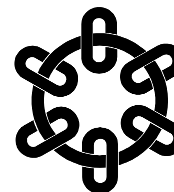
Paragraph 57 proposes that if costs incurred in fulfilling a contract do not give rise to an asset eligible for recognition in accordance with other standards (for example IAS 2 or ASC Topic 330; IAS 16 or ASC Topic 360; and IAS 38 Intangible Assets or ASC Topic 985 on software), an entity should recognise an asset only if those costs meet specified criteria.
Do you think that the proposed requirements on accounting for the costs of fulfilling a contract are operational and sufficient? If not, why?

We agree with the proposed requirements in paragraph 57 and we believe that those requirements are operational and sufficient. We believe the Board should not develop a more detailed guidance with respect to which costs that should be capitalised since this in our view creates more questions than answers.

Question 9

Paragraph 58 proposes the costs that relate directly to a contract for the purpose of (a) recognising an asset for resources that the entity would use to satisfy performance obligations in a contract and (b) any additional liability recognised for an onerous performance obligation.
Do you agree with the costs specified? If not, what costs would you include and why?

We agree with the costs specified.



DISCLOSURES

Question 10

The objective of the boards' proposed disclosure requirements is to help users of financial statements understand the amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Do you think the proposed disclosure requirements will meet that objective? If not, why?

We agree that the proposed disclosure requirements will help users of financial statements understand the amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. However, we are concerned that entities that have entered into numerous contracts with different characteristics will be required to disclose an extensive amount of information.

Paragraph 70 proposes that an entity shall consider the level of detail necessary to satisfy the disclosure requirements and how much emphasis to place on each of the various requirements. Basically we agree with this proposal but we are concerned that the level of judgement latitude will reduce comparability of information in disclosures within certain industries such as the construction industry.

Question 11

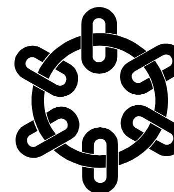
The Boards propose that an entity should disclose the amount of its remaining performance obligations and the expected timing of their satisfaction for contracts with an original duration expected to exceed one year.
Do you agree with that proposed disclosure requirement? If not, what, if any, information do you think an entity should disclose about its remaining performance obligations?

We agree with the proposed disclosure requirement as we believe information of remaining performance obligations will be useful for users of financial statements in order to understand how long term contracts will affect future financial reporting.

Question 12

Do you agree that an entity should disaggregate revenue into the categories that best depict how the amount, timing, and uncertainty of revenue and cash flows are affected by economic factors? If not, why?

We agree with the proposal.



EFFECTIVE DATE AND TRANSITION

Question 13

Do you agree that an entity should apply the proposed requirements retrospectively (that is, as if the entity applied the proposed requirements to all contracts in existence at the effective date and in the comparative period)? If not, why?
Is there an alternative transition method that would preserve trend information about revenue but at a lower cost to preparers? If so, please explain the alternative and why you think it is better.

In principle we agree with the proposal to apply the requirements retrospectively. However we believe this should be assessed on a cost/benefit basis. For many entities it could be burdensome to apply the requirements retrospectively, especially in circumstances where they have to present two years of comparative figures. Based on this we would like the Board to only require retrospective application for one year of comparative figures.

APPLICATION GUIDANCE

Question 14

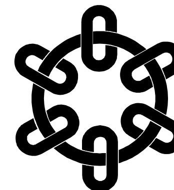
The proposed application guidance is intended to assist an entity in applying the principles in the proposed requirements. Do you think that the application guidance is sufficient to make the proposal operational? If not, what additional guidance do you suggest?

We believe it is difficult to evaluate whether the application guidance is sufficient to make the proposal operational. However, we refer to our answer in question 3.

Question 15

The Boards propose that an entity should distinguish between the following types of product warranties:
(a) a warranty that provides a customer with coverage for latent defects in the product. This does not give rise to a performance obligation, but requires an evaluation of whether the entity has satisfied its performance obligation to transfer the product specified in the contract.
(b) a warranty that provides a customer with coverage for faults that arise after the product is transferred to the customer. This gives rise to a performance obligation in addition to the performance obligation to transfer the product specified in the contract.

Do you agree with the proposed distinction between the types of product warranties? Do you agree with the proposed accounting for each type of product warranty? If not, how do you think an entity should account for product warranties and why?



We agree with the proposal to distinguish between product warranties with coverage for latent defects in the product and product warranties with coverage for faults that arise after the product is transferred to the customer.

Question 16

The boards propose the following if a licence is not considered to be a sale of intellectual property:
(a) if an entity grants a customer an exclusive licence to use its intellectual property, it has a performance obligation to permit the use of its intellectual property and it satisfies that obligation over the term of the licence; and
(b) if an entity grants a customer a non-exclusive licence to use its intellectual property, it has a performance obligation to transfer the licence and satisfies that obligation when the customer is able to use and benefit from the licence.

Do you agree that the pattern of revenue recognition should depend on whether the licence is exclusive? Do you agree with the patterns of revenue recognition proposed by the boards? Why or why not?

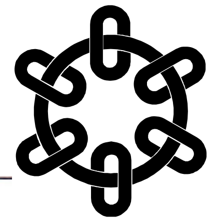
We agree with the proposal. However, we encourage the boards to align the requirements for revenue recognition of exclusive licences with the requirements of a lessor in the proposed leases standard.

CONSEQUENTIAL AMENDMENTS

Question 17

The boards propose that in accounting for the gain or loss on the sale of some non-financial assets (for example, intangible assets and property, plant and equipment), an entity should apply the recognition and measurement principles of the proposed revenue model. Do you agree? If not, why?

We agree that the requirements for recognition and measurement of gains and losses on the sale of some non-financial assets should be consistent with the requirements of the revenue recognition standard.



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 27 October 2010

Dear Sir/Madam

ED/2010/10 Removal of Fixed Dates for First-time Adopters - Proposed amendments to IFRS 1

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the Exposure Draft on Removal of Fixed Dates for First-time Adopters - Proposed amendments to IFRS 1.

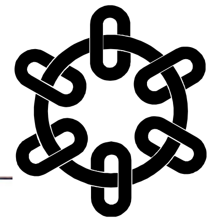
We support the proposed changes to IFRS 1 First-time Adoption of International Financial Reporting Standards.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, 30 November 2010

Dear Sir/Madam

Draft IFRIC Interpretation, DI/2010/1 Stripping costs in the Production Phase of a Surface Mine

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit comments on the Draft IFRIC Interpretation Stripping costs in the Production Phase of a Surface Mine. Please find enclosed the remarks to the Draft Interpretation on accounting for Stripping Costs.

We appreciate the work of the IFRS Interpretations Committee. We disagree, however, that an interpretation for such a narrow scope as stripping costs in the production phase of a surface mine should be issued. IFRSs are generally principle based and the accounting treatment for similar issues normally does not differ between various phases in a project's life cycle. Hence, we believe that if stripping costs qualify as assets in one phase (e.g. the development phase), they should qualify as assets in all phases. We also think that if the IFRS Interpretations Committee should take on a project on stripping costs, similar costs incurred in other industries should also be within the scope of the interpretation.

We think the value of such narrow scope interpretations to financial statement constituents would be very limited as they could not be directly applied to other related accounting matters. We also think there is a significant risk that accounting guidance under IFRS over time could become fragmented and inconsistent.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

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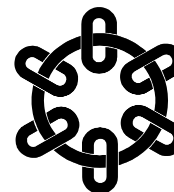


Question 1 – Definition of a stripping campaign

The proposed Interpretation defines a stripping campaign as a systematic process undertaken to gain access to a specific section of the ore body, which is a more aggressive process than routine waste clearing activities. The stripping campaign is planned in advance and forms part of the mine plan. It will have a defined start date and it will end when the entity has completed the waste removal activity necessary to access the ore to which the campaign is associated.

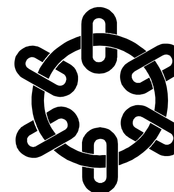
Do you agree that the proposed definition satisfactorily distinguishes between a stripping campaign and routine waste clearing activities? If not, why?

No, we do not agree that the definition satisfactorily distinguishes between a stripping campaign and routine waste clearing activities. However, we do not think it is necessary to make such a distinction as we believe the nature of the expenses should decide the accounting treatment, not whether the expenses are incurred in the pursuit of the original mine plan or a systematic process planned well in advance. Furthermore we do not think it is necessary to distinguish between stripping costs incurred in the different phases (development phase and production phase). This is also consistent with the view expressed by the project team in the Extractive Activities DP that the accounting treatment should not be dependent on phases. We agree with the view expressed in BC 19 that expenses incurred in order to bringing an asset to its “intended use”, qualify for capitalisation. Hence, we believe costs incurred to clear an area and get access to the minerals should be capitalised regardless of whether production has started for parts of the mine, as obviously production has not started in the area to which the stripping costs relate. If an interpretation on this topic at all needs to be issued, we believe for this reason that the scope should be expanded and not only relate to the Production Phase.

We also think the scope of the DI should be expanded further to other assets and encourage the IFRIC to assess on a broader basis how far IAS 16 paragraph 20 could be applied by analogy. One example could then be to look at cases in which the main asset is leased – could the costs incurred by the lessee to get the leased asset “to its intended use” be capitalised, and if so, should it be recognised as a separate asset (tangible or intangible), part of the leased asset, prepayment or other? As part of the scope extension the term “Stripping Costs” should, as we see it, also be expanded to cover any waste removal or activities necessary to obtain access to the mine or parts of it.

