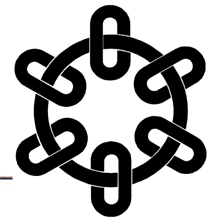
Norsk RegnskapsStiftelse



IFRS Foundation
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, 14 January 2014

Dear Sir/Madam

Discussion Paper, DP/2013/1 A Review of the Conceptual Framework for Financial Reporting

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your discussion paper DP/2013/1, A Review on the Conceptual Framework for Financial Reporting. We have for a number of years urged you to give priority to this project, and we are very pleased with the progress achieved at this stage.

We are also, in general terms, pleased with the result. The DP is a well-written and easily understandable document that raises relevant questions for the future development of accounting and provides an interesting discussion and many good answers. We are not worried that the set of topics raised may not be fully complete, because the process of creating the conceptual framework should continue. We even foresee that there will be a need for future reviews of the content of the framework at regular time intervals.

Our responses to the various topics are provided in the attachment. We support many of the suggestions made by the Board; however on some issues we find it difficult to conclude. On one of those, the question of OCI discussed in Section 8, we find that the discussion paper is insufficient as a basis for conclusion. We are not able to answer the questions raised in this section as the principles behind OCI are not clear and we are not able to understand the content of OCI. It seems that the work done in the DP is trying to fit the OCI concept to the existing standards instead of having a principle top-down discussion. It is important to have a clear definition of profit and loss as this will be a basis for applying a principle approach to OCI. We strongly recommend that the OCI discussion is restarted with a clear objective of defining the content of OCI. Section 8 could be delayed without affecting the other sections in the DP, so their development can continue as planned.

Measurement is a core element in accounting that warrants a thorough and high quality treatment in the development of the conceptual framework. However, the NASB is concerned that Section 6 is not developed with the rigor and quality that we would expect in a discussion paper. Thus we urge the IASB to ensure a proper due process, and to devote sufficient time and resources to the development of Section 6. References to measurement used in current standards are relevant when discussing measurement alternatives, but it should not be the starting point and guide for conclusions in a discussion paper for a conceptual framework.

The NASB thinks that it would be useful in conjunction with the issuing of an ED to prepare a table that shows all conflicts between existing standards and the proposed framework.

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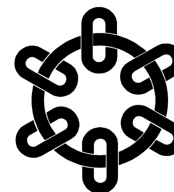
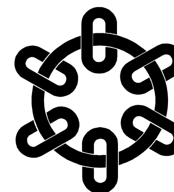


Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

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



Appendix

Section 1

Question 1. Purpose of the Conceptual Framework

Paragraphs 1.25–1.33 of the DP set out the proposed purpose and status of the Conceptual Framework. The IASB's preliminary views are that:

- *(a) the primary purpose of the revised Conceptual Framework is to assist the IASB by identifying concepts that it will use consistently when developing and revising IFRSs; and*
- *(b) in rare cases, in order to meet the overall objective of financial reporting, the IASB may decide to issue a new or revised Standard that conflicts with an aspect of the Conceptual Framework. If this happens the IASB would describe the departure from the Conceptual Framework, and the reasons for that departure, in the Basis for Conclusions on that Standard.*

Do you agree with these preliminary views? Why or why not?

The NASB fully agrees with the way the DP formulates the purpose of the Conceptual Framework. We also agree with the proviso that the framework can be departed from in exceptional cases, and that such departures should be explicitly highlighted in the DP and ED phase of the standard and justified in the basis for conclusion of the standard.

Section 2

General comments

The NASB:

- Supports the premise that the elements of financial statements derive from economic resources and changes in them.
- Supports the concept of defining assets and liabilities based on rights or obligations related to economic resources.
- Supports the concept of defining income and expense from changes in assets and or liabilities.

Question 2. Definition of an asset and a liability

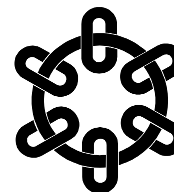
The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16 of the DP. The IASB proposes the following definitions:

- *(a) an asset is a present economic resource controlled by the entity as a result of past events.*
- *(b) a liability is a present obligation of the entity to transfer an economic resource as a result of past events.*
- *(c) an economic resource is a right, or other source of value, that is capable of producing economic benefits.*

Do you agree with these definitions? Why or why not? If you do not agree, what changes do you suggest, and why?

(a)
Conceptually we agree with the proposed definition of an asset.

However, we have some issues that we like to bring to the attention of the Board. It is our position that the definitions in the framework should be as concise and precise as possible. Properties that are not necessary for a definition should not be part of it. There are two



properties of the proposed definition of an asset that we think are not necessary and thus should be considered left out.

First, the word “present” is implicitly mentioned twice in the definition of an asset. Inserting the definition of control (see 3.23) into the definition of an asset result in the following wording: An asset is a present economic resource over which the entity has the present ability to direct the use of so as to obtain the economic benefits that flow from it as a result of a past event.

As demonstrated, the first “present” can be left out of this sentence without modifying its meaning.

Second, the essence of the definition of an asset is that it is an economic resource over which the entity has the present ability to direct the use of so as to obtain the economic benefits that flow from it.

An asset is because of what it gives in the present or the future. It is not dependent upon what has been in the past. Thus, it is not necessary to define an asset with a reference to the past, since what has happened in the past is not discriminating on what actually exist now. As the reference to the past is neither necessary nor discriminating on what is present, it could, and thus should, be left out of the definition of an asset.

We agree with the statement made in 2.16(c) "It is not necessary to identify that [past] event in order to identify whether the entity has an asset or a liability." To the extent that the reference to the past event is not necessary, it should be left out of the definition.

(b)
Conceptually we agree with the proposed definition of a liability.

However as is the case for an asset, the essence of the definition of a liability is that it is an obligation to transfer an economic resource for which the entity does not have the present ability to avoid.

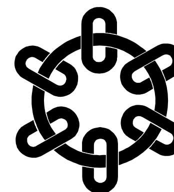
A liability is because of what it obliges in the present or the future. It is not dependent upon what has been in the past. Thus, defining a liability with a reference to the past is not necessary, since what has happened in the past is not discriminating on what actually exists now. As the reference to the past is neither necessary nor discriminating on what is present, it could, and thus should, be left out of the definition of a liability.

(c)
We agree with the definition of an economic resource.

However as a "positive" or "negative" economic resource is the core of the definition of both an asset and a liability we have the following two recommendations to the Board:

First, the Board should consider if the definition of an economic resource should be presented before the definition of an asset and a liability.

Second, the Board should consider if it is possible to make the definitions of assets and liabilities symmetric thus highlighting the connection to a "positive" and "negative” economic resource.



Question 3. Uncertainty

Whether uncertainty should play any role in the definitions of an asset and a liability, and in the recognition criteria for assets and liabilities, is discussed in paragraphs 2.17–2.36 of the DP. The IASB's preliminary views are that:

- *(a) the definitions of assets and liabilities should not retain the notion that an inflow or outflow is 'expected'. An asset must be capable of producing economic benefits. A liability must be capable of resulting in a transfer of economic resources.*
- *(b) the Conceptual Framework should not set a probability threshold for the rare cases in which it is uncertain whether an asset or a liability exists. If there could be significant uncertainty about whether a particular type of asset or liability exists, the IASB would decide how to deal with that uncertainty when it develops or revises a Standard on that type of asset or liability.*
- *(c) the recognition criteria should not retain the existing reference to probability.*

Do you agree? Why or why not? If you do not agree, what do you suggest, and why?

We agree with the preliminary views held by the Board. We support the views expressed in 2.35.

Question 4. Other Definitions

Elements for the statement(s) of profit or loss and OCI (income and expense), statement of cash flows (cash receipts and cash payments) and statement of changes in equity (contributions to equity, distributions of equity and transfers between classes of equity) are briefly discussed in paragraphs 2.37–2.52 of the DP.

Do you have any comments on these items? Would it be helpful for the Conceptual Framework to identify them as elements of financial statements?

We have no comments on the preliminary views expressed by the Board on the elements for the statement(s) of profit or loss and OCI (income and expense) and statement of changes in equity. However as noted below we recommend the Board to provide some more material related to the issue of cash.

Other comments to Section 2

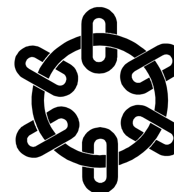
We agree with the conclusion derived in 2.4 that each primary statement should only include items that are elements defined for that statement, and totals and subtotals of those elements. This is an important point that should not be abandoned in the course of this project.

For the ease of the users we would recommend the Board to look closer at the definition of cash. What is the defining factors describing cash as an element of the cash flow statement and how does cash fit with the definition of an economic resource and the definition of control?

Section 3

General comments

The NASB generally supports a strict definition of a liability, e.g. as presented in the DP as view 1. That is, we agree with the thoughts behind view 1 that obligations for which the existence depends upon future actions of the entity are not current obligations. At the same time we have significant concerns as to whether we fully understand the consequences of such a view being applied in the standard setting process and as part of the IFRS hierarchy. Hence, we also see merits to the views 2 and 3.



Question 5

Constructive obligations are discussed in paragraphs 3.39–3.62 of the DP. The discussion considers the possibility of narrowing the definition of a liability to include only obligations that are enforceable by legal or equivalent means. However, the IASB tentatively favours retaining the existing definition, which encompasses both legal and constructive obligations – and adding more guidance to help distinguish constructive obligations from economic compulsion. The guidance would clarify the matters listed in paragraph 3.50 of the DP.

Do you agree with this preliminary view? Why or why not?

We do not agree with the preliminary view of the Board. On a conceptual level we support a strict obligation approach. Thus we argue that the Board should limit the definition of a liability to include only obligations that are currently enforceable by legal or equivalent means. Note, however, our concerns referred to above. Regardless of what final choices are made by the IASB, we think additional guidance in this area would be required.

Question 6

The meaning of 'present' in the definition of a liability is discussed in paragraphs 3.63–3.97 of the DP. A present obligation arises from past events. An obligation can be viewed as having arisen from past events if the amount of the liability will be determined by reference to benefits received, or activities conducted, by the entity before the end of the reporting period. However, it is unclear whether such past events are sufficient to create a present obligation if any requirement to transfer an economic resource remains conditional on the entity's future actions. Three different views on which the IASB could develop guidance for the Conceptual Framework are put forward:

- *(a) View 1: a present obligation must have arisen from past events and be strictly unconditional. An entity does not have a present obligation if it could, at least in theory, avoid the transfer through its future actions.*
- *(b) View 2: a present obligation must have arisen from past events and be practically unconditional. An obligation is practically unconditional if the entity does not have the practical ability to avoid the transfer through its future actions.*
- *(c) View 3: a present obligation must have arisen from past events, but may be conditional on the entity's future actions.*

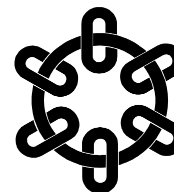
The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

Which of these views (or any other view on when a present obligation comes into existence) do you support? Please give reasons.

We see merits in the preliminary view, but as stated above we rather support a strict obligation approach where an obligation is present only if it is unconditional upon the future actions of the entity. The going concern assumption does not create a current liability. The examples presented in paragraph 3.73 all include outflows that can be avoided by future actions. The fact that all of these actions might not be value maximizing does not create a current liability. The cash flows described in the examples are cash flows from certain scenarios subject to going concern. If all possible future actions include an outflow of resources, then a present obligation, and hence a liability, exist.

We also see merits in view 2, but we are struggling to fully understand what is meant by practically unconditional and to find sufficient conceptual reason for why on the margin a definition of a liability should be drawn at practically unconditional instead of a marginally stricter or less strict requirement.

The NASB also see merits in view 3, but does not support it as we consider the existence of an asset or a liability to be connected to positions related to economic resources as of the balance sheet date and not necessarily defined by previous events. In this context we refer to our comments to Section 2.



Question 7. Comments on other guidance

Do you have comments on any of the other guidance proposed in this section of the DP to support the asset and liability definitions?

Our comments are presented below.

Other comments to Section 3

In paragraph 3.5(c)(v) we disagree with the claim made with the reference to BC313-BC323 of IFRS 3 that goodwill does meet the definition of an asset. BC313-BC323 states that core goodwill meet the definition of an asset. Other elements presented as goodwill does not meet the definition of an asset.

In paragraph 3.5(d) we disagree with the statement that "some assets [should be deleted as it makes it a circular description], particularly many services, that are consumed immediately on receipt" are economic resources. It is the right to these services that might be an economic resource, not the service as the services is consumed and thus of no future value.

We recommend the Board to expand on the logic in paragraph 3.12. Especially we would like an explanation to aggregation and disaggregation of packages of rights. This understanding of the unit of account is essential for derecognition.

We disagree with the notion presented in paragraph 3.29 that some form of exclusivity is implied in the definition of an asset. Lack of exclusivity does not prevent a right from being an asset, but it will affect the value (measurement) of the asset.

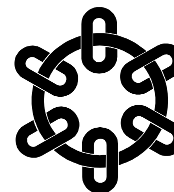
We recommend that "always" is removed form paragraph 3.34 as the proof of it not being so is included in the same sentence.

In the DP asset is used interchangeably about a single right and a package of rights. To continue this logic we recommend that in paragraph 3.36 the word "including" is inserted before "granting a right".

We recommend the Board to have a new look at paragraph 3.38(a) as the current wording might be taken to imply that a contract to pay CU 100 at T1 to receive CU200 at T2 is a liability even if the fair value before T1 of CU100 at T1 is larger than the fair value before T1 of CU200 at T2.

We do not agree with the argument and examples presented in paragraph 3.65. The statement that something is typically incurred does not transform to it being a necessary condition. The examples provided are not to the definition of an asset. Example (a) is to the net or gross presentation of a contract that might be an asset or a liability. In example (b) and (c) it is the fact that you have a present obligation to pay that makes it a liability. The reason why is of no interest.

In paragraph 3.109 we agree that executory contracts should be presented net as either an asset or a liability. However to us the important conceptual issue related to executory contracts is not whether they are assets or liabilities (they normally are) or whether they are to be recognised or not. To the NASB the important issue here is that executory contracts are to be presented net.



Section 4

General comments

We find the discussion of recognition and derecognition relevant and balanced. The Board's conclusions results in an open framework with limited direction for future solutions and significant discretion to the Board to assess which solutions provide decision useful information at an acceptable cost on a standard-by-standard basis. Ideally we would have preferred a framework pointing out a clearer direction for future standard setting, however, we see that significant more work would be required to secure robustness for a clear direction. A clear direction would also increase the gap between the new framework and existing standard. We thus support the solution proposed by the Board.

Question 8. Recognition criteria

Paragraphs 4.1–4.27 of the DP discuss recognition criteria. In the IASB's preliminary view, an entity should recognise all its assets and liabilities, unless the IASB decides when developing or revising a particular standard that an entity need not, or should not, recognise an asset or a liability because:

- *(a) recognising the asset (or the liability) would provide users of financial statements with information that is not relevant, or is not sufficiently relevant to justify the cost; or*
- *(b) no measure of the asset (or the liability) would result in a faithful representation of both the asset (or the liability) and the changes in the asset (or the liability),even if all necessary descriptions and explanations are disclosed.*

Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

We agree.

We think there is an appropriate balance between recognition of all assets (liabilities) and discretion to the Board to assess when recognition does not provide useful information at an acceptable cost on a standard-by-standard basis.

However, we do not consider the list of indicators provided in paragraph 4.26 of such undisputed quality that it should be included in the conceptual framework.

Question 9. Derecognition

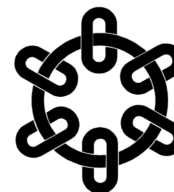
In the IASB's preliminary view, as set out in paragraphs 4.28–4.51 of the DP, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or a liability, the IASB should determine when developing or revising particular Standards how the entity would best portray the changes that resulted from the transaction. Possible approaches include:

- *(a) enhanced disclosure;*
- *(b) presenting any rights or obligations retained on a line item different from the line item that was used for the original rights or obligations, to highlight the greater concentration of risk; or*
- *(c) continuing to recognise the original asset or liability and treating the proceeds received or paid for the transfer as a loan received or granted.*

Do you agree? Why or why not? If you do not agree, what changes do you suggest, and why?

We agree.

We believe that derecognition as the starting point should mirror the recognition criteria to reflect similar items the same way. However, we acknowledge that in certain situations there are reasons for continued recognition of items not meeting the recognition criteria at the balance sheet date, thus departing from the main principle of partial derecognition.



Other comments to Section 4

Paragraph 4.9(c) states that recognising internally generated goodwill does not provide relevant information. However, in our opinion, in some cases information about internally generated goodwill would provide information to help existing and potential investors, lenders and other creditors to estimate the value of the reporting entity. In our opinion, the framework should therefore not include an unconditional conclusion stating that recognising internal generated goodwill is not relevant to meet the objective of financial reporting.

Section 5

General comments

The NASB:

- Supports a residual definition. Due to the risk of overlap or gaps in definitions, we do not support the idea of a direct definition of equity.
- Supports a strict liability view
- Supports the concept of primary and secondary equity
- Supports the concept of remeasurement of secondary equity
- We understand that some of the concepts and thoughts relating to this chapter are presented for the first time together in this chapter. Some regulation including the remeasurement and the presentation of remeasurement is to detailed to be the content of a conceptual framework.
- See a need to further develop whether there is a difference between the obligation to deliver (at the end) further equity instruments and the obligation to deliver (at the end) existing equity instruments.

Question 10. Equity v Liability

The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1-5.59 of the DP. In the IASB's preliminary view:

(a) the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.

(b) the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. Two consequences of this are:

(i) obligations to issue equity instruments are not liabilities; and

(ii) obligations that will arise only on liquidation of the reporting entity are not liabilities (see paragraph 3.89(a) of the DP).

(c) an entity should:

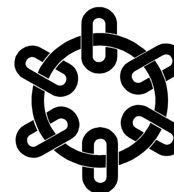
(i) at the end of each reporting period update the measure of each class of equity claim. The IASB would determine when developing or revising particular Standards whether that measure would be a direct measure or an allocation of total equity.