Question 2 – Allocation to the specific section of the ore body

The proposed Interpretation specifies that the accumulated costs recognised as a stripping campaign component shall be depreciated or amortised in a rational and systematic manner, over the specific section of the ore body that becomes directly accessible as a result of the stripping campaign. The units of production method is applied unless another method is more appropriate.



(a) Do you agree with the proposal to require the stripping campaign component to be depreciated or amortised over the specific section of the ore body that becomes accessible as a result of the stripping campaign?
If not, why?

Yes, we agree that the capitalised stripping costs component should be depreciated or amortised over the specific section of the ore body.

(b) Do you agree with the proposal to require the units of production method for depreciation or amortisation unless another method is more appropriate? If not, why not?

Yes, we agree.

Question 3 – Disclosures

The proposed Interpretation will require the stripping campaign component to be accounted for as an addition to, or an enhancement of, an existing asset.
The stripping campaign component will therefore be required to comply with the disclosure requirements of that existing asset.
Is the requirement to provide disclosures required for the existing asset sufficient? If not, why not, and what additional specific disclosures do you propose and why?

Yes, we believe the requirement is sufficient.

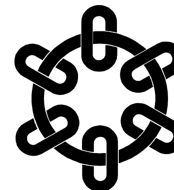
Question 4 – Transition

Entities would be required to apply the proposed Interpretation to production stripping costs incurred on or after the beginning of the earliest comparative period.

(a) Do you agree that this requirement is appropriate? If not, what do you propose and why?

We have no comments.

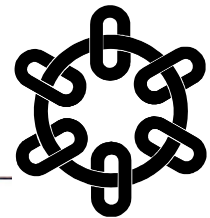
The proposed Interpretation requires any existing stripping campaign component to be recognised in profit or loss, unless the component can be directly associated with an identifiable section of the ore body. The proposed Interpretation also requires any stripping cost liability balances to be recognised in profit or loss on transition.



(b) Do you agree with the proposed treatment of existing stripping cost balances? If not, what do you propose and why?

We have no comments.

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Oslo, November 30th, 2010

Dear Sir/Madam

ED/2010/8: Insurance Contracts

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to comment on the Exposure Draft on *Insurance Contracts*.

We support the Board's effort to develop an IFRS for the accounting for insurance contracts and that the Board as a first step considers the issuers accounting for insurance contracts together with the accounting for reinsurance contracts.

While we agree with a large number of the proposals in the exposure draft and the ambition to finalise the proposed standard within the indicated time frame, we would like to bring to the attention of the Board our different point of views relating to inclusion of credit risk in the discount rate, measurement of risk margin, the descriptive use of predefined models for measurement of risk margin, the wording related to measurement of residual margin, the proposed interest calculation on the residual margin, the relationship between incremental acquisition cost and acquisition cost, the prescriptive use of a simplification method for some short duration contracts, the application of insurance accounting to non-insurance discretionary participation contracts and the treatment of financial guarantee contracts.

We would also like to bring to the attention of the Board our concerns related to the proposed transition requirements that will practically eliminate all future gains from current contracts, the definition of discretionary participation features, the definition of an insurance contract, the clarity of the scope exclusion for some fixed-fee service contracts, the criteria used for when unbundling is required, the arguments used for the treatment of treasury shares related to unit link contracts and the use of defined terms throughout the standard.

We stress the importance of giving entities sufficient time for implementing the standard after it has been issued.

Further explanations to our point of views and concerns to the proposals of the Board are laid out in our detailed comments to the questions in the order suggested by you in the appendix to this letter.

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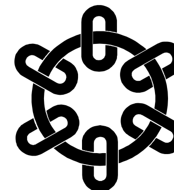
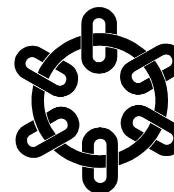


Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Appendix - Detailed comments on ED 2010/8

Specific questions

Question 1 – Relevant information for users (paragraphs BC 13 – BC 50)
Do you think that the proposed measurement model will produce relevant information that will help users of an insurer's financial statements to make economic decisions? Why or why not? If not, what changes do you recommend and why?

We believe the proposed measurement model will represent a significant improvement compared to current regulation. A measurement model which is based on fulfilment cash flows and a building block approach, while introducing more estimates, would improve the decision usefulness in accounting for insurance contracts.

Question 2 - Fulfilment cash flows (paragraphs 17(a), 22–25, B37–B66 and BC51)

(a) Do you agree that the measurement of an insurance contract should include the expected present value of the future cash outflows less future cash inflows that will arise as the insurer fulfils the insurance contract? Why or why not? If not, what do you recommend and why?

(b) Is the draft application guidance in Appendix B on estimates of future cash flows at the right level of detail? Do you have any comments on the guidance?

(a)
We believe a measurement approach for insurance liabilities that is based on the expected present value of future cash outflows less future cash inflows (fulfilment cash flows) would provide important information to users and to a great extent portray the way many insurance companies manage and measure their insurance contracts. However, we are somewhat uncertain as to whether this business model concept would be the best approach in all circumstances. It is conceivable that some entities could enter into significant trading with insurance contracts, and we would therefore like the Board to clarify whether the fulfilment cash flow model also in such circumstances is the most appropriate to apply.

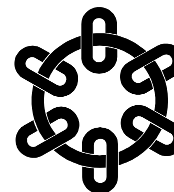
(b)
We believe the draft application guidance on estimates of future cash flows in appendix B is at the right level of detail.

Question 3 – Discount rate (paragraphs 30–34 and BC88–BC104)

(a) Do you agree that the discount rate used by the insurer for non-participating contracts should reflect the characteristics of the insurance contract liability and not those of the assets backing that liability? Why or why not?

(b) Do you agree with the proposal to consider the effect of liquidity, and with the guidance on liquidity (see paragraphs 30(a), 31 and 34)? Why or why not?

(c) Some have expressed concerns that the proposed discount rate may misrepresent the economic substance of some long-duration insurance contracts. Are those concerns valid? Why or why not?



If they are valid, what approach do you suggest and why? For example, should the Board reconsider its conclusion that the present value of the fulfilment cash flows should not reflect the risk of non-performance by the insurer?

(a)
We believe it is important that the discount rate used by the insurer reflects the factors that have influenced the cash-flows of the insurance contract. Hence we would like the Board to make it more explicit that the discount rate should reflect the characteristics of the liability. The cash-flows of the contract are the cash-flows of expected insurance payments and expected premium payments. We are of the opinion that the discount rate should reflect the credit, liquidity and other characteristics of these cash flows. Since the credit, liquidity and other characteristics of the cash-inflows and cash-outflows differs there should be independent discount curve used for the discounting of the two cash-flows. The discount rate should reflect the characteristic of any assets backing the insurance liability only to the extent that it is reflected in the characteristics of the insurance contract liability.

(b)
We agree that the effect of liquidity influence the cash-flows of the insurance contract and thus should be included in the calculation of the discount rate used to discount insurance payments (cash-outflows). However, we are not sure whether this should be explicitly stated in the standard. We believe the standard should have a more overriding paragraph stating that the discount rate should reflect the characteristics of the liability. We also encourage the IASB to extend the guidance on liquidity.

(c)
We disagree with the conclusion in the exposure draft that the present value of the fulfilment cash-flow (insurance payments) should not reflect the risk of non-performance by the insurer. The risk of non-performance is influencing the cash-flows of the insurance contract and ignoring non-performance risk would thus lead to incomparability of financial figures between insurers of different credit standing. We cannot see the proposed logic of including liquidity while at the same time excluding non-performance risk. Both risks influence the cash-flow of the insurance contract and both risks should be included in discount rates used to discount insurance payments.

Question 4 - Risk adjustment versus composite margin (paragraphs BC105–BC115)

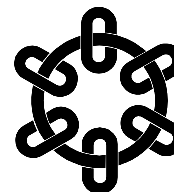
Do you support using a risk adjustment and a residual margin (as the IASB proposes), or do you prefer a single composite margin (as the FASB favours)? Please explain the reason(s) for your view.

We support the more explicit IASB approach compared to the composite margin approach favoured by the FASB. An explicit recognition and measurement of the distinct elements of an insurer's liability provides useful insight into the insurer's view of the uncertainty related to the estimation of future cash flows arising from the insurance contracts.

Question 5 – Risk adjustment (paragraphs 35-37, B67-B103 and BC105–BC123)

(a) Do you agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected? Why or why not? If not, what alternatives do you suggest and why?

(b) Paragraph B73 limits the choice of techniques for estimating risk adjustments to the confidence level, conditional tail expectation (CTE) and cost of capital techniques. Do you agree that these three techniques should be allowed, and no others? Why or why not? If not, what do you suggest and why?



(c) Do you agree that if either the CTE or the cost of capital method is used, the insurer should disclose the confidence level to which the risk adjustment corresponds (see paragraph 90(b)(i))? Why or why not?

(d) Do you agree that an insurer should measure the risk adjustment at a portfolio level of aggregation (ie a group of contracts that are subject to similar risks and managed together as a pool)? Why or why not? If not, what alternative do you recommend and why?

(e) Is the application guidance in Appendix B on risk adjustments at the right level of detail? Do you have any comments on the guidance?

(a)
We agree that the risk adjustment should depict the maximum amount the insurer would rationally pay to be relieved of the risk that the ultimate fulfilment cash flows exceed those expected.

(b)
We disagree. It is our opinion that a principle based standard should state the objective and not limit the practical solution to three arbitrary selected alternatives. Hence we would like the Board to clarify which factors to include in estimating risk adjustments rather than specifying techniques to apply.

(c)
We believe the disclosures should rather be focused on choice of model, assumptions used and input parameters. There is a risk that some entities would choose model based on the requirement of disclosing confidence level information, hence we would ask the Board to reconsider this.

(d)
We disagree. The risk adjustment should be at the level of aggregation actually used when pricing the insurance contract.

(e)
We believe the application guidance is at the right level of detail.

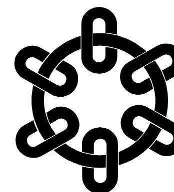
Question 6 - Residual/composite margin (paragraphs 17(b), 19–21, 50–53 and BC124–BC133)
(a) Do you agree that an insurer should not recognise any gain at initial recognition of an insurance contract (such a gain arises when the expected present value of the future cash outflows plus the risk adjustment is less than the expected present value of the future cash inflows)? Why or why not?

(b) Do you agree that the residual margin should not be less than zero, so that a loss at initial recognition of an insurance contract would be recognised immediately in profit or loss (such a loss arises when the expected present value of the future cash outflows plus the risk adjustment is more than the expected present value of future cash inflows)? Why or why not?

(c) Do you agree that an insurer should estimate the residual or composite margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period? Why or why not? If not, what do you recommend and why?

(d) Do you agree with the proposed method(s) of releasing the residual margin? Why or why not? If not, what do you suggest and why (see paragraphs 50 and BC125–BC129)?

(e) Do you agree with the proposed method(s) of releasing the composite margin, if the Board were to adopt the approach that includes such a margin (see the Appendix to the Basis for Conclusions)? Why or why not?



(f) Do you agree that interest should be accreted on the residual margin (see paragraphs 51 and BC131–BC133)? Why or why not? Would you reach the same conclusion for the composite margin? Why or why not?

(a)
We agree that an insurer should not recognise any gain at initial recognition of an insurance contract. We are currently not able to see how an insurance entity should be able to isolate and document a pure day 1 profit. Any margin representing or including a compensation for future services or the exposure to future risk does not represent a pure day 1 profit and should not be recognised as a day 1 profit.

(b)
We agree that the composite margin/residual margin should not be less than zero. It is not appropriate to defer losses on loss-making contracts.

(c)
We strongly disagree that the standard is to include a description stating that the insurer shall estimate the residual or composite margin at a level that aggregates insurance contracts into a portfolio of insurance contracts and, within a portfolio, by similar date of inception of the contract and by similar coverage period. As a concept the residual margin is a contract by contract calculated residual. How the entity is to calculate this residual is a practical issue that we believe is not to be prescribed by the standard.

(d)
We agree that the residual margin should be recognised over the coverage period in a systematic manner, although we believe this should be a rebuttable presumption. This rebuttable presumption could be overcome in rare circumstances if there would be any other method that would better reflect the exposure from providing insurance.

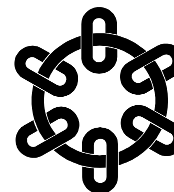
(e)
We support that the composite margin should be released over the entire claim handling period.

(f)
We do not agree that interest should be accreted on the residual margin. The residual is just a calculated residual. It is most adequately described as a day 1 gain not recognised due to lack of observable market data. It is not a liability. To incur interest charges on a non-existent liability to be able to increase future revenues is contrary to how day 1 gains is treated in accounting for financial instruments and is not a well funded accounting principle.

For much of the same reasons we would reach the same conclusion for the composite margin.

Question 7 - Acquisition costs (paragraphs 24, 39 and BC135–BC140)
(a) Do you agree that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contract as contract cash outflows and that all other acquisition costs should be recognised as expenses when incurred? Why or why not? If not, what do you recommend and why?

We believe that incremental acquisition costs for contracts issued should be included in the initial measurement of the insurance contract. We would however ask the Board to consider whether this paragraph should be amended to include all directly attributable costs.



Question 8 - Premium allocation approach
(a) Should the Board (i) require, (ii) permit but not require, or (iii) not introduce a modified measurement approach for the pre-claims liabilities of some short-duration insurance contracts? Why or why not?

(b) Do you agree with the proposed criteria for requiring that approach and with how to apply that approach? Why or why not? If not, what do you suggest and why?

(a)
We believe it is important to develop principles, and methods used when applying those principles, which give rise to decision useful information for primary users of the financial statements. One of the main elements in this respect is consistent application both within the financial statements and also between entities. In order to achieve this we struggle to see how applying different approaches both within a group and between entities would increase comparability and give rise to consistent application. We therefore ask the Board to reconsider whether it is beneficial to actually develop a standard which, by allowing for two different recognition and measurement methods, could reduce comparability and consistency.

We believe one of the most crucial hurdles to pass for every new standard is whether the right level of practical ability has been reached. As such we believe other proxy models could be developed which to a greater extent would accomplish the objective of comparability and consistency.

(b)
See our answer under (a). If the Board decides to keep this approach we believe that the Board should reconsider the proposed presentation in order to try to align it as much as possible with the presentation format for the main approach.

Question 9 – Contract boundary principle
Do you agree with the proposed boundary principle and do you think insurers would be able to apply it consistently in practice? Why or why not? If not, what would you recommend and why?

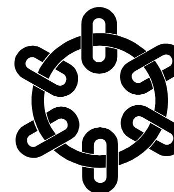
We agree with the proposed boundary principle and we think that insurers will be able to apply it consistently in practice. This is because the defined boundary principle follows the contract period, which have been agreed by both the insurer and the policyholder.

Question 10 – Participating features
(a) Do you agree that the measurement of insurance contracts should include participating benefits on an expected present value basis? Why or why not? If not, what do you recommend and why?

(b) Should financial instruments with discretionary participation features be within the scope of the IFRS on insurance contracts, or within the scope of the IASB's financial instruments standards? Why?

(c) Do you agree with the proposed definition of a discretionary participation feature, including the proposed new condition that the investment contracts must participate with insurance contracts in the same pool of assets, company, fund or other entity? Why or why not? If not, what do you recommend and why?

(d) Paragraphs 64 and 65 modify some measurement proposals to make them suitable for financial instruments with discretionary participation features. Do you agree with those modifications? Why or why not? If not, what would you propose and why? Are any other modifications needed for these contracts?



(a)
We believe elements which are integral to the insurance contract should be included in the measurement of insurance contracts.

(b)
We believe financial instruments with discretionary participation features should only be within the scope of the insurance standard if they fulfil the definition of insurance contracts.

(c)
As we do not support defining financial instruments that do not include significant insurance risk as being insurance contracts, we do not see a need to define discretionary participation features.

If a discretionary participation feature is to be defined, the definition should be amended so that a pure financial risk does not constitute a discretionary participation feature. We see the reference in (c) (ii) and (iii) of the definition of discretionary participation feature to be references to potential financial risks.

(d)
We do not have objections to the proposed modifications, but believe it is possible to reduce the number of paragraphs in the standard. This can be done by including paragraph 65 in 50 (can be done by adding a new point (c)) and paragraph 64 into paragraph 27.

Question 11 – Definition and scope
(a) Do you agree with the definition of an insurance contract and related guidance, including the two changes summarised in paragraph BC191? If not, why not?

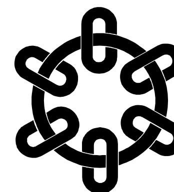
(b) Do you agree with the scope exclusions in paragraph 4? Why or why not? If not, what do you propose and why?

(c) Do you agree that the contracts currently defined in IFRSs as financial guarantee contracts should be brought within the scope of the IFRS on insurance contracts? Why or why not?

(a)
We have some concerns with regards to the definition of an insurance contract. We acknowledge that the proposal include a definition of an insurance contract which is consistent with the current definition of an insurance contract in IFRS 4, however, we believe the wording "adversely affects the policyholder" in certain circumstances could give rise to different accounting treatment of similar contracts. We would therefore ask the Board to consider whether this would constitute a problem and whether it is possible to amend the definition in order to avoid this.

We also believe the wording in B28 should be amended. The word "non-derivative" in the last sentence of this paragraph does not seem to have any content, in other words we believe it could be deleted without altering the meaning of the sentence. Also with regards to B28, we do not believe the mere fact that contracts are entered into simultaneously should define them as single contracts since they actually could be interdependent. The principle is whether they are interdependent or not, and not whether they are entered into at the same time.

(b)
We basically agree with the scope exclusions in paragraph 4, but we have some concerns with fixed fee contracts as described in paragraph 4(e). We are uncertain as to whether this could give rise to different accounting treatment for similar contracts, hence we would like the Board to consider whether this scope exemption is justified.



(c)
We support the proposal to eliminate the accounting option for financial guarantee contracts as either being insurance contracts or financial instruments. However we are of the opinion that it will be a more consistent accounting solution to consider credit to be a financial variable, thus all credit risk to be financial risk. We believe this will have both conceptual and practical merit as most non-insurance entities will be more comfortable with finding the accounting solution for all credit risk in IFRS 7 and IFRS 9 instead of applying IFRS 4, IFRS 7 and IFRS 9 as they might apply to different variants of credit risk.

Question 12 – Unbundling
Do you think it is appropriate to unbundle some components of an insurance contract? Do you agree with the proposed criteria for when this is required? Why or why not? If not, what alternative do you recommend and why?

We believe separating components of a contract that are insurance contracts from components of a contract that are not insurance contracts give rise to increased decision useful information in the financial statements of insurance and non-insurance entities. We are however not convinced that the Board has found the best and most appropriate criteria for when this separation or unbundling is required. The basis for unbundling should be that similar contracts are accounted for in the same manner, ie it should not be possible to "engineer" contracts in such a manner that a desired accounting effect could be achieved. In this respect we believe it would be advantageous to use the same approach as in exposure draft ED/2010/6 Revenue from Contracts with Customers with regards to identifying separate performance obligations.