(ii) recognise updates to those measures in the statement of changes in equity as a transfer of wealth between classes of equity claim.

(d) if an entity has issued no equity instruments, it may be appropriate to treat the most subordinated class of instruments as if it were an equity claim, with suitable disclosure. Identifying whether to use such an approach, and if so, when, would still be a decision for the IASB to take in developing or revising particular Standards.

Do you agree? Why or why not? If you do not agree, what changes do you suggest and why?

(a)
We support the preliminary view of the Board that the Conceptual Framework should retain the existing definition of equity as the residual interest in the assets of the entity after deducting all its liabilities.



(b)
We support the preliminary view of the Board that the Conceptual Framework should state that the IASB should use the definition of a liability to distinguish liabilities from equity instruments. We further agree that as consequences of this, obligations to issue equity instruments are not liabilities; and obligations that will arise only on liquidation of the reporting entity are not liabilities. However although obligations to issue equity instruments are not liabilities, we believe that obligations that in its final stage will or may require the entity to deliver existing primary equity instruments is a liability and that this should be stated at the same time as it is stated that the obligation to issue equity instruments are not liabilities.

(c)
We support the preliminary view of the Board that the conceptual framework should state the concept of two classes of equity claims. We further support the proposed definition of the primary and secondary equity claim and that this definition should be included in the conceptual framework.

We generally support the idea of periodic remeasurement of secondary equity claims. However, the conceptual framework is not the right place to require such remeasurements. If secondary equity is to be remeasured, this should be regulated at a standard level. The conceptual framework should have a wording that does not impede periodic remeasurements.

(d)
We do not support a statement in the conceptual framework that on a specific topic the Board may issue a standard that overrides the principles in the conceptual framework. This is a general sovereignty of the Bard and should not be repeated for specific topics.

Other comments to chapter 5

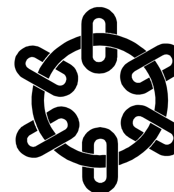
In paragraph 5.7(d) we recommend the Board to consider whether it is necessary to include "financial" in the definition of an equity instrument. When considered together with the definitions of financial assets and financial liabilities we are uncertain of whether the inclusion of "financial" in the definition of equity instruments is necessary.

Section 6

General comment

Measurement is a core element in accounting that warrants a thorough and high quality treatment in the development of the conceptual framework. However, the NASB is concerned that Section 6 is not developed with the rigor and quality that we would expect in a discussion paper. Thus we urge the IASB to ensure a proper due process, and to devote sufficient time and resources to the development of Section 6.

In our view the Board should prepare and present a comprehensive comparative analysis of measurement alternatives and, for each type of asset and liability being considered, evaluate the measurement alternatives against the objectives and the qualitative characteristics taking



into consideration the aggregated information provided in the statement of financial position, the statement of profit or loss, the statement of cash flows and the disclosures. In this comparison each measurement alternative should be evaluated based on optimal presentation. We would expect that the Board would use such a complete comparative analysis to identify when, or under which conditions, a certain measure, is or could be, the best alternative to use. Making reference to measures used in current standards is relevant when discussing measurement alternatives, but it should not be the starting point and guide for conclusions in a discussion paper for a conceptual framework.

Having said this, the NASB agree with most of the specific questions raised in the section on measurement. However, we question the basis and rationale for the principle to be applied to "charging for the right to use assets". Furthermore, we find the discussion paper to be unclear and somewhat confusing on how some of the principles are applied in the discussion paper, particularly with regards to how the "using asset principle" is applied to inventory of finished goods (paragraph 6.80), and how "the selling asset principle" is applied to end product inventory and investment property as discussed in paragraph 6.83-6.85.

We also note that there are several issues where we expected the discussion paper to provide more guidance and direction, based on a more thorough and principle based discussion. One example is the section on how to deal with uncertainty on how an asset will contribute to future cash flows (paragraph 6.75-6.77). This is fundamental and important issue, where we believe the conceptual framework should provide more guidance and direction than barely raising the issue. Another example is the section on cash-flow based measurements other than current prices, where the discussion paper summaries different factors that might be relevant, but adds little or no guidance (framework) or direction on which, when and why the various factors would be relevant in various circumstances.

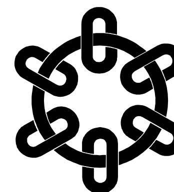
Question 11

How the objective of financial reporting and the qualitative characteristics of useful financial information affect measurement is discussed in paragraphs 6.6–6.35 of the DP. The IASB's preliminary views are that:

- *(a) the objective of measurement is to contribute to the faithful representation of relevant information about:*
  - *(i) the resources of the entity, claims against the entity and changes in resources and claims; and*
  - *(ii) how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's resources.*
- *(b) a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements;*
- *(c) when selecting the measurement to use for a particular item, the IASB should consider what information that measurement will produce in both the statement of financial position and the statement(s) of profit or loss and OCI;*
- *(d) the relevance of a particular measurement will depend on how investors, creditors and other lenders are likely to assess how an asset or a liability of that type will contribute to future cash flows. Consequently, the selection of a measurement:*
  - *(i) for a particular asset should depend on how that asset contributes to future cash flows; and*
  - *(ii) for a particular liability should depend on how the entity will settle or fulfil that liability.*
- *(e) the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained; and*
- *(f) the benefits of a particular measurement to users of financial statements need to be sufficient to justify the cost.*

Do you agree with these preliminary views? Why or why not? If you disagree, what alternative approach to deciding how to measure an asset or a liability would you support?

We generally agree with the views presented, but do not see the necessity of including b). It is strange to articulate in a Framework that "a single measurement basis for all assets and liabilities may not provide the most relevant information for users of financial statements." Is it an objective by itself to have different measurement basis? Is it a qualitative characteristic to have different measurement basis within the standards? We do not suggest that only one



measurement basis would be a desirable result but believe that this should be assessed standard by standard with regards to which measurement basis that would portray the objective of financial reporting in the best possible manner. This could potentially either give one or several measurement basis for assets and liabilities. We therefore recommend the Board to delete this view from the Framework as we cannot see that it would have any bearing or influence on the standard setting.

We agree with the preliminary view of the Board in (e) that it should limit the number of different measures used to the smallest number necessary to provide relevant information. However, we have reservations when the Board goes on to state that this means that the subsequent measurement should be the same as, or at least consistent with, the initial measurement. The Board later rebuts this statement within a parenthesis when it recognises that this does not rule out using a current market price such as fair value, or another cash-flow-based measurement, to establish deemed cost it the subsequent measurement is cost-based. We hold the position that initial measurement at fair value should not rule out subsequent measurement at depreciated or amortised cost. Further we hold the position that the aim of reducing measurement alternatives should not dismiss initial recognition at fair value as currently seen in IFRS 3 and IFRS 9. In conclusion we disagree with the introduction of a principle i.e. that subsequent measurement should be the same as, or at least consistent with, the initial measurement, when it rightly should be practised with extensive exceptions. We do not concur with the view that a change of measurement basis subsequent to the initial recognition reduces the understandability of financial reporting.

Question 12

The IASB's preliminary views set out in Question 11 have implications for the subsequent measurement of assets, as discussed in paragraphs 6.73 – 6.96 of the DP. The IASB's preliminary views are that:

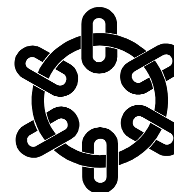
- *(a) if assets contribute indirectly to future cash flows through use or are used in combination with other assets to generate cash flows, cost-based measurements normally provide information that is more relevant and understandable than current market prices.*
- *(b) if assets contribute directly to future cash flows by being sold, a current exit price is likely to be relevant.*
- *(c) if financial assets have insignificant variability in contractual cash flows, and are held for collection, a cost-based measurement is likely to provide relevant information.*
- *(d) if an entity charges for the use of assets, the relevance of a particular measure of those assets will depend on the significance of the individual asset to the entity.*

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

(a)
We agree.

However, we question how this principle is applied to inventories in paragraph 6.80. We understand and agree that most work in progress would fit within this category. However, most end products are held for sale, and often generate cash flows independently of other assets. Furthermore, some commodities are easily sold in active and highly liquid markets. Thus, it seems clear that the argument in paragraph 6.80(a) do not hold for all inventories. Also, even where there is no active market for the end product, we are still not entirely convinced by the arguments put forward in paragraph 6.80.

(b)
We agree.
However, we find the discussion in paragraph 6.83 to 6.85 unclear and to some extent confusing. Firstly, as mentioned above, we question the basis for the general conclusion that inventories would not fit within this category (last sentence in paragraph 6.83). Secondly, we



find the discussion on investment property (paragraph 6.84-6.85) to be unclear, as most investment properties are not to be sold. Thus, we believe the IASB should clarify this point.

(c)
We agree.

(d)
We question the basis for measuring assets differently depending on the significance of the individual asset for the entity, and do not believe that convincing arguments for this conclusion is put forward in paragraph 6.91 to 6.96. Hence, we suggest the IASB clarify and elaborate the basis for this conclusion.

Question 13

The implications of the IASB's preliminary views for the subsequent measurement of liabilities are discussed in paragraphs 6.97–6.109 of the DP. The IASB's preliminary views are that:

- *(a) cash-flow-based measurements are likely to be the only viable measurement for liabilities without stated terms.*
- *(b) a cost-based measurement will normally provide the most relevant information about:*
    - *(i) liabilities that will be settled according to their terms; and*
    - *(ii) contractual obligations for services (performance obligations).*
- *(c) current market prices are likely to provide the most relevant information about liabilities that will be transferred.*

Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

(a)
We agree.

(b)
We agree that these are situations where a cost based measure will normally produce relevant information; however we do believe that cash-flow-based measures as well as current market prices may also provide similarly relevant information.

(c)
We agree.

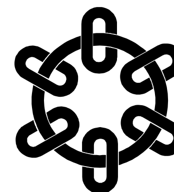
Question 14

Paragraph 6.19 of the DP states the IASB's preliminary view that for some financial assets and financial liabilities (for example, derivatives), basing measurement on the way in which the asset contributes to future cash flows, or the way in which the liability is settled or fulfilled, may not provide information that is useful when assessing prospects for future cash flows. For example, cost-based information about financial assets that are held for collection or financial liabilities that are settled according to their terms may not provide information that is useful when assessing prospects for future cash flows:

- *(a) if the ultimate cash flows are not closely linked to the original cost;*
- *(b) if, because of significant variability in contractual cash flows, cost-based measurement techniques may not work because they would be unable to simply allocate interest payments over the life of such financial assets or financial liabilities; or*
- *(c) if changes in market factors have a disproportionate effect on the value of the asset or the liability (i.e. the asset or the liability is highly leveraged).*

Do you agree with this preliminary view? Why or why not?

We agree.



Question 15

Do you have any further comments on the discussion of measurement in this section?

Other comments to Section 6

We recommend the Board to keep a more stringent line of argument through chapter 6. Arguments should be developed, balanced and supported or stated as opinions of the Board. What might in some situations be supported by some should not be taken as the foundation that it will be supported by a majority in all situations. Interferences based on some users and some situations are all too often implicitly used as basis for conclusion within Section 6.

In the discussion of measurements it is our opinion that the discussion of deprival value in two paragraphs only is on the short side of what is advisable in a discussion paper.

When discussing measurement at initial recognition the DP looks at four different alternatives. We agree that in exchanges of items with equal significant measurement issues rarely occur unless it is a negotiated exchange of two dissimilar assets or liabilities where neither is readily convertible to cash. However in paragraph 6.64 we believe that the circumstances described in (b) and (c) describes measurement deviations elected by standards and not situations where the fair value of the consideration given differs from the fair value of what is received.

In exchanges of items with different values we agree with the principles described in paragraph 6.67. When day 1 gains or losses are recognised they should be accompanied with relevant disclosures in the notes.

Conceptually we have problem with the existence of non-exchange transactions. We believe that this is part of exchanges with different values.

In regard to internally constructed assets we conceptually support the alternative presented in Paragraph 6.72. Exceptions form this principle could be regulated based on cost benefit considerations in relevant standards.

Section 7

Question 16

This section sets out the IASB's preliminary views about the scope and content of presentation and disclosure guidance that should be included in the Conceptual Framework. In developing its preliminary views, the IASB has been influenced by two main factors:

(a) the primary purpose of the Conceptual Framework, which is to assist the IASB in developing and revising Standards (see Section 1); and

(b) other work that the IASB intends to undertake in the area of disclosure (see paragraphs 7.6–7.8 of the DP), including:

  (i) a research project involving IAS 1, IAS 7 and IAS 8, as well as a review of feedback received on the Financial Statement Presentation project;

  (ii) amendments to IAS 1; and

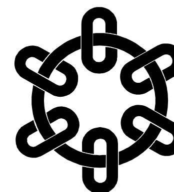
  (iii) additional guidance or education material on materiality.

Within this context, do you agree with the IASB's preliminary views about the scope and content of guidance that should be included in the Conceptual Framework on:

(a) presentation in the primary financial statements, including:

  (i) what the primary financial statements are;

  (ii) the objective of primary financial statements;



(iii) classification and aggregation;
(iv) offsetting; and
(v) the relationship between primary financial statements.

(b) disclosure in the notes to the financial statements, including:
(i) the objective of the notes to the financial statements; and
(ii) the scope of the notes to the financial statements, including the types of information and disclosures that are relevant to meet the objective of the notes to the financial statements, forward-looking information and comparative information.

Why or why not? If you think additional guidance is needed, please specify what additional guidance on presentation and disclosure should be included in the Conceptual Framework.

Although we do not have any objections to the proposals we believe the views presented in the DP represents very high level views and it could be helpful if some more clarity or more guidance would be included. For example the DP states that “the IASB can consider different forms of disclosure (e.g disaggregation, descriptions, roll-forwards, sensitivity analysis) depending on the nature of the item in question). This is a very general statement and does not provide any structured approach to disclosure requirements. If IASB would like entities to have a more disciplined approach to presentation and disclosure further clearance and guidance would be needed.

We also propose to delete paragraph 7.33 (b) since we do not believe the notes is the proper place to address stewardship.

Question 17

Paragraph 7.45 describes the IASB’s preliminary view that the concept of materiality is clearly described in the existing Conceptual Framework. Consequently, the IASB does not propose to amend, or add to, the guidance in the Conceptual Framework on materiality. However, the IASB is considering developing additional guidance or education material on materiality outside of the Conceptual Framework project.

Do you agree with this approach? Why or why not?

Although we do not have any objections to the proposals we believe it is somewhat strange to develop additional guidance if materiality is clearly described.

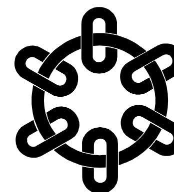
We would also question the usefulness of developing additional guidance in the format of education material. We believe such guidance should be included as additional guidance related to new or existing standards if IASB were to develop such guidance.

Question 18

The form of disclosure requirements, including the IASB’s preliminary view that it should consider the communication principles in paragraph 7.50 when it develops or amends disclosure guidance in IFRSs, is discussed in paragraphs 7.48–7.52.
Do you agree that communication principles should be part of the Conceptual Framework? Why or why not?

If you agree they should be included, do you agree with the communication principles proposed? Why or why not?

We agree



Section 8

General comments

Our main concern is that it is difficult to understand the meaning of Other comprehensive income (OCI). OCI has been poorly defined in the existing standards/framework and the discussion paper does not increase the understanding of the concept OCI. Our view is that the lack of clear definition of OCI in the discussion paper makes it difficult to have a principle-based feedback on the questions raised in Section 8. It is our opinion that the focus in this section should have been about the main principles of OCI. We are not able to understand what the bearing principle in the discussion paper, except for avoiding mismatch with existing standards.

IASB has previously acknowledged profit or loss as a useful performance measure and that "profit or loss" as a subtotal or a phrase is deeply ingrained in the economy, business and investors minds. This discussion paper also supports arguments in favour of a concept that would require profit or loss to be presented as a total or subtotal on the statements of profit or loss and OCI. As IASB acknowledge the profit or loss as the main source of how the entity's resources have been used, we highly encourage IASB to come up with a definition profit or loss. Before we have an idea of what profit or loss should consist of, it is hard to discuss what elements should be included in OCI and what elements should be recycled or not.

As a starting point for further discussion we would like to mention the paper from the Accounting Standard Board of Japan (ASBJ). This paper take, in our opinion, a more conceptual and principal approach to OCI than the current discussion paper.

We strongly encourage IASB to defer this part of the conceptual framework since more work is needed to reach a definition on profit or loss and more solid principles for which items that should be recognised in OCI and subsequently recycled through profit or loss. We see no harm in deferring Section 8, as the other sections can be finalized without this section.
The questions below are answered generally, as we have difficulties with having a principle-based approach to the detailed questions since the concept of OCI, in our opinion, is not discussed properly.

Question 19

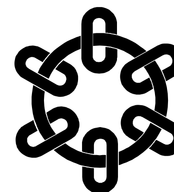
The IASB's preliminary view that the Conceptual Framework should require a total or subtotal for profit or loss is discussed in paragraphs 8.19–8.22.

Do you agree? Why or why not?
If you do not agree do you think that the IASB should still be able to require a total or subtotal profit or loss when developing or revising particular Standards?

We agree, as we think most readers focus on the profit or loss statement.

Question 20

The IASB's preliminary view that the Conceptual Framework should permit or require at least some items of income and expense previously recognised in in OCI to be recognised subsequently in profit or loss; i.e. recycled, is discussed in paragraphs 8.23–8.26.



Do you agree? Why or why not? If you agree, do you think that all items of income and expense presented in OCI should be recycled into profit or loss? Why or why not?

If you do not agree, how would you address cash flow hedge accounting?

We cannot take a position on this question before we understand the concept of OCI.

Question 21

In this Discussion Paper, two approaches are explored that describe which items could be included in the OCI: a narrow approach (Approach 2A described in paragraphs 8.40–8.78) and a broad approach (Approach 2B described in paragraphs 8.79-8.94).

Which of these approaches do you support, and why?

If you support a different approach, please describe that approach why do you believe it is preferable to the approaches described in this Discussion Paper.