Question 13 – Presentation
(a) Will the proposed summarised margin presentation be useful to users of financial statements? Why or why not? If not, what would you recommend and why?

(b) Do agree that an insurer should present all income and expense arising from insurance contracts in profit or loss? Why or why not? If not, what do you recommend and why?

(a)
We believe the proposed summarised margin presentation would be useful to users of financial statements.

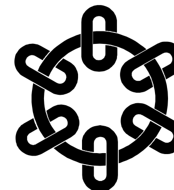
(b)
We believe all income and expenses from insurance contracts should be recognised in profit and loss.

Question 14 – Disclosures
(a) Do you agree with the proposed disclosure principle? Why or why not? If not, what would you recommend, and why?

(b) Do you think the proposed disclosure requirements will meet the proposed objective? Why or why not?

(c) Are there any disclosures that have not been proposed that would be useful (or some proposed that are not)? If so, please describe those disclosures and explain why they would or would not be useful.

(a)
We agree with the proposed disclosure objective to provide information that enables users to understand the amount, timing and uncertainty of future cash flows arising from insurance contracts.



(b)
We broadly agree with the proposed disclosure requirements, however, as commented in our answer to question 5 c) we have some concerns with regards to paragraph 90(b)(i).

(c)
We are not aware of any additional disclosures that would be useful.

Question 15 – Unit-linked contracts
Do you agree with the proposals on unit-linked contracts? Why or why not? If not what do you recommend and why?

We agree with the proposed approach for separate presentation of unit linked contracts to the extent that assets supporting such contracts are not to be derecognised by the entity. However we would like the Board to fully explain the rationale for presenting treasury shares as asset of the entity and recognising in profit or loss the insurers interest in the those treasury shares.

Question 16 – Reinsurance
(a) Do you support an expected loss model for reinsurance assets? Why or why not? If not, what do you recommend and why?

(b) Do you have any other comments on the reinsurance proposals?

(a)
We support an expected loss model for reinsurance assets since this is consistent with ED/2009/12 Financial instruments: Amortised cost and Impairment.

(b)
We do not have any other comments on the reinsurance proposals.

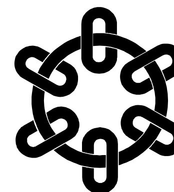
Question 17 – Transition and effective date
(a) Do you agree with the proposed transition requirements? Why or why not? If not, what would you recommend and why?

(b) If the Board were to adopt the composite margin approach favoured by the FASB, would you agree with the FASB's tentative decision on transition (see the appendix to the Basis for Conclusions)?

(c) Is it necessary for the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9? Why or why not?

(d) Please provide an estimate of how long insurers would require to adopt the proposed requirements.

(a)
We have some concerns regarding the transitional requirements since it would practically eliminate all future gains from current contracts. We question whether such an approach would represent decision useful information for users of the financial statements of insurance entities. We would therefore ask the Board to reconsider this approach and as a minimum allow retrospective application for those entities that would like to adopt such an approach.



(b)
Given that the Board were to adopt the composite margin approach we would not have any objections to FASB's tentative decision on transition.

(c)
We prefer the effective date of the IFRS on insurance contracts to be aligned with that of IFRS 9. However, we believe it is important to not delay the implementation of IFRS 9 longer than necessary. We do not support a solution which would result in an effective date of IFRS 9 being postponed more than 18 months due to the IFRS on insurance contracts.

We also do not support a solution where entities are allowed to re-designate assets at the time of implementation of the new insurance standard.

(d)
We believe that insurance entities would need approximately three years to prepare for implementation of the proposed IFRS for insurance contracts.

Question 18 – Other comments
Do you have any other comments on the proposals in the exposure draft?

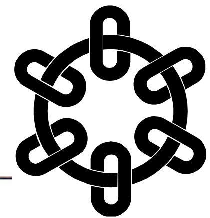
We recommend that the Board have another look at whether they have found the right level of defined terms, the right use of appendix A versus the body of the standard to define terms and the consistent use of terms. An example might be the term "Claims handling period" defined in Appendix A and only used in IN13. Another example is the definition of pre-claims liability with different definitions in paragraph 56 and in Appendix A. We also recommend the Board to consider the definition and use of incremental acquisition cost versus acquisition cost.

We believe that the Board should develop a need for guidance on what represents a modification of an existing insurance contract as opposed to a cancellation of a contract and initial recognition of a new contract.

Question 19 – Benefits and costs
Do you agree with the Board's assessment of the benefits and costs of the proposed accounting for insurance contracts? Why or why not? If feasible, please estimate the benefits and costs associated with the proposals.

We believe a change in the current IFRS regulation with regards to accounting for insurance contracts is warranted due to the wide diversity in practice (as a consequence of IFRS 4 allowing entities to continue to use pre-existing accounting policies for their insurance contracts). Hence we offer strong support to a more comprehensive standard which would lead to more consistent accounting for insurance contracts. As such we agree with the Boards assessment of the benefits and costs of the proposed accounting for insurance contracts.

Norsk RegnskapsStiftelse



IFRS Foundation
30 Cannon Street
London EC4M 6XH
UK

Oslo, 10 December 2010

Dear Sir/Madam

The Annual Improvements Process: Proposals to amend the Due Process Handbook for the IASB — Criteria for Annual Improvements to IFRSs

Norsk RegnskapsStiftelse appreciates the efforts that the IFRS Foundation Trustees have already made to improve the due process of the IASB, and we welcome the current initiative to formalise the criteria for Annual Improvements. In general, we support the Trustees proposals.

In the past we have questioned some of the issues included in the Annual Improvements project. Some of the issues we believe were too significant to be dealt with via the Annual Improvements project, other issues we believe were not urgent or significant enough to qualify for changes to IFRS through the Annual Improvements project.

We comment below on some of the detail of the proposals for setting the criteria for Annual Improvements.

Introducing new principles or changes in principles

We support the objectives set for Annual Improvements in paragraph 65A. However, we are concerned with the last sentence of paragraph 65A (a) (ii), which indicates that Annual Improvement amendments "...may create an exemption from an existing principle." We accept that this might be necessary, but only in very rare cases. As Annual Improvements are meant to address narrow issues in response to identified practical difficulties, there is a high risk that setting exceptions from existing principles will generate rules, which in turn will eventually lead to IFRS becoming less principles-based standards.

We would like to emphasise the importance of carrying out a thorough due process for all projects before implementation, to reduce the need for post-implementation changes, exceptions and additional guidance. Comparability over time and between entities is best achieved by fixing shortcoming before implementation instead of after. We welcome IASB's increased focus on due process, including carrying out field testing, effect studies and outreach activities and increasing transparency through publishing staff drafts.

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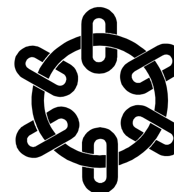


Annual improvements vs. interpretations

The criteria proposed do not provide guidance on the distinction between an Annual Improvement amendment and an interpretation. Although this issue relates primarily to the criteria to issue an interpretation, we think clarification in the IASB Due Process Handbook could be helpful to avoid misconception of the clarification characteristic mentioned in paragraph 65A.

Non-urgent but necessary

The criterion mentioned in the introduction of the consultation document “amendment is considered non-urgent but necessary” does in our view not distinguish sufficiently the nature of amendment acceptable in an Annual Improvement project. We think the criteria in the proposed paragraph 65A better describes when an issue qualify for inclusion in Annual Improvements.

Pressing need to make the amendment sooner than a current or planed IASB project

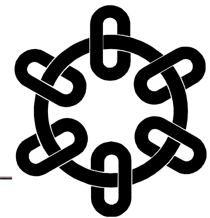
We appreciate the inclusion of criterion (d), such that the amendment can only be included in the Annual Improvements if there is a pressing need to make an amendment sooner than the current or planned IASB project on the standard. Implementing changes separately from the current or planned project has the risk of needing further amendments to the same issue later. Such sequential changes could reduce comparability, thereby reduced quality of financial reporting. The threshold for including such amendments in the Annual Improvements should be high, which we believe is also the intention with the proposed wording.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully
Norsk RegnskapsStiftelse

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

Norsk RegnskapsStiftelse



International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, December 15th, 2010

Dear Sir/Madam

Exposure Draft, ED/2010/9 Leases

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit comments on the exposure draft Leases. While our detailed comments and basis for our conclusions are set out in the appendix to this letter, we would especially like to bring the following point of view to the attention of the IASB.

General remarks to the proposed model

We support the IASBs effort to develop a single approach to be applied to all leases, and believe that comparability (and hence usefulness) of financial statements will be enhanced if different treatments of operating leases and finance leases are replaced by an approach that applies the same principles to all leases. While we support the general concept of providing for the recognition in lessees statement of financial position of assets and liabilities arising from all lease contracts, we would strongly prefer a single approach to lessor accounting, and that the partial derecognition is applied to all leases.

Definition of a lease

We are not convinced that a sufficiently robust distinction has been drawn between leases and firmly committed executory contracts. Furthermore, we are very concerned that the current wording will result in similar contracts being accounted for differently, with structuring opportunities and reduced comparability as a result. Take for example two entities who need the same volume of a given service or product, entity A decides to contract for 50% output capacity in a large asset/plant (off-balance sheet) and entity B decides to contract for 100% output capacity of an asset/plant half the size (on-balance sheet). Furthermore, Entity B might have a choice of contracting the whole volume from one asset/plant or to spread the volume on more assets/plants. Whether entity B chooses to contract from one or more assets/plants, might be decisive for whether entity B will have to recognise the asset/plant on or off balance according to the current wording in paragraph B4(c).