As mentioned in our general feedback to this section, we find that the OCI as described in Section 8 is difficult to understand. It seems that it has been more focus on reaching an OCI solution that "fits" existing standards, instead of discussing properly what could be the main principles of OCI and then later investigate if it will diverge from existing standards.
The principles of OCI are not clear to us and therefore it is not possible to suggest a different approach.

We would also like to point out that while DP considers that bridging item shall be reported in OCI, the DP does not address when it is relevant to use a different measurement method in the profit and loss and the balance sheet. The final framework should include such guidance. The guidance should probably beet included in the measurement section.

Section 9

Question 22

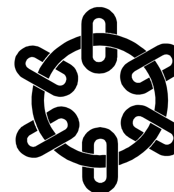
Chapters 1 and 3 of the existing Conceptual Framework

Paragraphs 9.2–9.22 address the chapters of the existing Conceptual Framework that were published in 2010 and how those chapters treat the concepts of stewardship, reliability and prudence. The IASB will make changes to those chapters if work on the rest of the Conceptual Framework highlights areas that need clarifying or amending. However, the IASB does not intend to fundamentally reconsider the content of those chapters.

Do you agree with this approach? Please explain your reasons.

If you believe that the IASB should consider changes to those chapters (including how those chapters treat the concepts of stewardship, reliability and prudence), please explain those changes and the reasons for them, and please explain as precisely as possible how they would affect the rest of the Conceptual Framework.

The NASB acknowledges the considerable effort embedded in the existing chapters 1 and 3 of the current framework. However, these parts of the framework are crucial to the functionality and legitimacy of the framework, and it is desirable to have wide support for their content. It is our impression that some of the solutions opted for in 2010 are still controversial, and we believe that the IASB should allow a discussion on these matters. At the same time we emphasize the need to get on with the conceptual framework, so a review of these topics should not delay the general progress. In practice we suggest that chapters 1 and 3 temporarily constitute the basis for further development, but that the IASB nevertheless opens the debate for possible future amendments.



<u>Stewardship:</u> The NASB agrees with the DP that the objective of stewardship is sufficiently covered by the wording of the current OB4.

<u>Reliability:</u> The removal of reliability as a QC and its replacement by faithful representation is one controversial decision of 2010. In our view the previous relevance vs. reliability dichotomy represented a real trade-off, whereas faithful representation and relevance are to a larger extent overlapping characteristics. This trade-off between two desirable accounting characteristics is typically widely referred to in classrooms and textbooks, e.g. to explain the arguments for historical cost and fair value accounting. Something valuable was lost with that substitution of terms.

The reason for removing reliability as a key concept was primarily a lack of common understanding (para. 9.11), which seems an oddly weak argument for the removal of a key concept. In a situation with diverging views on the content, it would have been more sensible to search for a common understanding rather than scrapping the whole concept.

Furthermore, with the focusing on the purpose of the framework to support the standard setter in its search for solution, we believe that the reliability concept is even more justified than before. We do not support reliability as a concept that each reporting entity can use to nullify standard requirements, but we believe that reliability of the financial reporting is something the standard setter should bear in mind when developing accounting standards.

We do not suggest a full description of the content of reliability in this letter, but we believe that it contains more than the three adjectives used to explain faithful representation in Table 9.1. We include terms like verifiability and objectivity into the concept of reliability.

<u>Prudence:</u>
We agree that characteristic of neutrality is superior to prudence when it comes to the measurement of asset and liabilities. Traditionally the concept of prudence has been misused, and used to legitimize “hidden reserves”. However, some may argue that prudence has also constituted the basis for asymmetric recognition and measurement rules of accounting standards and legislation, for example that recognition of contingent assets is more restrictive than recognition of contingent liabilities, and similarly with deferred tax assets and liabilities. Others might argue that asymmetric recognition and measurement rules in standards can be constituted on the basis of relevance. Anyway, it is necessary to clarify whether standards can continue to be biased, and what should be the basis for such conservatism. We encourage the IASB to clarify if the IASB’s intention is that all future standards should be strictly neutral.

Question 23

Business model

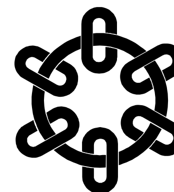
The business model concept is discussed in paragraphs 9.23–9.34. This DP does not define the business model concept. However, the IASB’s preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts its business activities.

Do you think that the IASB should use the business model concept when it develops or revises particular Standards? Why or why not?

If you agree, in which areas do you think that the business model concept would be helpful?

Should the IASB define ‘business model’? Why or why not?

If you think that ‘business model’ should be defined, how would you define it?



The NASB acknowledges that the business model idea has been used in some recent standards, although it may be too early to draw any conclusion about the success of this use. We believe that the business model should not be a general basis for formulating accounting standards, but we do not exclude that a reference to it could be appropriate in certain standards. The determinants of the business model could also have some variation in different standards. In our view there is no need for a reference to the business model in the Conceptual Framework.

Question 24

Unit of account

The unit of account is discussed in paragraphs 9.35–9.41. The IASB's preliminary view is that the unit of account will normally be decided when the IASB develops or revises particular Standards and that, in selecting a unit of account, the IASB should consider the qualitative characteristics of useful financial information.

Do you agree? Why or why not?

That the question of unit of account is a complex one is highlighted by the diversity of industry practices. Therefore the NASB is in favour of guidelines for aggregation and disaggregation of units on a conceptual level. However, we are not in favour of a rushed development of such guidelines in the short run. We agree with the DP that the unit of account can be dealt with in the specific standards, but we would also welcome the initiation of a long-term development on this issue.

Question 25

Going concern

Going concern is discussed in paragraphs 9.42–9.44. The IASB has identified three situations in which the going concern assumption is relevant (when measuring assets and liabilities, when identifying liabilities and when disclosing information about the entity).

Are there any other situations where the going concern assumption might be relevant?

The NASB is of the view that the GC assumption and the limits to it is an essential part of the conceptual framework.

We have not identified any other situations where the going concern assumption might be relevant than those described by the IASB.

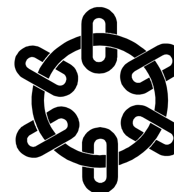
Question 26

Capital maintenance

Capital maintenance is discussed in paragraphs 9.45–9.54. The IASB plans to include the existing descriptions and the discussion of capital maintenance concepts in the revised Conceptual Framework largely unchanged until such time as a new or revised Standard on accounting for high inflation indicates a need for change.

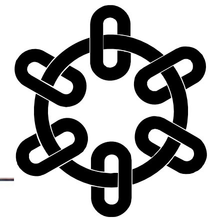
Do you agree? Why or why not? Please explain your reasons.

We have not a strong view on this. However, if the only reason for keeping the section on capital maintenance is to have a basis for inflation adjustments we believe that the text should be more concise and focused.



The section on capital maintenance rounds off with a discussion on revaluations. We think that the system of revaluation should be discussed in conjunction with measurement. One of the conclusions of Section 6 is that the number of measurements used should be the smallest number necessary to provide useful information. On this basis the revaluation system should not survive. The NASB welcomes any project that has the ambition of removing unnecessary options and promoting global uniformity.

Norsk RegnskapsStiftelse



3 February 2014

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

Cc: EFRAG

Dear Sir/Madam

Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements – Proposed amendments to IAS 27

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Equity Method in Separate Financial Statements.*

We acknowledge several benefits of the proposed inclusion of the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements. However, we do not believe that these benefits will outweigh the disadvantages of an increased number of accounting options and measurement alternatives. In general, we believe accounting options and measurement alternatives should be kept at a minimum because they reduce comparability of financial statements. Hence, we do not support the proposal to reinstate the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

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.

Yours faithfully,

Didrik Thrane-Nielsen
Vice Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

CC: EFRAG

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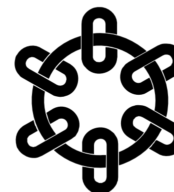


Appendix - Detailed comments on amendments proposed in ED 2013/10

Questions

Question 1 – Use of the equity method
The IASB proposes to permit the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

Do you agree with the inclusion of the equity method as one of the options? If not, why?

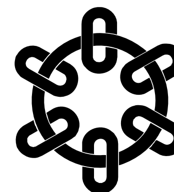
We understand that the inclusion of the equity method as an option to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements could better align accounting principles applicable to different sets of financial statements. In addition, we believe application of the equity method in the separate financial statements can provide useful information of the investor's net assets and profit or loss. However, we have several conceptual concerns if the Board decides to restore this option in the separate financial statements.

First of all, we believe the Board generally aims for a reduced number of accounting options within IFRS. However, the proposed amendment increases the number of options and thus reduces comparability.

Secondly, the proposed solution increases the number of measurement alternatives used within the separate financial statements. We understand that the Board holds as its preliminary view that the number of different measurements used should be the smallest number necessary to provide relevant information. Unnecessary measurement changes should be avoided and necessary measurement changes should be explained. We do not see that the Board has sufficiently explained why this is a necessary measurement change or a necessary increase in the number of measurements applicable in the separate financial statements.

Thirdly, although the IASB has not yet clarified whether the equity method is a one-line consolidation method or a measurement method, allowing the equity method to be applied in the separate financial statements confirms that the equity method is applied as a measurement method. However the regulation of the equity method procedures that is specified in IAS 28.28 is not consistent with the regulation of a measurement method and results in different treatment of transactions with the subsidiary, joint venture or associate in the separate financial statements depending on the measurement method of the investment in the subsidiary, joint venture or associate. We do not see this as conceptual consistent with the equity method being applied as a measurement method.

Based on the above-mentioned concerns we do not agree with the proposed inclusion of the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.



Question 2 – Transition provisions
The IASB proposes that an entity electing to change to the equity method would be required to apply that change retrospectively, and therefore would be required to apply IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Do you agree with the proposed transition provisions? If not, why and what alternative do you propose?

We agree.

Question 3 – First-time adopters
The IASB does not propose to provide any special relief for first-time adopters. A firsttime adopter electing to use the equity method would be required to apply the method from the date of transition to IFRSs in accordance with the general requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards.

Do you agree that a special relief is not required for a first-time adopter? If not, why and what alternative do you propose?

We agree.

Question 4 – Consequential amendment to IAS 28 Investments in Associates and Joint Ventures
The IASB proposes to amend paragraph 25 of IAS 28 in order to avoid a conflict with the principles of IFRS 10 Consolidated Financial Statements in situations in which an entity loses control of a subsidiary but retains an ownership interest in the former subsidiary that gives the entity significant influence or joint control, and the entity elects to use the equity method to account for the investments in its separate financial statements.

Do you agree with the proposed consequential amendment? If not, why?

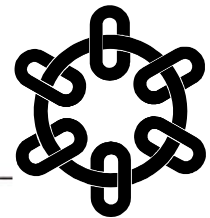
Paragraph 25 of IAS 28 refers to situations where an entity's ownership in an associate or a joint venture is reduced, but the investment is still classified either as an associate or a joint venture. However, paragraph BC11 of the exposure draft refers to situations where an entity loses control of a subsidiary, but retains significant influence or joint control. Hence, we do not believe the proposed amendment in IAS 28.25 is adequately explained by the IASB in BC11.

Question 5 – Other comments
Do you have any other comments on the proposals?

We believe that there will be a need to expand the regulation in IAS 27.11B(a).

The introduction of further accounting options increases the benefits of regulating the accounting treatment applicable when an investment changes category in IAS 27.10 (e.g. from a subsidiary to an associate or vice versa) and the entity has elected different measurement options for different categories.

Norsk RegnskapsStiftelse



4. February 2014

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

Dear Sir or Madam

Re: Exposure Draft ED/2013/11 Annual improvement to IFRSs 2012-2014 cycle

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Annual Improvements to IFRSs 2012-2014 Cycle.*

We generally agree with the proposed changes that we find appropriate to address in the annual improvement project. We have some comments to the wording of some of the amendments, and would recommend changes to the transition provisions for the IFRS 7 amendment related to servicing contracts.

See the attachment to this comment letter for our response to the specific questions raised in the exposure draft.

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

Yours faithfully,

Didrik Thrane-Nielsen
Vice Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

CC: EFRAG

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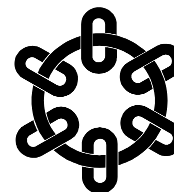


IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*

Question 1 – Proposed amendments

We agree with the proposed changes. It is useful that the standard addresses changes to a plan of distribution and reclassifications from “held for sale” to “held for distribution”. We agree that the change from one method of disposal to another should not be considered a new classification, but a continuation of the same classification, presentation and measure requirements.

Question 2 – Transition provisions and effective date
We emphasise that in our opinion, the amendment represent a clarification, and that it also under the current IFRS 5 will be possible, and most appropriate, to account for a change from “held to sale” to “held for distribution” without applying the provisions relating to changes to a plan to sale in IFRS 5.27-29. When the transition provision is “prospective”, there is a risk that someone could interpret this to mean that the provisions of IFRS 5.27-29 must be applied to account for a change from “held to sale” to “held for distribution” under the current IFRS 5. As the transition provisions allows for early application, this is unlikely to cause problems in practice. We therefore have no objection to the proposed transition provisions or effective date.

IFRS 7 *Financial instruments: Disclosure*

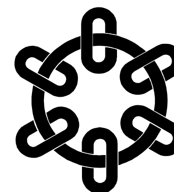
Servicing contracts

Question 1 – Proposed amendments

We agree with the proposed changes. A servicing contract with a fee, where the amount or timing of that fee depends on the amount or timing of the cash flows collected from the transferred financial assets, creates an implicit interest in the transferred asset and thus represents continuing involvement in the transferred asset. It should be noted that we believe that this is the case also under the current IFRS 7, and we see this amendment as a clarification and not as a change.

We would however ask the IASB to see if the wording of IFRS 7.B30A could be improved. The paragraph does not establish a principle for when a servicing contract represents continuing involvement, but gives examples. We believe that the paragraph should establish a principle. For example, the basis for conclusion establishes that there is continuing involvement “if the amount and/or timing of the servicing fee depend on the amount and/or timing of the cash flow collected from the transferred financial assets” (BC3). We do also question if it is optimal to have an assumption that a servicing contract generally represents continuing involvement. In our opinion, it would be better to state a principle rather than a rebuttable assumption.

Question 2 – Transition provisions and effective date
We disagree with the proposed transition requirements that do not require disclosure for the comparative period. In general we believe full retrospective appliance should be the “main rule”. We understand that the reason for the allowing an exemption for the disclosure of the comparative period, is that it can be difficult to determine the fair value of the servicing asset or liability at a previous date without using hindsight. However, as the proposed effective date is January 1, 2016, we believe the entities will have sufficient time to prepare for the new disclosure requirement and provide the information needed without using hindsight. Furthermore, we believe the amendment is a clarification



and not a new disclosure requirement. We therefore find full retrospective application to be most appropriate.

Applicability of the amendments to IFRS 7 to condensed interim financial statements

Question 1 – Proposed amendments

We agree with the proposed changes. Requirements of disclosure in interim financial statements should be included in IAS *34 Interim financial reporting*.

Question 2 – Transition provisions and effective date

We agree.

IAS 19 *Employee Benefits*

Question 1 – Proposed amendments

We agree.

Question 2 – Transition provisions and effective date

We agree with the transition provisions that require the amendments to be applied retrospectively. In general we believe that retrospective appliance should be the main rule. For this amendment we do not see any reason for not applying the amendment retrospectively, and we agree with the suggested transition provisions.

IAS 34 *Interim Financial reporting*

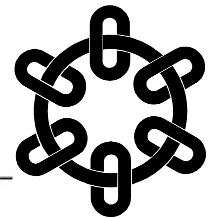
Question 1 – Proposed amendments

We agree with the proposed amendment. Disclosures that are part of the financial statements should be included in the financial statements or incorporated by reference.

Question 2 – Transition provisions and effective date

We agree.

Norsk RegnskapsStiftelse



EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Oslo, April 28th, 2014

Dear Sir/Madam

EFRAG Bulletin on complexity

The Norwegian Accounting Standards Board (NASB) welcomes the opportunity to respond to the EFRAG Bulletin on complexity.

In our view, the bulletin contains a valuable discussion on the problem of complexity in financial reporting. The distinction between avoidable and unavoidable complexity is instructive, and we agree that the topics listed in para. 16 are good examples of avoidable complexity. We appreciate in particular that the accounting standards' anti-abuse measures are included in these topics. In our view, anti-abuse measures should not be part of accounting standards, because they rather belong to the interaction between companies and their auditors. Current accountings standards contain both disciplinary hurdles, like the hedge effectiveness test referred to in the bulletin, and disclosure requirements that apparently are designed to demonstrate compliance with the standard.

We also think that the reference to introduction of new terms and concepts, and the inconsistent use of established terms, is a useful reminder for standard setters. With the aspiration of IFRS as global standards, it is necessary that the authors of original standards in English language also pay some heed to the consequences for translations.

While we obviously agree with an objective to limit complexity as much as possible, we do not agree with a proposal to include barriers towards complexity in the Conceptual Framework. We also do not think that a discussion on complexity belongs to the Framework. We think, as the German standard setter, that the Framework already contains sufficient measures against complexity. We prefer the bulletin to remain a stand-alone document which, if supported by enough constituents, can be used as a reference in future discussions on specific standards, e.g. in the ASAF.

Yours faithfully,
Norsk RegnskapsStiftelse

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

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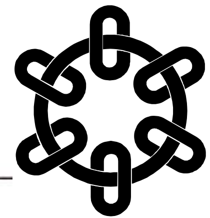

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Oslo, 15 May 2014

Dear Sir/Madam

The Equity Method: A Measurement Basis or One-line Consolidation?

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the short discussion paper "*The Equity Method: A Measurement Basis or One-line Consolidation?"*.

EFRAGs initiative to stimulate the debate on the equity method of accounting is well received by Norsk RegnskapsStiftelse, and we believe EFRAGs contributions to the debate could provide helpful input to the IASB's research project on the equity method. We find the discussion paper informative, well-structured, and relevant. The way the discussion paper presents the historical development of the equity method is useful because we have to know the past to understand the present. In particular, the retrospect is useful in determining whether the equity method in the current IAS 28 is a measurement basis or one-line consolidation.

We agree that the equity method under the current IAS 28 lacks a set of principles that clearly apply to all aspects of accounting under the equity method. Furthermore, we acknowledge that these insufficiently robust principles and lack of guidance have caused diversity in the way the equity method is applied in practice

In its research project on the equity method we believe the main objective of the IASB should be to clarify what the equity method aims to achieve in reporting for an investment in an associate or a joint venture.

It is argued that many procedures appropriate for application of the equity method are similar to the consolidation procedures described in IFRS 10. However, from the perspective of the consolidated financial statements IFRS 10 focuses on 'control' as the single basis of consolidation. Thus, all other investees held by a parent company (including associates and joint ventures) are excluded from the defined group in the parent's consolidated financial statements. Moreover, recent IASB amendments to IAS 28 and IAS 39 explain that an investment in an associate or a joint venture is a single unit of account, rather than the individual assets and liabilities of the investees. In our view, both the focus on control in IFRS 10 and the decisions explaining that an investment in an associate and joint venture is a single unit of account are conceptually sound. Hence, we believe the equity method cannot conceptually be a one-line consolidation.

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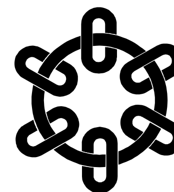

Investments in joint venture are often more integrated in investor's business model than investments in associates. The number of transactions between investor and investee is often significantly higher, and an investor will often take a significant amount of the output from the joint venture. Applying the same set of principles of the equity method for an investment in a joint venture and an associate may therefore reduce the relevance of information in financial reporting. However, we believe this issue should be solved within IFRS 11 and not by amendments to the equity method in IAS 28.

Although the perspective from a parent's separate financial statements is not discussed in the discussion paper, we note that several issues concerning the equity method in separate financial statements are extensively debated. We encourage EFRAG to include the perspective of separate financial statements in the debate on the equity method of accounting.

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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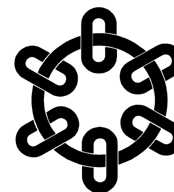

Appendix: Question to constituents

1. Do you view the equity method under IAS 28 as a measurement basis, a one-line consolidation approach or something different? Please explain?

From the perspective of the consolidated financial statements we conceptually consider the equity method under IAS 28 as a measurement basis.

It is argued that many procedures appropriate for application of the equity method are similar to the consolidation procedures described in IFRS 10. However, from the perspective of the consolidated financial statements IFRS 10 focuses on 'control' as the single basis of consolidation. Thus, all other investees held by a parent company (including associates and joint ventures) are excluded from the defined group in the parent's consolidated financial statements. Moreover, recent IASB amendments to IAS 28 and IAS 39 explain that an investment in an associate or a joint venture is a single unit of account, rather than the individual assets and liabilities of the investees. In our view, both the focus on control in IFRS 10 and the decisions explaining that an investment in an associate and joint venture is a single unit of account are conceptually sound. Hence, we believe the equity method cannot conceptually be a one-line consolidation.

2. If you view the equity method under IAS 28 as being akin to a one-line consolidation approach, do you believe that the consolidation procedures should be based on the entity concept in IFRS 10 or not (e.g. based on a proprietary approach)? Please explain.

We do not view the equity method under IAS 28 as being akin to a one-line consolidation approach.

3. Do you think that for some transactions a measurement basis appropriately reflects the underlying economics of the transaction and provides useful information, whilst for other transactions a one-line consolidation approach is preferable? Could you provide some examples of transactions where application of either of the concepts would be more appropriate?

We generally believe a measurement basis more appropriately reflects the underlying economics of transactions concerning investments in an associate or a joint venture. In particular, we believe a measurement basis is more appropriate for transactions between investor and its associate or joint venture. An investment in an associate or a joint venture is a single unit of account and investor holds a non-controlled investee. Hence, we believe transactions between investor and an associate or a joint venture in general should be accounted for similar to any other transaction with a third party. Investor's profits or losses arising from such transactions should therefore be recognised in full in profit or loss.

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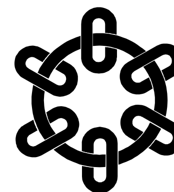

In practice however, we often find that investments in joint ventures are more integrated in investor's business model than investments in associates. The number of transactions between investor and the joint venture is often high, and investor will often take a significant amount of the output from the joint venture. Applying the same set of principles of the equity method for an investment in a joint venture and an associate may therefore not appropriately reflect the underlying economics of all transactions between investor and equity-accounted investees. Hence, we believe a different method is required to account for an investment in a joint venture being highly integrated in investor's business model, than the equity model applicable for an investment in an associate. However, we believe this issue regarding joint ventures should be solved within IFRS 11 and not by amendments or guidance to the equity method in IAS 28.

4. Have you had practical problems in applying IAS 28, because the underlying nature of the equity method is unclear? If so, could you please describe those problems and how you addressed them?

Although we are aware of several practical problems in applying IAS 28, Norsk RegnskapsStiftelse is not a preparer of financial reporting and we therefore decide not to reply to this question.

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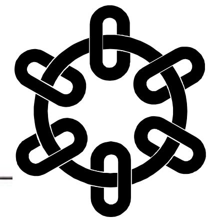

30 May 2014

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

Dear Sir or Madam

Re: Post-implementation Review: IFRS 3 Business Combinations

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the post-implementation review: IFRS 3 Business Combinations.

Please find our response to the specific questions raised in the Post-implementation Review: IFRS 3 Business Combination in the appendix.

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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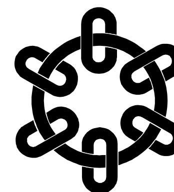


Appendix:

1. Your background and experience

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is the national standard-setter in Norway.

2. Definition of a business

Question 2 (a)
Are there benefits of having separate accounting treatments for business combinations and asset acquisitions? If so, what are these benefits?

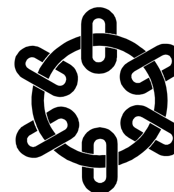
We believe it is beneficial to have separate accounting treatments for business combinations and asset acquisitions under current IFRS. Especially the prohibition in IAS 12 regarding the initial recognition of deferred tax liabilities and assets in a transaction that is not a business combination and the inclusion of transaction costs in the measurement of cost when an entity purchase a PPE lead to an unavoidable need for separate accounting treatments. However, in principle we see arguments for having one accounting method for all acquisitions irrespective of the acquired asset(s) constituting a business or not. The differences between these two situations are often marginal and the accounting for them should not lead to such materially different treatments as we see today. To make this a possible solution the problems pointed out above have to be resolved and accounted for in the same way in both instances.

Question 2 (b)
What are the main practical implementation, auditing or enforcement challenges you face when assessing a transaction to determine whether it is a business? For the practical implementation challenges that you have indicated, what are the main considerations that you take into account in your assessment?

In a principle based standard we acknowledge that there have to be some areas that are highly judgmental. However, we believe that the IASB should provide more guidance in distinguishing a business combination from an asset acquisition. In particular, we think that the IASB should provide more guidance related to the kind of processes that will lead to identification of a business. Currently there is a great deal of variation in applying the definition of business, especially related to the interpretation of processes.

3. Fair value

Question 3 (a)
To what extent is the information derived from the fair value measurements relevant and the information disclosed about fair value measurements sufficient? If there are deficiencies, what are they?



Measuring the identifiable net assets at fair value as of the acquisition date provides more valuable information to the users of the financial statements than a measurement whereby excess values are included in goodwill.

However, we would like to point out that the purchase price allocation is both costly and time consuming. We therefore question whether the requirement in IFRS 3 to disclose purchase price allocations for business combinations after the reporting period, but before the financial statements are authorized, would satisfy a cost benefit analysis.

Question 3 (b) and 3 (c)
What have been the most significant valuation challenges in measuring fair value within the context of business combination accounting? What have been the most significant challenges when auditing or enforcing those fair value measurements?

Has fair value measurement been more challenging for particular elements: for example, specific assets, liabilities, consideration etc?

We believe that the most challenging issue of fair valuing identifiable assets in a business combination is when the entity ends up in a bargain purchase. Technically IFRS 3 requires the entity to look at the assets separately and measure each of them at fair value on a stand-alone basis (of course with asset contribution charges). However, without looking at the business as a whole and the reasons for why the entity is able to acquire the business for less than the fair value of the net assets, the entity might end up "wrongfully" recognising a gain as of the acquisition date, which is soon after followed by an impairment, especially related to property, plant and equipment. We therefore encourage IASB to give more guidance on how to approach a situation where the business combination seems to end up in a bargain purchase.

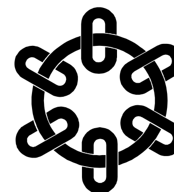
Allocating fair values between closely interrelated assets may also be a challenging task

4. Separate recognition of intangible assets from goodwill and the accounting for negative goodwill

Question 4 (a)
Do you find the separate recognition of intangible assets useful? If so, why? How does it contribute to your understanding and analysis of the acquired business? Do you think changes are needed and, if so, what are they and why?

Yes, separate recognition of intangible assets is useful because it gives the users better insight to the assets acquired and makes it easier for users to assess the stewardship and accountability of management.

We therefore believe that more emphasis should be put in place to recognise intangible assets than today's regulation allows. Some intangible assets are prohibited from recognition due to for example lack of control over the assets while other assets arguably not controlled by the entity are required to be recognised. We do not see the benefit of recognizing customer relationships that are not based in contracts as assets while an assembled work force may not be recognized. In our view there is no significant difference in the level of control that the



entity can exercise in the two cases. We therefore urge IASB to look into the recognition criteria for intangible assets in a business combination and consider whether it is sufficient to fulfill the identifiable and measurement criteria to be able to recognise an intangible asset or not.

Question 4 (b)
What are the main implementation, auditing or enforcement challenges in the separate recognition of intangible assets from goodwill? What do you think are the main causes of those challenges?

We see significant practical challenges in valuing intangible assets where no active market exists and there are few or no comparable price observations for stand-alone transactions involving identical or similar assets. However, we believe that the benefits to the users of recognising such assets at fair value outweigh the challenges in the situations where such assets may be material to the business combination.

Question 4 (c)
How useful do you find the recognition of negative goodwill in profit or loss and the disclosures about the underlying reasons why the transaction resulted in a gain?

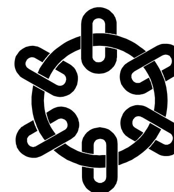
As noted in question 3 we encourage IASB to enhance the guidance related to situations where negative goodwill is an issue. In our view, very few business combinations are true bargain purchases. To recognise such highly uncertain gain in the P/L should not be done before the acquirer can demonstrate that the acquired business as a whole would generate sufficient cash flow to defend the fair value allocated to the identifiable net assets recognised in the business combination.

If an entity ends up with a negative goodwill, IFRS 3 should be more explicit on the disclosure requirements. For example, in addition to the existing requirement to give a description of the reason why the transaction resulted in a gain, it would be beneficial for the users to know the valuation techniques the acquirer has used.

5. Non-amortisation of goodwill and indefinite-life intangible assets

Question 5 (a)
How useful have you found the information obtained from annually assessing goodwill and intangible assets with indefinite useful lives for impairment, and why?

The information obtained from the annual impairment test is useful information for the users. It gives a glance of how the management perceives the future in the relevant cash generating unit. However, a majority of the NASB is of the opinion that goodwill should be amortised and not only be assessed for impairment annually. Goodwill is a combination of various elements, both identifiable and unidentifiable. Some of these elements are included in goodwill because they do not meet the recognition criteria, such as assembled work force, or because they result from specific measurement regulation such as the difference between nominal value of deferred tax and its fair value. Such elements have finite life, and hence



there is a planned value reduction of goodwill over time. The information content of goodwill impairment losses would be larger if they contain only the unexpected loss of value.

Goodwill recognised in a business combination can rapidly be exchanged with new internally generated goodwill and hence the previous recognised goodwill is actually not present within the Group anymore. We also see significant restructuring processes performed in today's business environment which blend the acquired businesses with other units within a group and hence the goodwill has become part of larger cash generating units. A restructuring process might also lead to an arbitrarily allocation of goodwill, which will diminish if the goodwill is amortised.

6. Non-controlling interests

Question 6 (a)

How useful is the information resulting from the presentation and measurement requirements for NCIs? Does the information resulting from those requirements reflect the claims on consolidated equity that are not attributable to the parent? If not, what improvements do you think are needed?

We support the presentation of NCI as part of equity, however we question whether the option to measure NCI at fair value is relevant for the users of financial statements. We also argue that such an option should not be a free choice at each acquisition. The choice of measuring the NCI at fair value or based on the net identifiable assets is an accounting policy choice and should be applied consistently.

Question 6 (b)

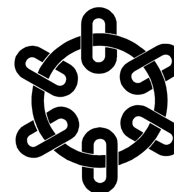
What are the main challenges in the accounting for NCIs, or auditing or enforcing such accounting? Please specify the measurement option under which those challenges arise.

Establishing fair values on assets and liabilities that do not have quoted prices or observable market prices on the input factors in the valuation may lead to large intervals in the estimates of fair value. Measuring NCI at fair value means recognising additional goodwill (residual values) in the statement of financial position, which is allocated to the NCI in the equity. To the extent that goodwill results from errors in accounting measurement, it is hard to see how this option leads to any additional value for the users of the financial statements of the acquirer. In that case we don't think measuring NCI at fair value is a value added option for the users of the financial statements.

7. Step acquisitions and loss of control

Question 7

(*a*) *How useful do you find the information resulting from the step acquisition guidance in IFRS 3? If any of the information is unhelpful, please explain why.*



(b) How useful do you find the information resulting from the accounting for a parent's retained investment upon the loss of control in a former subsidiary? If any of the information is unhelpful, please explain why.

We believe that the accounting for gaining control and losing control should be based on the same principle. We therefore support the initiative from IASB (ED/2012/6) to clarify the accounting for loss of control when an interest is retained in a former subsidiary.

8. Disclosures[1]

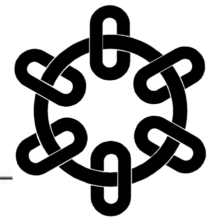
Question 8 (b)

Is there information required to be disclosed that is not useful and that should not be required? Please explain why.

IFRS 3.B64(h) – For acquired receivables you are supposed to disclose fair value, gross contractual amount and best estimate of collection for all classes of receivables. This is very detailed information and we question whether this information is useful for the users. Such detailed informationshould only be required if it is important for understanding the business acquired. Moreover, if such detailed information is important, the disclosure requirement should apply to any acquired asset or liability, not only receivables.

[1] We have not replied to question 8(a), 8(c), 9 and 10.

Norsk RegnskapsStiftelse



4. June 2014

Ms Françoise FLORES
EFRAG Chair
35 Square de Meeûs
B-1000 Brussels
Belgium

Dear Madam

Re: The role of the business model in financial statements

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) hereby takes the opportunity to submit its views on the research paper *The role of the business model in financial statements.*

The tentative view presented in the paper is that financial statements based on the business model meet the qualitative characteristics in the IASB Conceptual Framework. We do not agree with this view and we believe that the concept of Business Model or the role of Business Model in Financial reporting should be explicitly justified in those circumstances it is introduced.

To introduce a more explicit use of business model in financial reporting in general would in our view not enhance transparency and comparability of financial reporting but could rather lead to the opposite.

Furthermore, we are concerned that a shift towards a business model approach in line with the research paper would give rise to an endless period of assessing consequences for recognition, measurement, presentation and disclosures which would severely delay the process of finalising other much awaited standards.

We have not prepared a detailed response to the specific questions raised in the research paper.

Please do not hesitate to contact us if you would like to discuss our response.

Yours faithfully,

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

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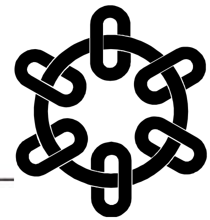

25 June 2014

International Accounting Standards Board
30 Cannon Street
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UK

Cc: EFRAG

Dear Sir/Madam

Exposure Draft ED/2014/1 Disclosure Initiative – Proposed amendments to IAS 1

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Disclosure Initiative.*

We support the Disclosure Initiative. We consider the suggested amendments as clarifications of the current standard rather than changes to it. We think the exposure draft addresses some of the problems with the current application of IAS 1, and thus can help improve presentation and disclosures and the usefulness of financial reporting. We see this as a first step of improvement, and would welcome a more comprehensive review of the presentation and disclosure requirements at a later time.

In general we agree with the proposed amendments, but we have some comments to the wording of certain of the amendments.

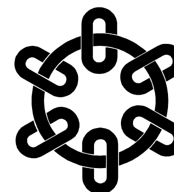
Our detailed comments to the questions in the order suggested by you are set out in the appendix to this letter.

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

Yours faithfully,

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

CC: EFRAG



Appendix - Detailed comments on amendments proposed in ED 2014/1

Questions

Question 1 – Disclosure initiative amendments

The amendments to IAS 1 arising from the Disclosure Initiative aim to make narrow-focus amendments that will clarify some of its presentation and disclosure requirements to ensure entities are able to use judgement when applying that Standard. The amendments respond to concerns that the wording of some of the requirements in IAS 1 may have prevented the use of such judgement. The proposed amendments relate to:

(a) materiality and aggregation (see paragraphs 29–31 and BC1–8 of this Exposure Draft);

(b) statement of financial position and statement of profit or loss and other comprehensive income (see paragraphs 54, 55A, 82, 85A and 85B and BC9–BC15 of this Exposure Draft);

(c) notes structure (see paragraphs 113–117 and BC16–BC19 of this Exposure Draft); and

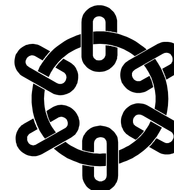
(d) disclosure of accounting policies (see paragraphs 120 and BC20–BC22 of this Exposure Draft).