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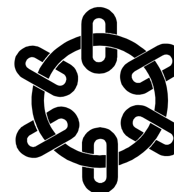


We acknowledge that this is not a new issue and that the wording in paragraph B4 is mainly in line with IFRIC 4. However, clear, robust and carefully considered guidance on the distinction between off balance sheet executory contracts and lease contracts, becomes dramatically more important as the pressure on accounting guidance shift from the distinction between operating and finance leases to the distinction between leases and non-lease service contracts, and as the importance of this distinction moves from a disclosure issue to an off-balance versus on-balance issue.

Hence, we urge the Boards to perform a complete review and carefully elaborate on the fundamental distinction between leases and off balance sheet firmly committed executory contracts. As the main criticism to the existing IAS 17 has been related to off-balance sheet financing and the potential for structuring, the IASB should strive to achieve a conceptually sound and robust definition of what constitutes a lease before the new model is finalised.

Scope and exemptions

We agree with the scope exclusions and simplifications with the following qualifications:

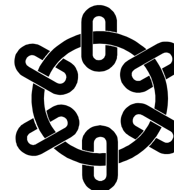
- We see no conceptual basis for excluding leases of intangible assets from the scope of the proposed standard.
- No general exemptions should be provided for short term leases. Rather than making exemptions and explicit rules, the proposed model should apply where assessed as material, utilising the existing guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- Both lessee and lessor should separately account for all service components, even when the service components are not distinct.

<u>Application to complex leases</u>

By the term complex lease we mean a lease contract that includes additional elements, such as options to extend or terminate the contract, options to purchase, residual guarantees, related service elements, etc.

We consider that the proposed model is well suited to account for complex leases, with the following qualifications:

- **Lease term**: We favour a component approach rather than the proposed “single asset” / “single liability” principle. Hence, we disagree with the proposed accounting for options to extend and terminate the lease. If the IASB decide to proceed with the single asset and single liability approach, the conceptual foundation behind this principle should be elaborated, especially with regards to how recognising an obligation under a renewal option, which otherwise would not meet the definition of an obligation under the framework, can be justified.



- **Purchase options**: We see no conceptual reason to treat options to purchase and options to extend or terminate a lease differently.

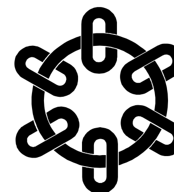
- **Contingent rentals that vary upon usage**: We disagree that contingent rentals that vary upon usage of the asset should be included when measuring the lessee liability or lessor receivable.

- **Contingent rentals that are contingent upon an index or rate**: Rentals that are contingent upon an index or rate should be recognised in profit or loss and not as an adjustment to the right-of-use asset / performance obligation.

Further explanations to our points of views and concerns to the exposure draft are laid out in our detailed comments to the questions in the order suggested by you in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



The accounting model

The exposure draft proposes a new accounting model for leases in which:

a) *a lessee would recognise an asset (the right-of-use asset) representing its right to use an underlying asset during the lease term, and a liability to make lease payments (paragraphs 10 and BC5–BC12). The lessee would amortise the right-of-use asset over the expected lease term or the useful life of the underlying asset if shorter. The lessee would incur interest expense on the liability to make lease payments.*

b) *a lessor would apply either a performance obligation approach or a derecognition approach to account for the assets and liabilities arising from a lease depending on whether the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected term of the lease (paragraphs 28, 29 and BC23–BC27).*

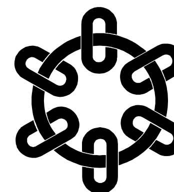
Question 1: Lessees

a) *Do you agree that a lessee should recognise a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?*

   This question is answered under the presumption of a simple lease without contingent rentals, options to purchase the leased item or options to extend or terminate the lease. Our comments to complex leases follow in our answers to subsequent questions.

   We support the efforts to replace the model in IAS 17 with a model that better addresses the major concerns with this model that have been raised over the years. We think the suggested model of recognising a right-of-use asset and a liability to make lease payments could increase comparability for financial statement users and reduce structuring opportunities currently resulting in unrecognised financing. Furthermore, we believe the right of use asset would reflect the risks the lessee has undertaken and the obligations that the lessee has incurred.

   However, we believe the suggested model needs to be developed further in order to provide a sufficiently sound principle based accounting for leases that could provide users with better information. The fundamental criterion behind the suggested model is the disaggregation of an asset into a number of rights and that the transfer of a few of these rights, namely the rights specifically related to the use of the asset for a certain period of time, completes the (lessor's) performance obligation at the time the asset is transferred from the lessor to the lessee. Although we do not disagree with this criterion, we believe this way of looking at a transfer of only the right of use of an asset for a period of time, but not other risks and rewards related to the asset, is a fundamental change to the interpretation of the existing asset and liability definitions and the framework. A conceptually sound principle-based way of



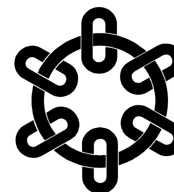
looking at lease assets and liabilities would most likely have an impact on other assets and liabilities that could potentially be treated in a similar way. Hence, we recommend that before a new interpretation of the asset recognition model is introduced in the standard for lease accounting, a broader assessment of the consequences should be performed, in particular with regards to the potential for antithetic views or interpretations by analogy to issues outside the intended scope of the standard.

We note that less complexity has been an objective for developing a new leasing standard, but we are not convinced that the suggested model is less complex than the existing IAS 17. We are also concerned that the problems with the existing standards are not sufficiently addressed. One of the main criticisms of the existing model is that operating leases and finance leases are treated differently. We appreciate that this bright line assessment will be taken out. However, we are very concerned that some service contracts that involve the use of an asset will be subject to a different accounting treatment than other almost identical service contracts. Furthermore, we are not convinced by the arguments in the ED that the potential for structuring will be reduced if the suggestions are implemented. Hence, we suggest that more work to assess consequences of the proposed standard is performed. We particularly think it is important that a thorough evaluation of the users' assessment of the suggested changes is performed before a final standard is issued. Mainly to avoid the risk of preparers incurring significant implementation costs on a standard that might only marginally improve the information to users'. As a follow up to these assessments, we urge the Boards to perform a complete review and carefully elaborate on the fundamental distinction between leases and off balance sheet firmly committed executory contracts. As the main criticism to the existing IAS 17 has been related to off-balance sheet financing and the potential for structuring, the IASB should strive to achieve a conceptually sound and robust definition of what constitutes a lease before the new model is finalised.

b) *Do you agree that a lessee should recognise amortisation of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?*

Given the current distinction between tangible and intangible assets, we are of the opinion that the right-of-use assets are intangible in nature and should be measured consistently with the guidance in *IAS 38 Intangible Assets.*

We agree that interest should be recognised for liabilities measured at their present values. We believe that the Boards should aim to account for financial liabilities as consistently as possible across different standards. This would also contribute to the objective of reducing complexities in accounting for financial instruments, and to reduce the incentives for structuring contracts in or out of scope (ref. paragraph 8) of the proposed standard.



Question 2: Lessors

Do you agree that a lessor should apply (i) the performance obligation approach if the lessor retains exposure to significant risks or benefits associated with the underlying asset during or after the expected lease term, and (ii) the derecognition approach otherwise? Why or why not? If not, what alternative approach would you propose and why?

Do you agree with the boards' proposals for the recognition of assets, liabilities, income and expenses for the performance obligation and derecognition approaches to lessor accounting? Why or why not? If not, what alternative model would you propose and why?

This question is answered under the presumption of a simple lease without contingent rentals, options to purchase the leased item or options to extend or terminate the lease. Our comments to complex leases follow in our answers to subsequent questions.

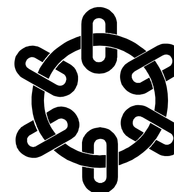
We do not support a hybrid approach, and would strongly prefer one single approach to lessor accounting.

We acknowledge that both the performance obligation and the derecognition approach has its distinct advantages and disadvantages. Our concern with the derecognition approach primarily relates to the pattern of revenue recognition subsequent to initial recognition, caused by the residual asset being measured at cost:

a) We share the concerns expressed by Stephen Cooper in AV 11, pointing out that unless interest is accreted on the residual asset (time value of money), the profitability of the lessor is underestimated (back loaded) during the period of the lease, with a catch-up arising when the asset is sold or used in a subsequent period. This is a consequence of historic cost measurement that we find challenging to justify, especially for leases with residual value guarantee from third parties (residual value guarantee from unrelated third parties are not regarded as lease payments according to paragraph 35(b)), where the lessor in substance is left only with credit risk.

   Hence, provided that the IASB decides to proceed with the partial de-recognition approach, either as part of the hybrid approach or applied to all leases, we encourage the IASB to take a fresh look at the accounting for the residual asset, as measuring the residual asset at cost will systematically result in back loading of revenue. We question whether this pattern of revenue recognition will provide a true and fair view of the economic substance of the transaction, and hence provide financial statements that are relevant to the decision-making needs of users.

   Also note that we regard the residual value guarantee to be a separate distinct asset. Thus, the residual value guarantee should be accounted for separately from the lessor receivable.

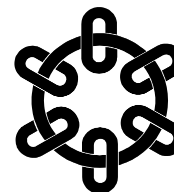


b) We note that the mechanics of the derecognition approach result in increased gains over the life of an asset, where the model is applied to short term leases of assets with long economic life. For example, a two year repeated lease (no options to extend or terminate) of an asset with an expected economic life of 50 years, will result in increased gains at each date of commencement of a new two year lease. We understand that this is some of the basis/reason for why the IASB decided to proceed with a hybrid approach. However, we find no trace of this argument in the basis for conclusion of the exposure draft. Note that it is hard for constituents (often with limited time to spend on the comment letters) to form a strong opinion on proposals from the IASB unless the board explicitly states the arguments for their conclusions.

However, despite the above mentioned concerns, we would still prefer the partial derecognition approach (BC 21) applied to all leases. Our preference for the partial derecognition approach is mainly based on the following arguments:

a) **The performance obligation approach seems conceptually inconsistent with the lessee approach**: Under the performance obligation approach, lessors should recognise revenue when the lessor permits the lessee to use the underlying asset over the lease term. Hence, the obligation is satisfied continuously during the lease term. However, it is argued that the lease ceases to be an executory contract after the date of commencement of the lease. If the lessee has an obligation of the full term of the lease when it obtains initial access to the asset, it follows that from that moment, the lessor has completed the execution of its part of the transaction. Hence, recognising revenue continuously during the lease term under the performance obligation approach seems inconsistent with the fundamental rationale for recognising the right-of-use asset (lessee has an unconditional obligation to pay for the right-of-use asset over the full lease term as soon as the lessor has provided access to the leased item) at the lessee statement of financial position.

b) **The performance obligation approach seems conceptually inconsistent with the proposed revenue recognition approach**: The fundamental rationale for recognising the right-of-use asset in the lessee statement of financial position rest on the fact that the lessee has obtained control of the transferred asset for the full term of the lease, and the lessor has completed the execution of its part of the transaction at commencement of the lease. Hence, recognising revenue continuously (deferred revenue recognition) during the lease term under the performance obligation approach seems inconsistent with the revenue recognition approach proposed in ED/2010/6 *Revenue from Contracts with Customers* (paragraph 25). Hence, in our view, for the proposed standard on revenue recognition and the proposed standard on lease accouting to be consistent on when to recognise revenue, the partial derecognition approach would have to be applied to all leases. Thus, any hybrid approach to lease accounting would result in a pattern of revenue recognition which would be inconsistent with the proposed model in ED/2010/6 *Revenue from Contracts with Cutomers*, independently of where and how the



distinction between the partial derecognition and the performance obligation approach is drawn.

c) **The performance obligation approach double counts for the same asset:** We agree with those who believe that the performance obligation approach double counts for same asset. This issue is particularly problematic when applied to leases where the lessor has transferred significant benefits and risks associated with the underlying asset.

d) **Complexity:** Reducing complexity is one of the arguments for replacing the current model in IAS 17. However, it seems clear the complexity of the proposed model is enhanced compared to IAS 17.Two different models for lessor accounting contribute to the increased complexity proposed in the exposure draft.

e) **The performance obligation approach will not provide decision useful information where significant risks and benefits are transferred to the lessee:** The performance obligation approach will not give rise to gains at commencement of the lease, and the transferred asset will remain recognised on the lessors balance sheet. We do not believe that this outcome will reflect the substance of the transaction, where significant benefits and risks are transferred to the lessee. Hence, we do not believe that the performance obligation applied to all leases will provide decision useful information.

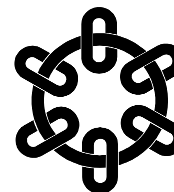
f) **Not concerned about revenue from service:** We are aware that some oppose the derecognition model due to concerns that the lessor could recognise revenue for services that have not yet been delivered to the lessee, and that the lessor would recognise gain for all lease transactions at commencement of the lease. However, we believe the requirement to separate service components even when the service component is not distinct, will mitigate this concern.

g) **Not concerned about gain initially**: We are aware that some oppose the derecognition model due to concerns that the lessor would recognise gain for all lease transactions at commencement of the lease. However, recognising a gain at commencement of a lease is conceptually consistent with the dercognition model (also, see comment b) above).

Based on an overall assessment, we would express our strong preference for one single approach to lessor accounting. Furthermore, we strongly prefer the partial derecognition approach to be applied to all leases.

Question 3: Short-term leases

The exposure draft proposes that a lessee or a lessor may apply the following simplified requirements to short-term leases, defined in Appendix A as leases for which the maximum possible lease term, including options to renew or extend, is twelve months or less:



a) At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (i) the liability to make lease payments at the undiscounted amount of the lease payments and (ii) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees would recognise lease payments in profit or loss over the lease term (paragraph 64).

b) At the date of inception of a lease, a lessor that has a short-term lease may elect on a lease-by-lease basis not to recognise assets and liabilities arising from a short-term lease in the statement of financial position, nor derecognise any portion of the underlying asset. Such lessors would continue to recognise the underlying asset in accordance with other IFRSs and would recognise lease payments in profit or loss over the lease term (paragraph 65).

(See also paragraphs BC 41-BC 46)

Do you agree that the lessee or lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?

No, we disagree. We believe that all material leases will be of interest to users of financial statements. Furthermore, from a conceptual point of view, similar contracts should be accounted for consistently. An exemption for short term leases, however defined, would be inconsistent with the fundamental approach of accounting for the assets and liabilities under the proposed model. Thus, we believe that no general exemptions should be provided for short term leases. Rather than making exemptions or explicit rules, the proposed model should apply where assessed as material, utilising the existing guidance in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

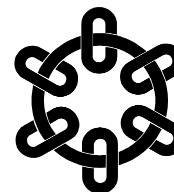
However, that being said, we have received a considerable amount of feedback from financial statement preparers, expressing their deep concern with the cost that would be required to achieve compliance with the proposed standard, questioning the cost and benefits of the proposals. Hence, we encourage the IASB to keep this in mind when elaborating on potential simplifications and cost benefit considerations.

Definition of a lease

The exposure draft proposes to define a lease as a contract in which the right to use a specified asset or assets is conveyed, for a period of time, in exchange for consideration (Appendix A, paragraphs B1–B4 and BC29–BC32). The exposure draft also proposes guidance on distinguishing between a lease and a contract that represents a purchase or sale (paragraphs 8, B9, B10 and BC59–BC62) and on distinguishing a lease from a service contract (paragraphs B1–B4 and BC29–BC32).

Question 4

a) Do you agree that a lease is defined appropriately? Why or why not? If not, what alternative definition would you propose and why?

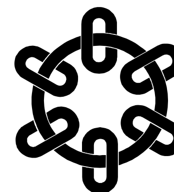


We believe the proposed accounting for leases raises fundamental questions on the distinction between leases and firmly committed executory contracts, and how to account for firmly committed executory contracts in general. Executory contracts and leases are in many instances similar contracts, and often it is difficult to make the distinction between the two. Currently operating leases and firmly committed executory contracts outside the scope of IAS 39 or IAS 37 are all off balance sheet and preparers can deal with similar contracts by providing the same types of disclosures for both in order for the users to understand the entities' commitments.

We would support a model which results in consistent accounting for similar contracts with similar characteristics. For this aim to be achieved, a clear, robust and carefully considered distinction between leases and off balance sheet firmly committed executory contracts will be needed. However, we do not believe that the current wording in B4 achieves this aim. Rather, we believe that letter (c) of paragraph B4 might result in arbitrary differences in accounting between two entities who need the same volumes of a given service or product. For example, entity A may (more or less incidentally) decide to contract for 50% output capacity in an asset/plant (off-balance sheet), while entity B may decide to contract for 100% output capacity of an asset/plant of half the size (on-balance sheet). Furthermore, entity B might have a choice of contracting the whole volume from one asset/plant or to contract from two different assets/plants of the same size. Hence, whether entity B chooses to contract from one or two plants, might be decisive for whether entity B will have to recognise the asset on or off balance according to the proposed wording in paragraph B4(c). Thus, applied to certain contracts, we believe that the current wording in B4(c) might result in similar contracts accounted for differently, with reduced comparability and structuring opportunities (contradictory to the purpose with replacing IAS 17) as a result.

Thus, we urge the Board to perform a complete review and carefully elaborate on the fundamental distinction between leases and off balance sheet firmly committed executory contracts. As the main criticism to the existing IAS 17 has been directed at off-balance sheet financing and the potential for structuring, the IASB should strive to achieve a conceptually sound and robust definition of what constitutes a lease before the new model is finalised. As part of the reassessment of what constitutes a lease, we also strongly encourage the IASB to consider providing explicit guidance on the unit of account, an issue often encountered in practise.

As mentioned above, it would be necessary to take users' concerns into consideration as an important input to the assessment of what constitutes a lease. Also, note that we have received strong concerns from financial statement preparers that the costs of applying the rules in B4(c) to contracts with significantly shorter duration than the economic life of the assets involved (current operating lease contracts) might be very high. Some also think the structuring risks in this area (off-balance sheet "lease" arrangements or similar) are better solved as part of the consolidation / SIC 12 project, and not as part of the standard for leases. We encourage the IASB to keep this in mind when elaborating on the final wording in the proposed standard.



Lastly, note that we believe there is a flaw in the description in the last part of the sentence in B2 (b) (if a lessor can substitute another asset for the underlying asset but rarely does so in practice). It cannot have been the intention that the lessee's assessment rests on what the lessor has been doing and what he may be doing in practice. In our opinion it would be sufficient that the lessee makes an objective assessment as to whether it is possible and whether it is economically feasible for the lessor to substitute the asset.

b) *Do you agree with the criteria in paragraphs B9 and B10 for distinguishing a lease from a contract that represents a purchase or sale? Why or why not? If not, what alternative criteria would you propose and why?*

We generally agree with the criteria in paragraphs B9 and B10. However, we believe bargain purchase options should be considered consistently independent upon whether they are free standing or embedded in a lease contract. In this regard we would like the IASB to elaborate on when a bargain purchase option would result in a purchase or sale of the underlying asset, including more guidance on the term "trivial amount" in B8(a).

c) *Do you think that the guidance in paragraphs B1–B4 for distinguishing leases from service contracts is sufficient? Why or why not? If not, what additional guidance do you think is necessary and why?*

No, we think the guidance needs to be significantly expanded and clarified. Please see our comments to question 4a) above.