Do you agree with each of the amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

(a) We agree with the proposed amendments. We believe that both “too much” and “too little” can be a problem at the same time when it comes to disclosures. Sometimes a lot of detailed, but irrelevant information are disclosed in some areas, while the disclosure is high level or boiler plate for other material areas. Both these problems need to be addressed.

We agree that it should not be prohibited to disclose immaterial information. In addition to being a practical issue of information and structure needing to be changed more frequently, this could be difficult to apply as the entities would have to consider not only what is material or not material, but also the concept of immateriality. In addition some jurisdiction might have local requirements to include additional disclosures that otherwise might be considered immaterial. We therefore think the suggested amendment not to aggregate or disaggregate information in a way that obscures useful information, balances the practical application and the users need for not being “drowned in details”. We also find it useful that the amendment emphasises that that concept of materiality applies to each specific note disclosure.

In the last sentence of the draft amended IAS 1.31 it is suggested that “an entity shall also consider whether information about matters addressed by an IFRS needs to be presented or disclosed to meet the needs of the users of financial statement, even if that information is not included in the specific disclosure requirement of the IFRS”. We assume that the intention is to deal with the problem of “too little” disclosures or disclosures being to general or boilerplate. However, the suggested amendment only refers to “needs of the users” which we think is too broad and should not be a stand-alone requirement for requiring further disclosures. IAS 1.17(c)



already contains a similar requirement with more specific guidance that we find more appropriate. We therefore believe that the last sentence of the draft amended IAS 1.31 should be taken out.

(b) We support the proposal. We agree that the removal of “at a minimum” in IAS 1.54 combined with the wording in IAS 1.31 (as amended by the exposure draft) clarifies that the list is not a prescriptive list, and that line items can be aggregated if those line items are immaterial.

We think the new amended guidance of disaggregation included in IAS 1.54 is overlapping and partly repeating what is already stated in IAS 1.55. We encourage the board to consider if both the new amended text in IAS 1.54 and IAS 1.55 are really necessary and whether it would be better to “merge” the requirements and include them in either IAS 1.54 or IAS 1.55.

According to the proposed IAS 1.82 the line items in the profit and loss statement should be disaggregated if such presentation is relevant to the understanding of the entity’s financial performance. However the new amended text in IAS 1.82 is partly duplicating what is already stated in IAS 1.85 and the wording of the two paragraphs should be considered, similar to our comment to IAS 1.54 and IAS 1.55 above. It would also be helpful if further guidance is included on how such disaggregated information should be presented. Could for example the profit shares from some joint ventures or associates be included in operating profit, while those from other joint ventures or associates are presented below operating profit?

We find the suggested amended guidance on subtotals helpful and agree that sub-totals should be presented consistently from period to period and that a change should be warranted with reference to IAS 8 *Accounting policies, Changes in accounting estimates and Errors* as explained in the basis for conclusion.

(c) We agree that there should not be a prescriptive order of the notes, but that the notes should be presented in a systematic manner taking understandability and comparability into consideration. We assume that comparability in this context refers both to comparability with other entities and for the same entity over time, but this could be considered clarified.

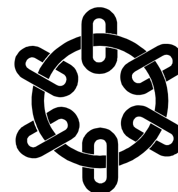
(d) We agree with the deletion of IAS 1.120 as it does not contain helpful guidance on what a significant accounting policy is. However, we see the need for more guidance and clarification regarding disclosures on accounting policies. Should the accounting principles repeat the general requirements of the applicable IFRS (when there are no principle choice) or could it be sufficient only to include description of entity specific application of accounting principles and accounting principles relating to items where the standard allows for a policy choice? We therefore welcome further work on this issue. We understand from BC22 that this is also the intention.

Question 2 – Presentation of items of other comprehensive income arising from equity-accounted investments

Do you agree with the IASB’s proposal to amend IAS 1 for the presentation of items of other comprehensive income arising from equity-accounted investments amendments (see paragraphs 82A, BC1–BC6 and the Guidance on implementing IAS 1)?

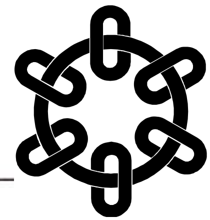
If not, why and what alternative do you propose?

We agree with the suggested clarification.



Question 3 – Transition provisions and effective date
We agree with the suggested transition provisions.

Norsk RegnskapsStiftelse



10 September 2014

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

Cc: EFRAG

Dear Sir/Madam

Exposure Draft ED/2014/2 Investment Entities: Applying the Consolidation Exception

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Investment Entities: Applying the Consolidation Exception.*

We agree with the proposed amendment to clarify that the exemption from preparing consolidated financial statements in accordance with paragraph 4a) also applies to a parent entity that is a subsidiary of an investment entity.

We welcome a clarification on the accounting for investment entities subsidiaries that provides investment related services to the parent. We find accounting at fair value, as proposed in the exposure draft, to be more appropriate than consolidation, but are concerned that users of the financial statements will not get the full picture of the asset management costs. We encourage the board to consider if a "mixed" approach could be applied. If the Board decides to require fair value measurement as proposed in the exposure draft, additional disclosures on asset management costs should be required.

We agree that a non-investment entity, when applying the equity method to an investment in an associate, should retain the fair value measurement applied by the investment entity associate to its interest in subsidiaries. We think the same should apply for a non-investment entity when applying the equity method to an investment entity joint venture.

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.

Yours faithfully,

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

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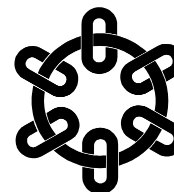


Appendix - Detailed comments on amendments proposed in ED 2014/2

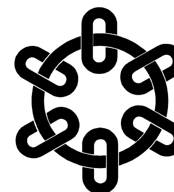
Questions

Question 1 - Exemption from preparing consolidated financial statements
The IASB proposes to amend IFRS 10 to confirm that the exemption from preparing consolidated financial statements set out in paragraph 4(a) of IFRS 10 continues to be available to a parent entity that is a subsidiary of an investment entity, even when the investment entity measures its subsidiaries at fair value in accordance with paragraph 31 of IFRS 10. Do you agree with the proposed amendment? Why or why not?

We agree with the proposed amendment. As explained in Basis for conclusions in the ED, the exemption for intermediate parent to prepare consolidated accounts was previously granted because the cost of requiring each intermediate parent within a group to prepare consolidated statements could be burdensome. In our opinion, this applies both if the ultimate parent is an investment entity or not. Furthermore, we think the strict criteria in IFRS 10.4 (a) i-iii) combined with the disclosure requirement of IFRS 12 *Disclosures of Interest in Other entities*, adequately safeguards any investor in the intermediate parent.

Question 2 - A subsidiary that provides services that relate to the parent's investment activities
The IASB proposes to amend IFRS 10 to clarify the limited situations in which paragraph 32 applies. The IASB proposes that the requirement for an investment entity to consolidate a subsidiary, instead of measuring it at fair value, applies only to those subsidiaries that act as an extension of the operations of the investment entity parent, and do not themselves qualify as investment entities. The main purpose of such a subsidiary is to provide support services that relate to the investment entity's investment activities (which may include providing investment-related services to third parties). Do you agree with the proposed amendment? Why or why not?

As paragraph 32 is unclear to how an investment entity parent should account for an investment entity subsidiary that provides investment related services to the parent, we welcome a clarification on this issue. We believe that accounting for these subsidiaries at fair value as proposed in the exposure draft is more appropriate than consolidating these subsidiaries as the business purpose and main activity of the subsidiary are investment activities (otherwise it will not qualify to be an investment entity). Providing investment related services for the parent company cannot be the main activity. However we are concerned that relevant information about the asset management costs will be lost when the subsidiary are measured at fair value. In addition, it is unfortunate that different asset management cost will be reported depending on whether the asset management services are i) performed by the parent company itself or by a subsidiary who's main activity is to provide investment related services to the parent or ii) by a subsidiary who is an investment entity. We encourage the board to consider whether a mixed approach could be applied, so that the subsidiary's activities of providing services to the parent company are consolidated, while the investment activities are measured at fair value. If the board concludes that the subsidiary should be measured at fair value as proposed in the exposure draft, we believe additional disclosures on total assets management cost (costs incurred both by the parent and by the subsidiary) should be required.



Question 3 - Application of the equity method by a non-investment entity investor to an investment entity investee

The IASB proposes to amend IAS 28 to:

(a) require a non-investment entity investor to retain, when applying the equity method, the fair value measurement applied by an investment entity associate to its interests in subsidiaries; and

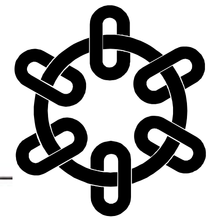
(b) clarify that a non-investment entity investor that is a joint venturer in a joint venture that is an investment entity cannot, when applying the equity method, retain the fair value measurement applied by the investment entity joint venture to its interests in subsidiaries.

Do you agree with the proposed amendments? Why or why not?

We agree with the proposed amendment to require a non-investment entity investor to retain the fair value measurement applied by an investment entity associate to its interests in subsidiaries as unwinding the fair value measurement often will be impractical. In principle, the requirement to use uniform accounting policies would mean that the subsidiaries of the investment entity associate, should be consolidated into the financial statements of the investment entity associate, before the non-investment entity (parent) would apply the equity method. The non-investment entity would however normally not have the necessary information to do this.

We disagree with the proposed amendment to require a non-investment entity that is a joint venture in an investment entity, to unwind the fair value measurement applied by the investment entity joint venture. Although an investor in a joint venture normally would be able to access the necessary information to unwind the fair value measurement, we are concerned that there might be situations where this is not the case. Furthermore, we are concerned with introducing two different equity methods without a more thorough assessment. We therefore believe that a non-investment entity should retain the fair value measurement applied by the investment entity joint venture the same way as for investment in investment entity associates.

Norsk RegnskapsStiftelse



IFRS Foundation
30 Cannon Street
London EC4M 6XH
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Cc: EFRAG

Oslo, 17 October 2014

Dear Sir/Madam

Discussion Paper, DP/2014/1 Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the discussion paper Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro *Hedging*.

We do not support the development of an ED based upon the proposed solutions in the discussion paper. We believe that a number of issues should be solved before the project is developed into an ED.

We believe that further analysis should be made regarding the relevance of the resulting measurements after applying the portfolio revaluation approach. What is the relevance of a partial fair value measurement and what does it faithfully represent?

We do not support a number of the suggestions in the discussion paper relating to the definition of the hedge exposures as we find them to be in conflict with our current understanding of the requirements in the conceptual framework. We advise the Board to be careful in developing standards that are incompatible with current understanding of the conceptual framework.

We urge the Board to further consider the operational feasibility of the proposed solutions and at the same time confirm that the proposed solutions can be subject to independent external audit and enforcement.

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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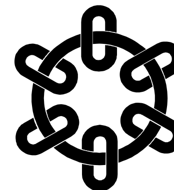


Appendix

Accounting for Dynamic Risk Management: a Portfolio Revaluation Approach to Macro Hedging

Question 1 – Need for an accounting approach for dynamic risk management

Do you think that there is a need for a specific accounting approach to represent dynamic risk management in entities' financial statements? Why or why not?

Although there may be some general common understanding of the basic concepts of dynamic risk management, dynamic risk management is not a well-defined term. We believe there are both a danger and a challenge to develop a separate accounting approach to represent a behaviour that is not well defined.

In general the Board should be cautious before deciding to develop special accounting regulation that deviates from general accounting regulations to reflect specific intentions and actions of entities.

Based on our experience the multitude of actions and policies that can be conducted within the label of dynamic risk management may be very large and disperse. We are concerned that a policy to override normal accounting regulation to reflect the entity's own version of dynamic risk management will significantly impair the comparability of financial statements between entities.

In our view risk management is a continuous process of identifying gross and net exposures to defined risks, measuring these exposures, taking actions to mitigate the measured exposures to become within limits set by management, reporting on net exposures after having conducted risk mitigating actions and reporting on the effects of changes in defined risks on measured exposures over a reporting period.

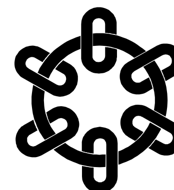
"Proper" risk management should not exclude any known measurable exposures from those that are measured, managed and reported upon. Failure to include all known and measurable exposures will provide reports that are neither relevant nor representationally faithful at an entity level.

"Proper" risk management develops over time as what are known and measurable risks evolve over time, as do measurement techniques and system capabilities. As "proper" risk management develops it should not be described by static procedures or approaches.

Risk management of separate exposures is more often than not a complex task. Cost considerations most often lead to actual processes that deviate from the theoretically best solutions. Variable entity, market and risk characteristics make it impossible to determine procedures that will fit all entities and all risks.

"Proper" risk management is a concept to strive for rather than a given state. The evolving nature of what is currently "proper" risk management implies that any regulation that is based upon risk management concepts should be principle based.

It is our opinion that if IASB is to develop an accounting standard that has risk management concept as a premise for its conclusions, it would not be appropriate to include rule based concessions motivated by operational practicability. Deviations from the regulations of a principle based standard should be made at an entity level on a materiality basis.



Risk management is, as stated, more often than not a complex task involving multiple and evolving procedures. If accounting regulation is to be based upon risk management concepts that regulation should not be marketed as easy to achieve or as a method of reducing operational complexity.

It is our position that a standard based on risk management concepts would be defined by two sets of constraints. First, it must have the objective that the accounting solutions should be consistent with appropriate risk management concepts. Secondly, it must be developed within the borders of the qualitative characteristics and limitations set by the reporting possibilities within the financial statements and additional disclosures.

We find the discussion and proposed solutions in the discussion paper (DP) to be too heavily focused upon interest risk management within the financial sector (banking industry). We generally support the IASB in focusing upon developing generic standards that are not industry specific. Before proceeding to an ED phase of this project, we recommend the Board to further develop the concept so that it is clearly applicable to risks other than interest rate risks.

Question 2 – Current difficulties in representing dynamic risk management in entities' financial statements

(a) Do you think that this DP has correctly identified the main issues that entities currently face when applying the current hedge accounting requirements to dynamic risk management? Why or why not? If not, what additional issues would the IASB need to consider when developing an accounting approach for dynamic risk management?

(b) Do you think that the PRA would address the issues identified? Why or why not?

We believe that application of the proposed portfolio Revaluation Approach (PRA) will be challenging and will require extensive system development and system support by all entities that intend to apply it. To run smoothly, an approach as described in the DP would have to be operated, as a minimum, on a daily basis. We fear that we might ultimately see PRA be applied such that hedged exposures, rather than representing true net exposures, may be defined to fit to actual derivative positions so that zero ineffectiveness will be shown at any time.

A main issue that has not been focused upon in the DP, is the issue of how to derecognise effects of PRA when exposures are removed from a managed portfolio (derecognised) prior to maturity.

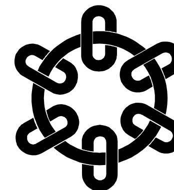
We generally believe that the DP has gone a long way in identifying issues relevant when applying PRA to interest rate risk within the banking industry. Given the limited coverage of issues related to FX and commodities we are less sure that the DP has correctly identified main issues, including presentation, which might come up when applying the PRA to risks other than interest rate risks.

As stated in our answer to question 1 we do not believe that IASB should develop the proposed model further unless it is proved applicable to the risk management of risks other than interest rate risks.

Question 3 – Dynamic risk management

Do you think that the description of dynamic risk management in paragraphs 2.1.1–2.1.2 is accurate and complete? Why or why not? If not, what changes do you suggest, and why?

We do not believe that paragraphs 2.1.1-2.1.2 do a sufficient job in defining what is, and thus what is not, dynamic risk management. We see this as a critical issue. Unless what is and



what is not dynamic risk management is clearly defined, IASB should not develop separate rules for the accounting when dynamic risk management is claimed to be applied.

2.1 does not define what is meant by a "dynamic basis" and by "timely basis". For a five year exposure, what is required for the management of the exposure to be dynamic? Is it sufficient that the exposure is revisited on a yearly, quarterly, monthly or weekly basis or does it have to be managed on a daily, hourly or continuous basis?

2.1.1 says that dynamic risk management "usually" has a set of characteristics. Does this imply that dynamic risk management always is the case when all of the presented characteristics are present? How much deviation is allowed before the management activity is no longer that of dynamic risk management?

According to 2.1.1 (b) "risk management is [to be] updated on a timely basis". Should this be read as a requirement to update the derivative positions entered into as part of the risk management on a timely basis? Or is this intended to assess whether the risk is within intended limits at any time?

2.1.2 states some additional characteristics that dynamic risk management may exhibit. We do not find the descriptions of these characteristics to be very helpful when it is stated that dynamic risk management may exhibit some of these characteristics. What is the consequences if some of the described characteristics are not present or are opposite of what is described?

Based upon the current description in the DP it is to us not intuitively clear what constitutes and what does not constitute dynamic risk management. Because of this we cannot offer advice for a clearer definition. However in our reply we have as a premise that dynamic risk management is the hedging of defined risks existing for the reporting entity related to a defined dynamic object (the hedged position) over a period covering multiple remeasurements of the change in cash flow or fair value caused by variations in the defined risk to the defined object.

We do not believe that a claim of application of dynamic risk management should be the key to overrule all of what is currently known as IFRS regulations. Accordingly we do not believe that a statement consisting of "this is in accordance with our [the entity's] dynamic risk management approach" should be a sufficient condition to allow an entity, in accordance with IFRS, to apply special recognition, measurement or presentation procedures.

We strongly recommend that the term is clearly defined before IASB proceed with a project which has as a premise, the presents of dynamic risk management.

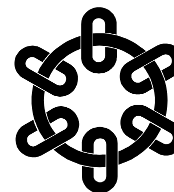
Question 4 – Pipeline transactions, EMB and behaviouralisation

Pipeline transactions

(a) Do you think that pipeline transactions should be included in the PRA if they are considered by an entity as part of its dynamic risk management? Why or why not? Please explain your reasons, taking into consideration operational feasibility, usefulness of the information provided in the financial statements and consistency with the Conceptual Framework for Financial Reporting (the Conceptual Framework).