Scope

Question 5: Scope exclusions

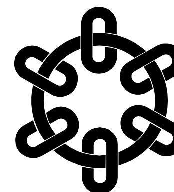
The exposure draft proposes that a lessee or a lessor should apply the proposed IFRS to all leases, including leases of right-of-use assets in a sublease, except leases of intangible assets, leases of biological assets and leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources (paragraphs 5 and BC33–BC46).

Do you agree with the proposed scope of the proposed IFRS? Why or why not? If not, what alternative scope would you propose and why?

We agree with one qualification. We see no conceptual basis for excluding leases of intangible assets from the scope of the proposed IFRS.

Question 6: Contracts that contain service components and lease components

The exposure draft proposes that lessees and lessors should apply the proposals in Revenue from Contracts with Customers to a distinct service component of a contract that contains service components and lease components (paragraphs 6, B5–B8 and BC47–BC54). If the service component in a contract that contains service components and lease components is not distinct:



a. the FASB proposes the lessee and lessor should apply the lease accounting requirements to the combined contract.

b. the IASB proposes that:

i. a lessee should apply the lease accounting requirements to the combined contract.

ii. a lessor that applies the performance obligation approach should apply the lease accounting requirements to the combined contract.

iii. a lessor that applies the derecognition approach should account for the lease component in accordance with the lease requirements, and the service component in accordance with the proposals in the Revenue from Contracts with Customers.

Do you agree with either approach to accounting for leases that contain service and lease components? Why or why not? If not, how would you account for contracts that contain both service and lease components and why?

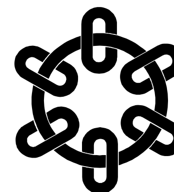
No, we do not agree. We believe in general that the fundamental qualitative characteristics of relevance and faithful representation require that both the lessor and the lessee separately account for all service components. Hence, we agree with the IASB that this is necessary to prevent lessors from applying the derecognition approach to recognise revenue for services that have not yet been delivered to the lessee. However, we disagree that lessees and lessors applying the performance obligation approach should recognise assets and liabilities for service elements where neither party have performed. Such an outcome would be inconsistent with how other executory contracts are accounted for. Hence, we see no conceptual reason for granting an exemption for such elements. Thus, we believe the proposed exemption will provide less relevant and faithful information, and reduced comparability compared to a general requirement to separate service elements.

Question 7: Purchase options

The exposure draft proposes that a lease contract should be considered as terminated when an option to purchase the underlying asset is exercised. Thus, a contract would be accounted for as a purchase (by the lessee) and a sale (by the lessor) when the purchase option is exercised (paragraphs 8, BC63 and BC64).

Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?

General comment:



We see no conceptual reason to treat options to purchase and options to extend or terminate a lease differently. Hence, we believe that the same approach should be applied consistently to options to extend or terminate the lease term.

Preferred approach:

We do not support the “single asset”/”single liability” principle in the DP/ED. Rather, we support a component approach where all options (both options to purchase the underlying asset and options to extend or terminate the lease term) is separately accounted for. Our view is mainly based on the following arguments.

- A component approach would give rise to consistent accounting between different elements in the lease standard (option to extend, terminate and purchase) and between standards (non-financial options).
- A component approach would not give rise to liabilities or assets which do not meet the liability and asset definitions in the framework.
- Also, we share the concern expressed by Stephen Cooper in paragraph AV 2 that reflecting options as the gross cash flows resulting from exercise would overstate leverage and not reflect the economic flexibility that options provide.

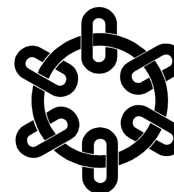
Based on the wording of paragraph 15, we assume that initially, the purchase option will have to be separated from the lease payments (“component approach”) and subsequently measured at cost. If this is the intention of the IASB, we believe the standard should state more explicitly that the value of the purchase option should be separately accounted for, that the purchase option should be measured at fair value initially and subsequently, and if it is not within the scope of IAS 39, it should be measured at cost (and reviewed for impairment) and presented as a net asset. When exercised, the option premium should be included as part of the purchase price of the underlying asset. Hence, we agree with the suggested solution to the accounting for options to purchase the leased item. However, we believe the same approach should be applied consistently to all options to purchase the leased item and options to terminate or extend the lease term.

Comment, provided that the IASB decide to proceed with the proposed approach

We see no conceptual reason to treat options to purchase and options to extend or terminate a lease differently. Hence, if the IASB decides to adopt a single asset/single liability approach, both options to purchase the leased item and options to extend or terminate the lease should be accounted for consistently.

Measurement

The exposure draft proposes that a lessee or a lessor should measure assets and liabilities arising from a lease on a basis that:



a. *assumes the longest possible term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease (paragraphs 13, 34, 51, B16–B20 and BC114–BC120).*

b. *includes in the lease payments contingent rentals and expected payments under term option penalties and residual value guarantees specified by the lease by using an expected outcome technique (paragraphs 14, 35, 36, 52, 53, B21 and BC121–BC131). Lessors should only include those contingent rentals and expected payments under term option penalties and residual value guarantees that can be measured reliably.*

c. *is updated when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments, including expected payments under term option penalties and residual value guarantees, since the previous reporting period (paragraphs 17, 39, 56 and BC132–BC135).*

Question 8: Lease term

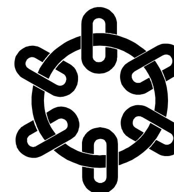
Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?

We do not support the "single asset"/"single liability" principle in the DP/ED, which in our view results in recognising liabilities which do not meet the definition of a liability in the framework, overstated leverage and reduced usefulness of information. Rather, we propose a component approach with separate accounting for both options to purchase underlying asset and options to extend or terminate the lease term. We believe a component approach would ensure consistent accounting between different elements in the lease standard (option to purchase leased item and options to extend and terminate the lease) and between standards (non-financial options). Furthermore, a component approach would not give rise to liabilities which do not meet the liability-definition in the framework.

Also, we believe that options to extend or terminate the lease create rights and obligations by contract, which are not inherent in the lease. Hence, we find gross accounting for such options inconsistent with the proposed lease model.

Question 9: Lease payments

Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?



Do you agree that lessors should only include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments if they can be measured reliably? Why or why not?

Should all contingent rentals be included in measuring the liability?

We support the alternative view expressed by Stephen Cooper, that contingent rental agreements that vary upon usage of the asset provide the lessee with additional flexibility, and reflecting them in the measure of the lessee's liability does not provide relevant information about the underlying economics of the transaction.

Furthermore, we believe that contingent rentals that are linked to the usage of an asset are under the control of the lessee. Hence, it could be argued that these elements do not meet the definition of a current obligation as the obligation results from a future decision of the lessee. However, we believe that rentals that are contingent on factors outside control of the lessee (such as price indexes and residual value guarantees) meet the definition of an unconditional obligation where the uncertainty only relates to the measurement of the amount to be paid.

Hence, provided that the contingent component is outside control of the lessee, we agree with the proposal to include contingent rent and expected payments (term option penalties and residual value guarantees) specified in the lease in the measurement of assets and liabilities arising from lease. However, we do not agree that contingent rentals under the control of the lessee, such as rentals that vary with usage of the asset, should be included in measuring the liability.

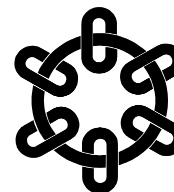
<u>Exemption for lessors</u>: We agree that a <u>lessor</u> should include contingent rentals and expected payments under term option penalties and residual value guarantees in the measurement of the right to receive lease payments only if they can be measured reliably. However, the IASB should ensure that the wording in the new leasing standard is consistent, including guidance on when contingent payments can be measured reliably, with the proposed revenue recognition standard (see paragraph 38-41 in ED/2010/6 *Revenue from Contracts with Customers).*

How to measure contingent rentals?

We agree that contingent rentals and expected payments under residual value guarantees should be measured using an expected outcome technique, and that contingent rentals that depend on an index or rate should be measured based on readily available forward rates. Furthermore, we accept and support an exemption allowing indices or prevailing rates or indices to be applied if forward rates or indices are not readily available.

Question 10: Reassessment

Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a



significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not?
If not, what other basis would you propose for reassessment and why?

Reassessment or not

We agree as a simplification, that lessees and lessors should be required to remeasure assets and liabilities arising under a lease only *"if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period"*. However, we believe that reassessment at each reporting date should be the starting point. Hence, reassessment only if facts and circumstances indicate that there would be a significant change in the liability since the previous reporting date, should be optional and not required.

How to account for changes in the lessee liability and lessor receivable under the right-of-use and the performance obligation approach?

We agree that changes in the liability / receivable due to changes in the lease term should be adjusted towards the right-of-use asset / performance obligation (provided that the IASB decide to proceed with the single asset/single liability approach).

Furthermore, we agree that change in the liability / receivable due to contingent rentals related to the current or previous periods should be recognised in profit or loss.