EMB

(b) Do you think that EMB should be included in the PRA if it is considered by an entity as part of its dynamic risk management? Why or why not? Please explain your reasons, taking into consideration operational feasibility, usefulness of the information provided in the financial statements and consistency with the Conceptual Framework.



Behaviouralisation

(c) For the purposes of applying the PRA, should the cash flows be based on a behaviouralised rather than on a contractual basis (for example, after considering prepayment expectations), when the risk is managed on a behaviouralised basis? Please explain your reasons, taking into consideration operational feasibility, usefulness of the information provided in the financial statements and consistency with the Conceptual Framework.

Pipeline transactions

We believe that the core characteristics of what is described as a pipeline transaction is a possible future transaction that comes as a consequence of honouring a non-binding generic fixed price offer that has been made in form of a published (fixed price) pricelist. We do not support an action where the definition of a pipeline transaction is limited to a fixed price credit transaction and that "special" concessions are given to pipeline transactions.

We agree with the conceptual challenges that are presented in A2.2. However we do not see the conceptual merit in distinguishing between pipeline transactions that today qualify for hedge accounting, because they are considered highly probable, and pipeline transactions that fail to qualify for hedge accounting because they are considered just short of being highly probable.

Equity model book (EMB)

We consider the interest rate risk exposure that is deemed to arise from own equity capital to be a fictitious risk exposure that is non-verifiable and should not be accepted as part of a hedged position / hedged risk. The list of risks or exposures that may be deemed to be implicit in the equity is entirely subjective. We do not believe that financial statements that include hedging of such exposure will provide information that is relevant or faithfully representational. We echo the concerns expressed in A1.12.

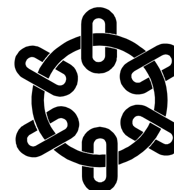
However as a counter argument we see that the effect of including EMB could be replicated by entities by excluding opposite positions from the scope of the PRA.

Behaviouralisation

The issue of behaviouralisation becomes relevant when a customer voluntarily may continue on a path of seemingly uneconomic behaviour (core deposit issue) or has the option to terminate a contract without paying the fair value of the contract at time of termination (prepayment issue).

We see the greater issue related to behaviouralisation to be that of documentation of an un-observable and potentially continuously changing expected future customer behaviour. Expected exposures are determined upon expected future customer behaviour while actual exposures are given by future actual behaviour. It is extremely challenging (if not impossible) to decide whether deviations between previously expected future behaviour and current observed actual behaviour is caused by imperfect previous expectations or change in actual behaviour that has taken place after the time of making the estimate about future behaviour. It is further complicated to determine whether observed behaviour is the realisation of previously expected behaviour or element of new behaviour with future consequences.

As the true exposure is given by the actual behaviour to be realised in the future we believe that it may be appropriate to reflect behaviouralisation in the financial statements. The issue is really how to treat the un-documentable true up of the difference between previous expected behaviour and actual realised behaviour. Are effects to be recognised immediately in profit or loss or can they be deferred or presented in OCI? Our initial preference is to recognise them as they are being identified in the profit or loss section of the statement of comprehensive income.



When considering behaviour it is often a complicating factor that the level of the risk being measured affects the exposure that is being exposed to behaviouralisation. The large number of unobservable factors influencing behaviour for which the effects of each unknown factor can be time and level dependent makes it very challenging to embed behaviourism in accounting. The audit and enforcement challenges that would arise if unconstrained behaviour where to be allowed embedded in accounting would be extensive and must be considered before opening the doors to behaviourism in accounting.

If ex post the deviation between expected and actual behaviour is small, then reflection of behaviouralisation can be argued to have provided information that has been both relevant and faithfully representational. However if this deviation was not small then clearly the qualitative characteristics of faithful representation has suffered if expected behaviours has been reflected in the financial statements.

We cannot provide a recommendation to this trade off that will be applicable to all situations involving what might be described as dynamic risk management.

Question 5 – Prepayment risk

When risk management instruments with optionality are used to manage prepayment risk as part of dynamic risk management, how do you think the PRA should consider this dynamic risk management activity? Please explain your reasons.

We consider the relevant questions to be whether behaviouralisation should be allowed to be reflected in a PRA and whether a one-sided risk should be allowed to be designated in a PRA. These are separate issues that should be discussed separately.

In regard to behaviouralisation we refer to our discussion above.

In regard to allowing one-sided risks to be designated in a PRA we have the same concerns as those relating to hedging of one-sided risks in IFRS 9. As hedging of one-sided risk is accommodated in IFRS 9 we believe that it should also be accommodated in a PRA. However, as stated in our cover letter we have concerns related to the conceptual merits of the resulting accounting figures.

Question 6 – Recognition of changes in customer behaviour

Do you think that the impact of changes in past assumptions of customer behaviour captured in the cash flow profile of behaviouralised portfolios should be recognised in profit or loss through the application of the PRA when and to the extent they occur? Why or why not?

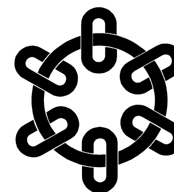
We believe that the impact of changes in past assumptions of customer behaviour captured in the cash flow profile of behaviouralised portfolios should be recognised in profit or loss through the application of the PRA when and to the extent they occur. We see no conceptual argument for another treatment.

Question 7 – Bottom layers and proportions of managed exposures

If a bottom layer or a proportion approach is taken for dynamic risk management purposes, do you think that it should be permitted or required within the PRA? Why or why not? If yes, how would you suggest overcoming the conceptual and operational difficulties identified? Please explain your reasons.

We do not support permitting a bottom layer approach within PRA. We do not support it for two reasons.

First we find it conceptually hard to envision and follow what is a bottom layer of a net exposure consisting of both assets and liabilities (net of gross long and short positions) that is dynamic. To us this is a construct that is only possibly to retrospectively define after having identified the gross assets and gross liabilities that constitutes the hedged portfolio.



Second we find the concept of a bottom layer to violate "proper" risk management when it exclude known measurable exposures from the exposure that is measured, managed and reported upon.

As we do not support permitting a bottom layer approach we are also concerned about a proportion approach.

While with a proportion approach all exposures are identified, we believe that they are misrepresented by the ignored proportion and thus not living up to what we consider "proper" risk management. We recognise the challenges identified in paragraph 3.5.9, but as we are advocating the optional use of the PRA we do not consider the implications of changes in the hedged proportion to be dismissing of the proportion approach.

On balance we would support a conclusion where a proportion approach where not allowed within the PRA.

Question 8 – Risk limits

Do you think that risk limits should be reflected in the application of the PRA? Why or why not?

We strongly disagree with the concept of allowing risk limits to be reflected in the application of the PRA. Risk limits are, after management considerations, but with a continuously full range of freedom, set by the entity and would be expected to be dynamic within what is assumed to be dynamic risk management. We cannot foresee how inclusion of risk limits possibly can provide information that is anything less than subjective and at the entity's discretion.

Question 9 – Core demand deposits

(a) Do you think that core demand deposits should be included in the managed portfolio on a behaviouralised basis when applying the PRA if that is how an entity would consider them for dynamic risk management purposes? Why or why not?

(b) Do you think that guidance would be necessary for entities to determine the behaviouralised profile of core demand deposits? Why or why not?

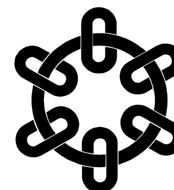
We understand the concerns raised in paragraph 3.9.16. We believe that it will be very hard to document the determination of the behaviouralised profile of core demand deposits. We believe that the inherent uncertainty in this estimate is such that the weighting of relevance against expected faithful representation (see our answer to behaviouralisation in question 4) is most often expected to be in favour of not including core demand deposits in the managed portfolio on a behaviouralised basis when applying the PRA.

Question 10 – Sub-benchmark rate managed risk instruments

(a) Do you think that sub-benchmark instruments should be included within the managed portfolio as benchmark instruments if it is consistent with an entity's dynamic risk management approach (ie Approach 3 in Section 3.10)? Why or why not? If not, do you think that the alternatives presented in the DP (ie Approaches 1 and 2 in Section 3.10) for calculating the revaluation adjustment for sub-benchmark instruments provide an appropriate reflection of the risk attached to sub-benchmark instruments? Why or why not?

(b) If sub-benchmark variable interest rate financial instruments have an embedded floor that is not included in dynamic risk management because it remains with the business unit, do you think that it is appropriate not to reflect the floor within the managed portfolio? Why or why not?

We hold the opinion that sub-benchmark instruments might be included within the hedged position as a benchmark exposure. If the sub-benchmark instrument is containing a floor then the inclusion of that instrument within a portfolio of other instruments not containing a



similar floor will create ineffectiveness. We hold the position that changes in the defined (assumed or measured) exposure between periods of measurement, of the effect of changes caused by the hedged risk, will cause ineffectiveness that is to be reflected in profit or loss in that period. However it is our position that the standard should not prescribe one specific approach for the calculation of this ineffectiveness.

In the case where the sub-benchmark instrument do include a floor we do not believe that it is appropriate to exclude the effect of changes in the hedged risk on the fair value or cash flow of that floor component. That would violate the basic premise that "proper" risk management should not exclude any known measurable exposures from the exposures that is measured, managed and reported upon (in this case the exposure related to the hedged risk caused by the floor embedded in the sub-benchmark instrument).

Question 11 – Revaluation of the managed exposures

(a) Do you think that the revaluation calculations outlined in this Section provide a faithful representation of dynamic risk management? Why or why not?

(b) When the dynamic risk management objective is to manage net interest income with respect to the funding curve of a bank, do you think that it is appropriate for the managed risk to be the funding rate? Why or why not? If not, what changes do you suggest, and why?

We believe that to apply a PRA the hedged risk should be an external observable risk. The subset of dynamic risk management that is conducted based upon risk exposures that are not external observable should not qualify for separate risk management based accounting regulation.

We generally do not believe that an internally defined risk such as the pricing index described in section 4.1 is a risk exposure to the entity.

We believe that the funding curve of a bank is often an external observable risk and thus should be a risk that would often qualify for a PRA.

Question 12 – Transfer pricing transactions

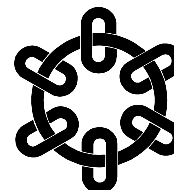
(a) Do you think that transfer pricing transactions would provide a good representation of the managed risk in the managed portfolio for the purposes of applying the PRA? To what extent do you think that the risk transferred to ALM via transfer pricing is representative of the risk that exists in the managed portfolio (see paragraphs 4.2.23–4.2.24)?

(b) If the managed risk is a funding rate and is represented via transfer pricing transactions, which of the approaches discussed in paragraph 4.2.21 do you think provides the most faithful representation of dynamic risk management? If you consider none of the approaches to be appropriate, what alternatives do you suggest? In your answer please consider both representational faithfulness and operational feasibility.

(c) Do you think restrictions are required on the eligibility of the indexes and spreads that can be used in transfer pricing as a basis for applying the PRA? Why or why not? If not, what changes do you recommend, and why?

(d) If transfer pricing were to be used as a practical expedient, how would you resolve the issues identified in paragraphs 4.3.1–4.3.4 concerning ongoing linkage?

We do not agree with the assumption that it is a good idea to regulate the use of internal transfer prices as an operational expedient. We do not support a standard that take as a premise that internal transfer pricing mechanisms reflects external observable risks. Nor do we support a standard that takes as a premise that, since behaviouralisation is assumed to be reflected in internal transactions, that reflection is sufficient to substantiate that application of the behaviouralisation will provide accounting information that is reliable and faithful representations of the actual exposure of the entity. However, we are of the view that, in many cases, internal transfer prices may be carried out at such approximation to an



externally observable risk and an observable level of behaviouralisation, that they appropriately represent practical expedients that can be used by those entities where it is relevant.

We do not believe that a standard should include a general expedient to allow hedged risk and hedged position to be determined by internal transactions. In regard to the approaches described in paragraph 4.2.21 we do not support any of the approaches. In the examples we could see a case for using 4.0 % in determining the cash flows in the numerator and 3.8 % as initial discount rate. 3.8 % is the level of the LIBOR which is an observable risk thus eligible for hedging. Using 4.0 % in determining the cash flows in the numerator provides the actual funding cash flow. Thus all LIBOR risks in the funding cash flow are captured by using 4.0 %.

We generally believe that the hedged risks should be limited to externally observable risks. Any transfer pricing that is not actual close approximations to an externally observable risk should not be an eligible basis for applying the PRA.

We do not believe that a standard should include a general expedient to allow hedged position to be determined by internal transactions. In the case described in paragraph 4.3.2 the alternative in (c) is the most descriptive of the actual situation.

Question 13 – Selection of funding index

(a) Do you think that it is acceptable to identify a single funding index for all managed portfolios if funding is based on more than one funding index? Why or why not? If yes, please explain the circumstances under which this would be appropriate.

(b) Do you think that criteria for selecting a suitable funding index or indexes are necessary? Why or why not? If yes, what would those criteria be, and why?

We do not think that it is acceptable to identify a single funding index for all managed portfolios if funding is based on more than one funding index where the hedged risks in the different funding indexes are not the same or perfectly correlated. Doing so would not faithfully represent the actual risk position of the entity.

As we have stated before the selected funding indexes should reflect externally observable risks. Different risks should not be suppressed to one risk unless perfectly correlated in which case they are in fact one risk.

Question 14 – Pricing index

(a) Please provide one or more example(s) of dynamic risk management undertaken for portfolios with respect to a pricing index.

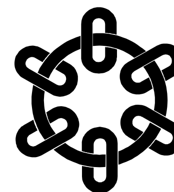
(b) How is the pricing index determined for these portfolios? Do you think that this pricing index would be an appropriate basis for applying the PRA if used in dynamic risk management? Why or why not? If not, what criteria should be required? Please explain your reasons.

(c) Do you think that the application of the PRA would provide useful information about these dynamic risk management activities when the pricing index is used in dynamic risk management? Why or why not?

We do not have sufficient information to answer this question.

Question 15 – Scope

(a) Do you think that the PRA should be applied to all managed portfolios included in an entity's dynamic risk management (ie a scope focused on dynamic risk management) or should it be restricted to circumstances in which an entity has undertaken risk mitigation through hedging (ie a scope focused on risk mitigation)? Why or why not? If you do not agree with either of these alternatives, what do you suggest, and why?



(b) Please provide comments on the usefulness of the information that would result from the application of the PRA under each scope alternative. Do you think that a combination of the PRA limited to risk mitigation and the hedge accounting requirements in IFRS 9 would provide a faithful representation of dynamic risk management? Why or why not?

(c) Please provide comments on the operational feasibility of applying the PRA for each of the scope alternatives. In the case of a scope focused on risk mitigation, how could the need for frequent changes to the identified hedged sub-portfolio and/or proportion be accommodated?

(d) Would the answers provided in questions (a)–(c) change when considering risks other than interest rate risk (for example, commodity price risk, FX risk)? If yes, how would those answers change, and why? If not, why not?

If applied, we believe that the PRA should be applied to all managed portfolios included in an entity's dynamic risk management. That is, we believe that the scope should be focused on dynamic risk management. We believe that this is the better solution for several reasons. When the scope is focused on dynamic risk management compared to risk mitigation this will marginally increase comparability. We believe the usefulness of the resulting accounting figures will be better, and the volume of risk mitigation is changing over time and might not be present at a balance sheet date. Risk effect should though be reported in profit or loss when the PRA is applied, it would be inconsistent to apply PRA dependent upon whether a risk position through risk reducing activities has been slightly reduced or not.

We are concerned about what information content can be derived from the financial statements if a PRA is applied only if, and to the extent that, an entity in a period has undertaken risk mitigation through hedging. We believe that the information content of the resulting figures will be better if PRA is applied to all exposures included in an entity's dynamic risk management.

We believe that the operational challenges will be significant for close to all applications of a PRA. However, once the system is set up we do not believe that the operational challenges for the entities will significantly increase with increased scope.

As we do not believe that PRA should be applicable unless it is applicable to all externally observable managed risk, we have tried to have all risks in mind when providing our comments above.

Question 16 – Mandatory or optional application of the PRA

(a) Do you think that the application of the PRA should be mandatory if the scope of application of the PRA were focused on dynamic risk management? Why or why not?

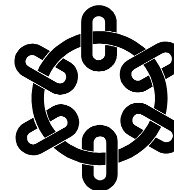
(b) Do you think that the application of the PRA should be mandatory if the scope of the application of the PRA were focused on risk mitigation? Why or why not?

We believe that the application of the PRA should be optional. We think this should be the case both if the PRA where focused on dynamic risk management and if the PRA were focused on risk mitigation. We generally believe that hedge accounting is an exception that should be voluntary.

In addition we find that it is not clearly defined what is a risk and what makes a specific risk separate from another risk. The implication of this is that is it not clear when one risk may be exposed to dynamic risk management without this having implications for another "similar", but not identical risk. Due to this we believe that application of the PRA must be optional.

Question 17 – Other eligibility criteria

(a) Do you think that if the scope of the application of the PRA were focused on dynamic risk management, then no additional criterion would be required to qualify for applying the PRA? Why or why not?



(i) Would your answer change depending on whether the application of the PRA was mandatory or not? Please explain your reasons.
(ii) If the application of the PRA were optional, but with a focus on dynamic risk management, what criteria regarding starting and stopping the application of the PRA would you propose? Please explain your reasons.

(b) Do you think that if the scope of the application of the PRA were to be focused on risk mitigation, additional eligibility criteria would be needed regarding what is considered as risk mitigation through hedging under dynamic risk management? Why or why not? If your answer is yes, please explain what eligibility criteria you would suggest and, why.
(i) Would your answer change depending on whether the application of the PRA was mandatory or not? Please explain your reasons.
(ii) If the application of the PRA were optional, but with a focus on risk mitigation, what criteria regarding starting and stopping the application of the PRA would you propose? Please explain your reasons.