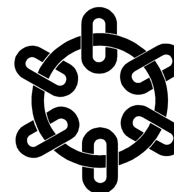
We also agree that changes in the financial liability / receivable, due to contingent rentals relating to future periods which vary with usage of the leased item should be recognised in the right-of-use asset / performance obligation (provided that the IASB decided to include contingent rentals that vary with usage or performance of the leased item when measuring the lease liability / receivable). However, we believe that changes in the liability / receivable due to changes in rentals that are contingent on an index or rate should be recognised in profit or loss.

How to account for changes in the lessor receivable under the derecognition approach?

We agree that rentals that are contingent on an index or rate should be recognised in profit or loss. However, remeasurement due to changes in contingent rentals based on usage arises when it is expected that the lessee will acquire more or less of the right-of-use asset. This is not different from a reassessment of the lease term that is treated as a new recognition (derecognition) event. Hence, we believe the residual asset should be reassessed in these circumstances.

Sale and leaseback

The exposure draft proposes that a transaction should be treated as a sale and leaseback transaction only if the transfer meets the conditions for a sale of the



underlying asset and proposes to use the same criteria for a sale as those used to distinguish between purchases or sales and leases. If the contract represents the sale of the underlying asset, the leaseback would also meet the definition of a lease, rather than a repurchase of the underlying asset by the lessee (paragraphs 66–67, B31 and BC160–BC167).

Question 11

Do you agree with the criteria for classification as a sale and leaseback transaction? Why or why not? If not, what alternative criteria would you propose and why?

We do not support the performance obligation approach to lessor accounting. Hence, we believe that the derecognition approach should be applied to all leases.

Presentation

The exposure draft proposes that lessees and lessors should present the assets, liabilities, income (or revenue), expenses and cash flows arising from leases separately from other assets, liabilities, income, expenses and cash flows (paragraphs 25–27, 42–45, 60–63 and BC142–BC159).

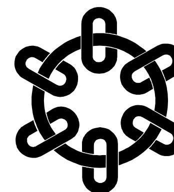
Question 12: Statement of financial position

Question 12 is answered under the presumption that the Board decide to proceed with a hybrid approach to lessor accounting.

a) *Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?*

   We do not agree in general that a lessee should present liabilities to make lease payments separately from other financial liabilities and the right-of-use assets separately from assets that the lessee does not lease. Rather, we believe the lessee should apply the current guidance in IAS 1, and present the lease liability and right-of-use asset separately at the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position (IAS 1.69). However, this information should be disclosed in the notes independently of how the information is presented at the balance sheet.

b) *Do you agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling to a net lease asset or lease liability (paragraphs 42, BC148 and BC149)? Why or why not? If not, do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?*



We agree that a lessor applying the performance obligation approach should present underlying assets, rights to receive lease payments and lease liabilities gross in the statement of financial position, totalling a net lease asset or lease liability (linked presentation). However, this should only be mandatory at the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position (IAS 1.69). However, this information should be disclosed in the notes independently of how the information is presented at the balance sheet.

c) *Do you agree that a lessor applying the derecognition approach should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment (paragraphs 60, BC154 and BC155)? Why or why not? Do you think that a lessor should disclose this information in the notes instead? What alternative presentation do you propose and why?*

   No, we do not agree in general that the lessor should present rights to receive lease payments separately from other financial assets and should present residual assets separately within property, plant and equipment. Rather, we believe the the lessor should apply the current guidance in IAS 1, and present the rights to receive lease payments and the residual asset separately at the face of the statement of financial position, when such presentation is relevant to an understanding of the entity's financial position (IAS 1.69). However, this information should be disclosed in the notes independently of how the information is presented at the balance sheet.

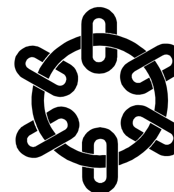
d) *Do you agree that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position (paragraphs 43, 60, BC150 and BC156)? Why or why not? If not, do you think that an intermediate lessor should disclose this information in the notes instead?*

   No, we do not agree in general that lessors should distinguish assets and liabilities that arise under a sublease in the statement of financial position. We believe that the lessor in a sublease should account for the lease and sublease in line with our answers to question a-c above. However, this information should be disclosed in the notes independently of how the information is presented in the balance sheet.

Question 13: Statement of comprehensive income

Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?

We do not agree in general that lease income and lease expense should be presented separately from other income and expenses in profit or loss. Rather, we



believe the that the lessor should apply the guidance in IAS 1, and present lease income and lease expense separately at the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance (IAS 1.83). However, lease income and lease expense should be disclosed in the notes independently of how the information is presented at the face of the income statement.

Question 14: Statement of cash flows

Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee or a lessor should disclose this information in the notes instead? Why or why not?

We agree that cash flows arising from leases should be presented separately in the statement of cash flow. We believe that a statement of cash flow that gives information on how the operations are financed and a split between lease and other transactions will provide useful information for investors and analysts.

Disclosure

Question 15

Do you agree that lessees and lessors should disclose quantitative and qualitative information that:

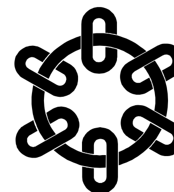
a) identifies and explains the amounts recognised in the financial statements arising from leases; and

b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows

(paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?

We agree that lessee and lessor should disclose quantitative and qualitative information that identifies and explains the amounts recognised, and describes how leases may affect the future cash flows. However, disclosure requirements for both lessee and lessor include information that might be business sensitive. We urge the Board to reconsider the need of such information. Furthermore, the disclosures seem extensive. It will be very demanding to provide all the requested information, even if there are some limitations under paragraph 71. Extensive disclosure requirements might increase risk of errors due to complexity and also reduce the readability and relevance of the disclosures to financial statement users.

That being said, we would like to draw the attention of the IASB to one issue which is not directly related to the exposure draft. We believe that information about the amounts, timing and uncertainty (including maturity analysis) of cash flows locked up in firmly committed contracts is of great importance to financial statement users and



analysts in particular. We acknowledge that such disclosures are currently required by different standards, depending on the specific scope of the standard (for example IFRS 7.39, IAS 17.35 and IAS 16.74(c)). Furthermore, we acknowledge and support that such information is proposed for contracts scoped under the proposed revenue recognition (paragraph 78) and the proposed lease standard (paragraph 86). However, we believe this information is just as important to unrecognised firmly committed executory contracts which are not encompassed by any of these standards, such as firmly committed executory supply contracts. It is very difficult for the user of financial statement to form a picture of the total cash flows tied up in various firm commitments when the total picture is incomplete and where such information is spread around in several standards and different disclosures. As we see it, this is a weak point of the current IFRSs, and we ask the IASB to consider a more generalised approach to disclosure requirements on expected cash flows from firmly committed contracts.

Transition

Question 16

a) The exposure draft proposes that lessees and lessors should recognise and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186– BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?

b) Do you think full retrospective application of lease accounting requirements should be permitted? Why or why not?

c) Are there any additional transitional issues the boards need to consider? If yes, which ones and why?

We agree with the proposal to use a simplified retrospective approach. We do not think that full retrospective application of lease should be permitted. Different application methods will reduce comparability between companies. The effect of different application approach might be significant since operating lease will be recognised in the statement of financial position under the proposed standard.

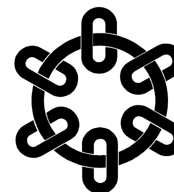
Benefits and costs

Question 17

Paragraphs BC200–BC205 set out the boards' assessment of the costs and benefits of the proposed requirements. Do you agree with the boards' assessment that the benefits of the proposals would outweigh the costs? Why or why not?

Benefits

We support the IASBs effort to develop a single principle based approach to be applied to all leases, and believe that comparability (and hence usefulness) of



financial statements will be significantly enhanced if different treatments of operating leases and finance leases are replaced by a uniform approach to all leases.

However, we strongly believe the IASB should have a second look at the fundamental distinction between leases and off balance sheet firmly committed contracts, to avoid replacing one arbitrary distinction with another. Furthermore, as laid out in our comment letter and the answers to the specific questions above, we still have significant concerns to certain aspects of the suggested model (in particular to lessor accounting and accounting for complex leases), which in our view will compromise some of the benefits of the suggested model unless the IASB reconsider some of the current proposals.

Costs

There is little doubt that the exposure draft as currently drafted will result in significant costs to a large number of financial statement preparers. We have, in particular, received the following concerns from financial statement preparers on the costs involved with the proposals:

- Accounting for complex leases and reassessment of options and contingent rentals, will be costly and complex to a number of industries such as the retail industry, which often enter into a large number of long term contracts both as lessee and lessor, and where the contracts normally contain both contingent rentals (often based on revenue) and a number of extension or termination options in each contract.

- To certain industries, such as shipping and telecom, the complexity and costs of separating service elements from lease contracts might be large.

- Two different models to lessor accounting will increase the complexity of the proposed accounting for leases.

- The disclosure requirements seem extensive.

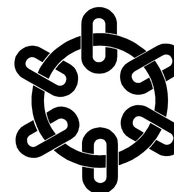
While we see clear overall benefits of the proposed model, we acknowledge that the cost of complying with the proposed requirements seems extensive to certain industries. Hence, we encourage the IASB to consider and elaborate on alternatives which could reduce the complexity of the proposals without compromising the overall benefits of the model. Furthermore, the IASB should take the complexity and the far reaching consequences of the proposals into consideration when setting the effective date for the proposed standard.

Other comments

Question 18

Do you have any other comments on the proposals?

Foreign exchange



We assume that the lease liability / lessor receivable based on a currency different from functional currency of the lessee/ lessor, would be regarded as a monetary item according to IAS 21, and that foreign exchange differences on this monetary item should be recognised directly in profit or loss and not in the right-of-use asset or performance obligation. We recommend a consequential amendment to IAS 21 to clarify this issue.