If the scope of the application of the PRA were focused on dynamic risk management, we currently foresee no need to add further criteria for the use of the PRA. While we recommend that the use of the PRA, if applicable, should be optional, we do not see need for different application criteria. However as mentioned in our answer to question 16 above it is challenging to define what is a risk and what constitutes the border of one risk in relation to another risk. Is it acceptable for one entity to apply the PRA to a floating 6 month LIBOR risk while at the same time not applying the PRA to a 12 month floating LIBOR risk?

If PRA is made optional there would have to be developed some criteria related to starting and stopping the application of PRA. We have not yet developed a view on what these criteria should be.

We do not foresee a need for further eligibility criteria in addition to what we have proposed above if the application of the PRA were to be focused on risk mitigation.

Question 18 – Presentation alternatives

(a) Which presentation alternative would you prefer in the statement of financial position, and why?

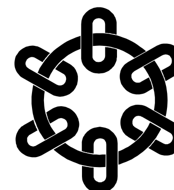
(b) Which presentation alternative would you prefer in the statement of comprehensive income, and why?

(c) Please provide details of any alternative presentation in the statement of financial position and/or in the statement of comprehensive income that you think would result in a better representation of dynamic risk management activities. Please explain why you prefer this presentation taking into consideration the usefulness of the information and operational feasibility.

The measurement that results from the PRA is at best challenging to interpret and will require extensive disclosures.

If the PRA is to be applied we believe that a line-by-line gross up in the statement of financial position will be the least bad solution. We do not see the conceptual merit in splitting the measurement of an asset or a liability over multiple line items in the statement of financial position. However we see as potential counter argument that application of line-by-line gross up will increase the difficulty of presenting line items that consists only of "clean" measurement attributes and that it would hide from the front of the statement of financial position the fact that the PRA has been applied.

When choosing between actual and stable net interest income presentation, we would prefer the former. However, we are generally not supporters of presenting realised cash flow and changes in valuation as separate line items in the statement of profit or loss, as this will lead to recycling between line items in the statement of profit or loss. Further as the PRA should be applicable to different risks we would not in detail specify the presentation in the statement of profit or loss as part of the regulation of the PRA.



We do not have any suggestion for a better presentation alternative, but we do not believe that a presentation that involves OCI could in any case be a preferable alternative.

Question 19 – Presentation of internal derivatives

(a) If an entity uses internal derivatives as part of its dynamic risk management, the DP considers whether they should be eligible for inclusion in the application of the PRA. This would lead to a gross presentation of internal derivatives in the statement of comprehensive income. Do you think that a gross presentation enhances the usefulness of information provided on an entity's dynamic risk management and trading activities? Why or why not?

(b) Do you think that the described treatment of internal derivatives enhances the operational feasibility of the PRA? Why or why not?

(c) Do you think that additional conditions should be required in order for internal derivatives to be included in the application of the PRA? If yes, which ones, and why?

We do not support an approach whereby the effect of internal derivatives is presented in the statement of comprehensive income. Allowing such a presentation would potentially unlock a can of worms. Reporting of internal derivatives is a concept applicable to the segment reporting, but not for the reporting in the consolidated financial statements. The argument that gross presentation enhances the usefulness should not be used to impute information related to eliminated transactions into the statement of profit or loss.

The reporting of risk management activities based on one side only of internal derivatives is in our view in conflict with "proper" risk management as (by including only one side of the internal derivative) it excludes known exposures at the entity level.

We find the question whether the use of internal derivatives enhances the operational feasibility to be a leading question. We clearly see that improved flexibility in regard to the hedging instruments will enhance operational feasibility, but we do not want to open the door to use of internal derivatives. In addition to the conceptual problems that is caused by the use of internal derivatives we fear that allowing the use of internal derivatives will lead to the dynamic structuring of perfect derivatives to secure 100 % effective hedges.

We do not see how additional conditions could be imputed to ring fence "good" internal derivatives from "bad" internal derivatives.

Question 20 – Disclosures

(a) Do you think that each of the four identified themes would provide useful information on dynamic risk management? For each theme, please explain the reasons for your views.

(b) If you think that an identified theme would not provide useful information, please identify that theme and explain why.

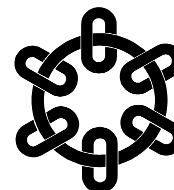
(c) What additional disclosures, if any, do you think would result in useful information about an entity's dynamic risk management? Please explain why you think these disclosures would be useful.

Except stating the obvious that the PRA will require extensive disclosures, we do not have comments relating to content of disclosures at this stage.

Question 21 – Scope of disclosures

(a) Do you think that the scope of the disclosures should be the same as the scope of the application of the PRA? Why or why not?

(b) If you do not think that the scope of the disclosures should be the same as the scope of the application of the PRA, what do you think would be an appropriate scope for the disclosures, and why?



We believe that the scope of disclosures should be the same as the scope of the application of the PRA. We see a further extension of the scope of disclosures to be potentially very costly compared with expected benefits.

As we recommend that the PRA if implemented should be optional, an extension of the scope of disclosures would not increase comparability.

Question 22 – Date of inclusion of exposures in a managed portfolio

Do you think that the PRA should allow for the inclusion of exposures in the managed portfolios after an entity first becomes a party to a contract? Why or why not?
(a) If yes, under which circumstances do you think it would be appropriate, and why?

(b) How would you propose to account for any non-zero Day 1 revaluations? Please explain your reasons and comment on any operational implications.

Except at inception of the PRA we do not believe that the PRA should allow for inclusion of exposures in the managed portfolios after an entity first becomes party to a contract. We believe that exclusions of exposures would violate our principles of "proper" risk management as described in our answer to question 1. However if contract conditions are altered after contract inception such alterations must be reflected and lead to updated exposures even though the alteration may not lead to contract derecognition.

In our view the PRA is all about changes in fair values caused by risks on the exposure after inception. Issues of non-zero day 1 valuations are thus limited to separating day 1 valuation changes from day 1 "inception non-zero valuation" and potential "measurement errors" caused by not identifying the rewinding of non-zero day 1 valuations (that is "inception non-zero valuations"). We do not expect these effects to be material to any specific period.

Question 23 – Removal of exposures from a managed portfolio

(a) Do you agree with the criterion that once exposures are included within a managed portfolio they should remain there until derecognition? Why or why not?

(b) Are there any circumstances, other than those considered in this DP, under which you think it would be appropriate to remove exposures from a managed portfolio? If yes, what would those circumstances be and why would it be appropriate to remove them from the managed portfolio?

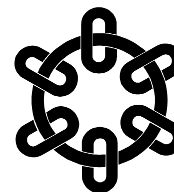
(c) If exposures are removed from a managed portfolio prior to maturity, how would you propose to account for the recognised revaluation adjustment, and why? Please explain your reasons, including commenting on the usefulness of information provided to users of financial statements.

We do agree with the criterion that once exposures are included within a managed portfolio, at inception of the exposures or implementation of the PRA, they should remain there until derecognition. We believe that treatment and only that treatment would be in accordance with our principles for "proper" risk management.

Unless errors in recognition or measurement have been made, we do not see any circumstance other than those considered in this DP, under which it would be appropriate to remove exposures from a managed portfolio.

If exposures are removed from a managed portfolio prior to maturity a cumulative catch up should be recognised. The requirement of being able to identify the cumulative catch up may be operationally challenging to comply with. However, what constitutes a reasonable approximation for this cumulative catch up will be entity and case specific and should not be regulated in detail in a standard.

Question 24 – Dynamic risk management of foreign currency instruments



(a) Do you think that it is possible to apply the PRA to the dynamic risk management of FX risk in conjunction with interest rate risk that is being dynamically managed?

(b) Please provide an overview of such a dynamic risk management approach and how the PRA could be applied or the reasons why it could not.

We believe that it is, and should be, possible to apply the PRA to the dynamic risk management of FX risk in conjunction with interest rate risk and other risk that is being dynamically hedged. If it is documented that this will not be the case, it is our position that the IASB should amend the PRA or terminate this project.

We generally believe that, as an approach, the PRA should be applicable to a wide range of risks subject to dynamic risk management. However, we do not believe that the PRA should be applicable to all risks subject to dynamic risk management. To fulfil the qualitative characteristics of relevance and faithful representation, we believe that the PRA should only be applicable to the extent that the risks being subject to dynamic risk management are externally observable risks.

Question 25 – Application of the PRA to other risks

(a) Should the PRA be available for dynamic risk management other than banks' dynamic interest rate risk management? Why or why not? If yes, for which additional fact patterns do you think it would be appropriate? Please explain your fact patterns.

(b) For each fact pattern in (a), please explain whether and how the PRA could be applied and whether it would provide useful information about dynamic risk management in entities' financial statements.

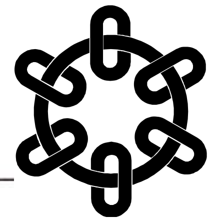
We believe that the PRA should only be described such that it is applicable to all externally observable financial risks and not only in the context of interest rate risks. Commodity and FX risks should be risks for which the application of PRA should be tested and found workable before introducing the concept of the PRA into IFRS.

Question 26 – PRA through OCI

Do you think that an approach incorporating the use of OCI in the manner described in paragraphs 9.1–9.8 should be considered? Why or why not? If you think the use of OCI should be incorporated in the PRA, how could the conceptual and practical difficulties identified with this alternative approach be overcome?

We do not think that an approach incorporating the use of OCI in the manner described in paragraphs 9.1–9.8 should be considered further. We believe that risk management is a core part of the business activities of all entities that applies it to an extent that makes the application of the PRA a conceivable option. For such entities, it would not be correct to exclude the effects of such a core part of its business activities from the profit or loss section of the statement of comprehensive income.

Norsk RegnskapsStiftelse



10th November 2014

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Dear Sir/Madam

EFRAG DISCUSSION PAPER: Classification of claims

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on EFRAGs Discussion Paper Classification of Claims (hereinafter referred to as the DP)

We welcome EFRAG's initiative to assist IASB in developing a consistent set of accounting rules related to the classification of claims. We believe the DP will be a helpful starting point and guidance for IASB in order to consider the classification of claims in more depth and detail than what has been previously done.

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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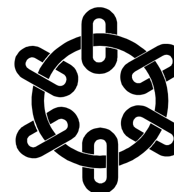


Appendix

Questions

Overall objectives

Question 1
Do you believe EFRAG has appropriately identified the objectives to be used when assessing classification requirements? If not what other objectives do you think should be included or should any of the objectives be removed?

We agree that classification requirements for the credit side of the statement of financial position should be based on the general objectives laid down in the Conceptual Framework.

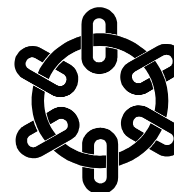
Classification choices

Question 2
Do you believe EFRAG has appropriately identified the relevant choices that need to be made in determining classification requirements? If not, what other choices do you think need to be made and how do they fit with those that have been identified?

We believe EFRAG has appropriately identified the relevant choices that has to be made in determining classification requirements.

Elements

Question 3
If you support classifying all claims as a single element (the claims approach) how do you think the accounting residual and unclaimed equity should be accounted for? How should financial performance be depicted?



We believe the claims approach could have advantages compared to other alternatives since having two classes would to a greater extent give rise to arbitrary distinctions (between the classes). We have however not decided whether we support such an approach or not. We believe that this approach should be further assessed by IASB in their continued work on classification of claims.

Question 4
Do you think it is possible to positively define equity such that more of the identified objectives are met? If so, how should it be defined?

We believe it is possible to define equity positively, but we have currently not formed a view as to whether that would imply that more of the identified objectives are met. However if both equity and liabilities were to be positively defined it is very likely that we will end up with a residual element which could be difficult to explain.

We are currently not in a position to offer a view on how equity should be defined.

Were to be
Question 5
Do you think it is possible to positively define liabilities such that more of the identified objectives are met? If so, how should it be defined?

We believe it is possible to define liabilities positively, but we have currently not formed a view as to whether that would imply that more of the identified objectives are met. However if both equity and liabilities were to be positively defined it is very likely that we will end up with a residual element which could be difficult to explain.

We are currently not in a position to offer a view on how liabilities should be defined.

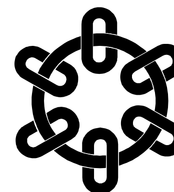
Question 6
Do you think the inclusion of an additional element could assist in meeting some of the identified objectives? If so, what should that element be and how should it interact with the existing elements?

We do not have a strong view with regards to whether the inclusion of a third element for claims that have characteristics of both equity and liabilities could assist in meeting some of the identified objectives. We do believe however that it is useful to consider such an approach in the further process of developing accounting rules regarding classification of the claims on an entity.

Dilution

Question 7
How do you think dilution should be depicted? If more than one class of instruments were to be classified as equity how should the returns to the various classes be depicted?

We do not have any views on this issue.



Glossary

Question 8
Do you agree with the proposed descriptions/definitions contained within the glossary? If not what changes would you suggest? Can you identify any additional descriptions/ definitions you believe would assist in developing a common understanding of the issues?

We agree with the proposed descriptions/definitions contained within the glossary.

Any other issues

Question 9
Do you have any other comments in relation to classification of claims?

We do not currently have any other comments.

Effects of using International Financial Reporting Standards (IFRS) in the EU: public consultation

Fields marked with * are mandatory.

Impact of International Financial Reporting Standards (IFRS) in the EU: public consultation

Purpose of the consultation

The European Commission is holding a public consultation to seek views from all interested parties on their experience of Regulation 1606/2002 ("the IAS Regulation"). The results of this public consultation will feed into the European Commission's evaluation of the IAS Regulation.

Background

Applying internationally accepted standards - the International Financial Reporting Standards (IFRS) – means standardising companies' financial reporting to make financial statements more transparent and comparable. The ultimate aim is for the EU capital market and the single market to operate efficiently.

Scope of the IAS Regulation

The IAS Regulation states that the IFRS must be applied to the consolidated financial statements of EU companies whose securities are traded on a regulated EU market. EU countries may extend the application of IFRS to annual financial statements and non-listed companies (view an update on the use of options in the EU). The Transparency Directive (2004/109/EC), as subsequently amended, also stipulates that all issuers (including non-EU ones) whose securities are listed on a regulated market located or operating in an EU country must use IFRS.

Impact of the IAS Regulation

The implementation of IFRS in the EU has had an impact on cross-border transactions, trade, the cost of capital, investor protection, confidence in financial markets and stewardship by management. However, it is difficult to differentiate their impact from that of other significant factors, including other regulatory changes in the EU and internationally.

Developments since adoption

Over 100 countries now use IFRS. These accounting standards have been increasingly discussed at international level (e.g. G20, Basel Committee) and with various interested parties in the EU, especially in the wake of the financial crisis.

Several initiatives concerning technical issues and governance are under way at both international and EU level. In the EU, the Maystadt report's recommendations are being implemented. These are designed to strengthen the EU's contribution to achieving global and high quality accounting standards by beefing up the role of the European Financial Reporting Advisory Group (EFRAG), which advises the Commission on IFRS matters.

Current Commission evaluation

The Commission is evaluating the IAS Regulation to assess:

- IFRS's actual effects
- how far they have met the IAS Regulation's initial objectives
- whether these goals are still relevant
- any areas for improvement.

This consultation is part of the evaluation process. The questionnaire was drafted with the help of an informal expert group which is to assist the Commission throughout the process.

Target group(s)

Any interested party – commercial, public, academic or non-governmental, including private individuals.

Especially: capital market participants and companies preparing financial statements or using them for investment or lending purposes (whether or not they use IFRS).

Consultation period

7 August — 31 October 2014 (12 weeks).

How to submit your contribution

If possible, to reduce translation and processing time, please reply in one of the Commission's working languages (preferably English, otherwise French or German).

Contributions will be published on this website with your name (unless – in your response – you ask us not to).

N.B.: Please read the specific privacy statement to see how your personal data and contribution will be dealt with.

Reference documents and other, related consultations

- IAS/IFRS standards & interpretations
- IFRS Foundation
- European Financial Reporting Advisory Group (EFRAG)
- Commission reports on the operation of IFRS

Results of public consultation & next steps

The results will be summarised in a technical report and will feed into the evaluation report to be presented by the Commission in line with Article 9.2 of Regulation 258/2014.

Questions

Please note that some questions do not apply to all groups of respondents.

Who are you?

1. In what capacity are you completing this questionnaire?

If it's *not* on behalf of an organisation, please indicate that you are a "private individual".*

- ( ) Company preparing financial statements *[some specific questions for preparers marked with 'P']*
- ( ) Company using financial statements for investment or lending purposes *[some specific questions for users marked with 'U']*
- ( ) A company that both prepares financial statements and uses them for investment or lending purposes *[some specific questions for preparers and users marked with 'P' and 'U']*
- ( ) Association
- ( ) Accounting / audit firm
- ( ) Trade union / employee organisation
- (•) Civil society organisation / non-governmental organisation
- ( ) Research institution / academic organisation
- ( ) Private individual
- ( ) Public authority *[one specific question for public authorities marked with 'PA']*
- ( ) Other

2. Where is your organisation/company registered, or where are you are located if you do not represent an organisation/company? Select a single option only.*

- EU-wide organisation
- Global organisation
- Austria
- Belgium
- Bulgaria
- Croatia
- Cyprus
- Czech Republic
- Denmark
- Estonia
- Finland
- France
- Germany
- Greece
- Hungary
- Ireland
- Italy
- Latvia
- Lithuania
- Luxembourg
- Malta
- The Netherlands
- Poland
- Portugal
- Romania
- Slovakia
- Slovenia
- Spain
- Sweden
- United Kingdom
- (selected) Norway
- Iceland
- Liechtenstein
- Other European country
- Other

3. What is the name of the organisation or authority you represent? If you are part of a group, give the name of the holding company as well.*

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The Norwegian Accounting Standards Board (Norsk RegnskapsStiftelse –
NRS)
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4. In the interests of transparency, we ask organisations to supply relevant information about themselves by registering in the Transparency Register (http://ec.europa.eu/transparencyregister). If your organisation is not registered, your submission will be published separately from those of registered organisations. Is your organisation registered in the European Parliament/Commission Transparency Register?*

- (●) Yes
- ( ) No

4.1. Please give your registration number.*

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325157314830-57
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5. In the interests of transparency, your contribution will be published on the Commission's website. How do you want it to appear?*

- (●) Under the name supplied? (*I consent to the publication of all the information in my contribution, and I declare that none of it is subject to copyright restrictions that would prevent publication.*)
- ( ) Anonymously? (*I consent to the publication of all the information in my contribution except my name/the name of my organisation, and I declare that none of it is subject to copyright restrictions that would prevent publication.*)

Relevance of the IAS Regulation

Objective

6. The rationale for the IAS Regulation, imposing internationally accepted standards - the International Financial Reporting Standards (IFRS) - was to make companies use the same set of accounting standards, thus ensuring a high level of transparency and comparability of financial statements. The ultimate aim was to make the EU capital market and the single market operate efficiently.

In your view, are the Regulation's objectives still valid today?*

- (•) Yes
- ( ) No
- ( ) No opinion

6.1. Comments.

Today, capital markets are structured in an even more globalised manner than they used to be, which leads to an increasing need for a single financial reporting framework. Global standards are therefore necessary for and of benefit to the EU.

7. The IAS Regulation refers to IFRS as a set of global accounting standards. Over 100 countries use or permit the use of these standards. The US, for instance, allows EU companies listed in the US to report under IFRS. However, it continues to rely on its "generally accepted accounting principles" (GAAPs) for its domestic companies' financial statements, while the EU requires IFRS to be used for the consolidated accounts of EU listed companies.

Has the IAS Regulation furthered the move towards establishing a set of globally accepted high-quality standards?*

- (•) Yes
- ( ) No
- ( ) No opinion

7.1. Please explain.

NRS thinks that the IAS Regulation has furthered the move towards establishing a set of globally accepted high-quality standards. We think that the introduction of the IAS Regulation in Europe in 2002 has influenced other jurisdictions outside Europe to use or permit the use of IFRS. The fact that IFRS are now being used or permitted in more than 100 countries shows that the IFRS are considered as a robust and high quality set of financial reporting standards.

Scope

8. The obligation to use IFRS as set out in the IAS Regulation applies to the consolidated financial statements of EU companies whose securities are traded on a regulated market in the EU. There are about 7,000 such firms.
In your view, is the current scope of the IAS Regulation right (i.e. consolidated accounts of EU companies listed on regulated markets)?*

- ( ) Yes
- (•) No
- ( ) No opinion

8.1. How would you propose it be changed?*

- [x] By making IFRS compulsory for the individual annual accounts of listed companies on regulated markets
- [ ] By making IFRS compulsory for the consolidated accounts of large non-listed companies
- [x] By allowing any company to opt for reporting under IFRS
- [ ] Other

8.2. Comments.

In some instances listed entities are not required to prepare consolidated financial statements (since they do not have any subsidiaries), and this means that they are not required to present financial statements under IFRS even though their equity and/or debt is publicly traded. NRS suggests that the scope of the IAS regulation should be updated to include those entities that are listed and are not currently required by the IAS regulation to present consolidated financial statements.

In addition, in NRS' opinion reporting under IFRS should be available for entities that are currently not included in the scope of the IAS Regulation. This would be beneficial for instance if the entity seeks to go public in the future or participates in a global market. Therefore, we suggest that reporting under IFRS should be available for every company irrespective of the member states' options (refer to Question 9).

We are aware that in some member states there will be a need to change tax and company laws to avoid unintended effects on taxable profits and dividend distribution basis from allowing IFRS reporting in the separate accounts. This should be solved by allowing sufficient time when making the change from a member state option to a company option.

9. National governments can decide to extend the application of IFRS to:
- individual annual financial statements of companies listed on regulated markets
- consolidated financial statements of companies that are not listed on regulated markets
- individual annual financial statements of companies that are not listed on regulated markets.

In your view, are the options open to national governments:*

- ( ) Appropriate
- ( ) Too wide
- (x) Too narrow
- ( ) No opinion

9.1. Please give details.

In line with our response to Question 8, we believe that the option to apply IFRS should rather be given at entity level, than as a member states' option.

Cost-benefit analysis of the IAS Regulation

10. Do you have pre-IFRS experience/ experience of the transition process to IFRS?*

- (x) Yes
- ( ) No

11. In your experience, has applying IFRS in the EU made companies' financial statements more transparent (e.g. in terms of quantity, quality and the usefulness of accounts and disclosures) than they were before mandatory adoption?*

- (x) Significantly more transparent
- ( ) Slightly more transparent
- ( ) No change
- ( ) Slightly less transparent
- ( ) Significantly less transparent
- ( ) No opinion

11.1. Please elaborate.

NRS firmly believes that since IFRS have been endorsed in the EU, transparency has been enhanced in financial reporting due to increased disclosure. IFRS have also reduced the level of divergence in the EU and thereby increased the comparability of EU financial statements.

IFRSs require an entity to present in all material aspects its financial position, performance and cash flows in a way that enhances the transparency of its financial statements.

12. In your experience, has applying IFRS in the EU altered the comparability of companies' financial statements, compared with the situation before mandatory adoption?

	Significantly increased	Slightly increased	No change	Slightly reduced	Significantly reduced	No opinion
In your country	○	◉	○	○	○	○
EU-wide	◉	○	○	○	○	○
Compared with non-EU countries	◉	○	○	○	○	○

12.1. Please elaborate.

In NRS' opinion, the comparability of companies' financial statements in Norway was relatively good under Norwegian Generally Accepted Accounted Principles.
(19) In NRS' opinion comparability has been enhanced significantly on a European and International basis. Entities are required to apply the same set of standards, which means that transactions that have the same economic consequences for each entity have been reported similarly in financial statements.

In addition, the IAS Regulation significantly reduced divergence among different EU listed entities (in different jurisdictions) that existed due to the differences between the local GAAP, which were only comparable by preparing time-consuming reconciliations.

Furthermore, the disclosures required under IFRS improve comparability of financial statements since the users are in a position to understand the accounting policies used and compare different entities.

Moreover, since IFRS are now applied in more than 100 jurisdictions comparability is enhanced not only within the EU but also with the financial statements of many non-EU countries. This enhances companies' ability to attract international investors.

In total, we believe the comparability has further improved under IFRS. However, IFRS still have room for removing accounting policy options to increase comparability. For instance, the choices of accounting policies in the financial sector can lead to significant differences in the figures shown in the financial statements.

13. Have financial statements become easier to understand

since the introduction of IFRS, compared with the situation before mandatory adoption?*

- (selected) Yes, in general
- Yes, but only in certain areas
- No, in general
- No, except in certain areas
- No opinion

13.2. Please elaborate.

In NRS' opinion, IFRS are a complete set of accounting standards. As a result some areas of financial reporting have become easier to understand, for instance the criteria for recognition and measurement are now the same in the EU due also to the increased transparency and comparability brought about by IFRS. Understandability has also increased as users interested in investing in listed entities in the EU only need to understand a single set of financial reporting standards. Additionally, the application in the EU is more consistent than under the previous accounting directives.

However, in some other areas (stock options, financial instruments and related, disclosures, fair value measurements, etc.), complexity may have increased for non-expert users, reflecting to some extent the fact that transactions have themselves become more complex. Whilst disclosures provide increased transparency, their overload may also render IFRS financial statements sometimes more difficult to understand. However, we note that the IASB has a project for addressing this issue.

14. Has the application of IFRS in the EU helped create a level playing field for European

companies using IFRS, compared with the situation before mandatory adoption? *

- (selected) Yes
- Yes, to some extent
- No
- No opinion

14.1. Please elaborate.

The same financial reporting framework and set of financial reporting principles and standards apply to all listed entities across the EU that prepare consolidated financial statements. The cost of preparing financial statements is part of the cost of getting access to finance. Since all of those listed entities are subject to the same EU IAS Regulation, a level playing field is created for all EU companies.

Furthermore the fact that the US SEC allows US listed EU-companies to report under IFRS, has significantly reduced the compliance cost for the many multinational/multi-jurisdiction entities with a US-listing.

15. Based on your experience, to what extent has the application of IFRS in the EU affected access to capital (listed debt or equity) for issuers in domestic and non-domestic markets that are IFRS reporters?

	Made it a lot easier	Made it easier	No effect	Made it more difficult	Made it a lot more difficult	No opinion
Domestic capital	●	○	○	○	○	○
EU capital other than domestic	●	○	○	○	○	○
Non-EU capital	●	○	○	○	○	○

15.1. Please provide data / examples if available.

The endorsement of IFRS in the EU has improved the access to capital for Norwegian listed companies. It is easier to get foreign investors to invest at the Oslo Stock Exchange. Oslo Stock Exchange has also become one of the leading stock exchanges for listing of "high yield" bonds.

The endorsement of IFRS in the EU has enabled listed EU companies to access international capital markets (including in the USA) with their IFRS based financial statements without any further reconciliation or preparation of other financial information. The use of IFRS has enhanced their access to worldwide capital markets and the competitive possibilities they offer.

16. In your experience, has the application of IFRS in the EU had a direct effect on the overall cost of capital for your company or the companies you are concerned with? (Please distinguish - as far as possible – the impact of IFRS from other influences, e.g. other regulatory changes in the EU and the international credit crunch and crisis.)*

- Cost has fallen significantly
- Cost has fallen slightly
- (selected) No effect
- Cost has risen slightly
- Cost has risen significantly
- No opinion

16.1. Please provide data/ examples if available.

This question is addressed to preparers of financial statements. NRS has not gathered input from preparers to respond to this question on the cost of capital for companies. In addition, it is very difficult to isolate the effect of IFRS on the cost of capital and as it may be affected by many other factors beyond the financial information provided (for example changes in regulatory requirements).

NRS is not aware of the existence of evidence gathered and analysis on a scientific basis to support its views that the use of IFRS significantly reduced the cost of capital for entities.

NRS believes that IFRS financial statements enhance comparability, accountability, stewardship, relevance and transparency of financial reporting. This means that market participants' confidence is enhanced and, ceteris paribus, from a conceptual point of view, this would normally lead to a reduction of cost of capital.

17. In your view, has the application of IFRS in the EU improved protection for investors (compared with the situation before mandatory adoption), through better information and stewardship by management?*

- (selected) Yes, to a great extent
- Yes, to a small extent
- It had no impact
- No, protection for investors has worsened
- No opinion

17.1. Please provide data/ examples if available.

Users of financial statements (existing and potential investors, lenders and other creditors) are provided with financial information that is more comparable and transparent. This enhances the transparency, accountability, reliability and stewardship by management. Although this might come at the expense of additional complexity in financial reporting, to an extent this is unavoidable due to the additional complexity arising from ever more complex business transactions and not from IFRSs themselves.

18. In your view, has the application of IFRS in the EU helped maintain confidence in financial markets, compared with the likely situation if it had not been introduced?

(N.B.: the “enforcement” section of this questionnaire deals with how IFRS are/ were applied.)*

- (x) Yes, to a great extent
- ( ) Yes, to a small extent
- ( ) It had no impact
- ( ) No, confidence in financial markets has decreased
- ( ) No opinion

18.1. Please provide data/ examples if available.

IFRS provide comparable and transparent information of quality. NRS considers that financial markets can gain confidence from such information. The investors only need to study one complete set of financial reporting standards to be able to assess entities in different jurisdictions. Therefore, in NRS' view, the application of IFRS in the EU achieves the goal of enabling and maintaining the confidence in financial markets.

19. Do you see other benefits from applying IFRS as required under the IAS Regulation?*

- (selected) Yes
- No
- No opinion

19.1. Yes - please specify (you may select more than 1 option).*

- [x] Improved ability to trade/expand internationally
- [x] Improved group reporting in terms of process
- [x] Robust accounting framework for preparing financial statements Administrative savings
- [x] Group audit savings
- [x] Other

19.1.1. Other - please specify.*

The use of IFRS have helped bring credibility to EU financial reporting and allows the EU to participate actively and effectively in the international standard-setting process.

EU and other countries in the world now use resources to develop and maintain one common set of accounting standards instead of many national ones. Presumably, the quality will be higher with these joint efforts.

NRS believes that the use of international standards increases the mobility of expertise and resources across different jurisdictions

19.2. If yes, please give details, with examples/ data if possible.

Applying International reporting standards (IFRSs) enables an entity to have access to International markets (not limited to capital markets). Increased transparency, accountability, reliability and stewardship enable international expansion as they enhance the confidence of business partners (and market participants) across the world.

NRS believes that consistent application of IFRS in a group of companies (especially if a group has international presence) results in economies of scale in terms of cost savings for group financial reporting and for internal/external audit.

20. In your experience, on balance and at global level, how do the benefits of applying IFRS compare to any additional costs incurred – compared with the situation before mandatory adoption, bearing in mind the increasing complexity of businesses that accounting needs to portray?*

- ○ Benefits significantly exceed the costs
- ● Benefits slightly exceed the costs
- ○ Benefits and costs are broadly equal
- ○ Costs slightly exceed the benefits
- ○ Costs significantly exceed the benefits
- ○ No opinion

20.1. Please provide any additional comments you think might be helpful.

NRS very much agrees that the complexity of businesses and the resulting transactions have dramatically increased over the last decade. Such increased complexity of a business needs to be portrayed in its IFRS financial reporting to reflect the economic reality of complex business transactions which may create additional costs. Additionally, transitioning to IFRS a decade ago generated costs.

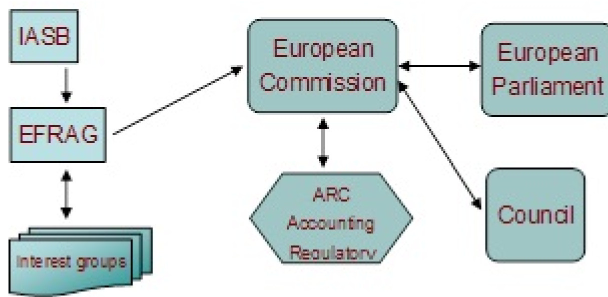
In the future moving to new standards (which respond to new business realities) is expected to add additional costs, but that would be the same with national standards being changed for the same reasons. Here IFRS can lead to fewer costs compared to the old regime, because of economies of scale.

As discussed in Question 19, NRS identifies a number of benefits that European entities have from applying International standards (IFRSs). One of them, relevant to international groups, may be that IFRS reporting enables management to better monitor the performance of the individual business units/subsidiaries, the quality of its internal processes and internal controls, and this may generate improvements.

The benefits may also not be the same for every entity; they seemed to be more apparent for the larger entities due to the inherent economy of scale, the cost/benefits assessment may be less favourable for smaller entities.

Endorsement mechanism & criteria

The EU's IFRS endorsement process



In the EU, IFRS are adopted on a standard-by-standard basis. The procedure is as follows:

- **The International Accounting Standards Board (IASB) issues a standard.**
- **The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.**
- **The Commission drafts an endorsement regulation.**
- **The Accounting Regulatory Committee (ARC) votes and gives an opinion.**
- **The European Parliament and Council examine the standard.**
- **The Commission adopts the standard and publishes it in the Official Journal.**

This process typically takes 8 months.

Endorsement criteria

Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- **be consistent with the "true and fair" view set out in the EU's Accounting Directive**
- **be favourable to the public good in Europe**
- **meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).**

In his October 2013 report, Mr Maystadt discussed the possibility of clarifying the "public good" criterion or adding 2 other criteria as components of the public good, namely that:

- **any accounting standards adopted should not jeopardise financial stability**
- **they must not hinder the EU's economic development.**

He also suggested that more thorough analysis of compliance with the criteria of prudence and respect for the public good was needed.

21. In the EU, IFRS are adopted on a standard-by-standard basis. The process, which typically takes 8 months, is as follows:

- The International Accounting Standards Board (IASB) issues a standard.
- The European Financial Reporting Advisory Group (EFRAG) holds consultations, advises on endorsement and examines the potential impact.
- The Commission drafts an endorsement regulation.
- The Accounting Regulatory Committee (ARC) votes and gives an opinion.
- The European Parliament and Council examine the standard.
- The Commission adopts the standard and publishes it in the Official Journal.

Do you have any comments on the way the endorsement process has been or is being conducted (e.g. in terms of the interaction of players, consistency, length, link with effective dates of standards, outcome, etc.)?*

NRS actively participated in the review of EFRAG and ARC governance conducted by Mr. Maystadt. NRS therefore fully supports the outcome of this process, namely, a transformed EFRAG to reinforce the EU's contribution to the international accounting standards setting process.

This stronger EFRAG organises stakeholders and standard setters' representation at European level which we understand aims at:
•Enhancing the genuine European dimension;
•Facilitating consensus building;
•Diminishing national oppositions and reduces risk of conflicts.

In this new context, the current 8 month long endorsement process seems especially long and cumbersome. The EU should not run behind other parts of the world in the IFRS endorsement process. Furthermore, the number of steps in the process and the number of parties involved can per se be a source of blockages and misunderstandings and risks creating too many opportunities that may be misused for political manipulation.

To maximise the European contribution to international accounting standards, proactive strategic input aimed at shaping the agenda and contributing thought-leadership sufficiently early in the process of standard development is most efficient and helps prevent political stalemate at the end of the process. Europe is more influential and effective when it speaks with one voice. NRS supports better coordination of European views and thinks that EFRAG plays an instrumental role to that end.

The reformed EFRAG and the EC should take up an enhanced role in this process.
•EFRAG by actively engaging the EP and the Council earlier in the process. This on-going and regular dialogue and mutual education should help to develop a relationship as well-informed sparring partners between EFRAG and the EP and Council.
•The EC by taking up its independent role as standing for the European public good. Thereby, it can facilitate relations between the EP and Council on the one side and IASB on the other.

If the length and complexity of the process cannot be reduced, it is essential that those participating are fully informed and engaged and share common European objectives.

22. Under Article 3.2 of the IAS Regulation, any IFRS to be adopted in the EU must:

- be consistent with the "true and fair" view set out in the EU's Accounting Directive
- be favourable to the public good in Europe
- meet basic criteria on the quality of information required for financial statements to serve users (i.e. statements must be understandable, relevant, reliable and comparable, they must provide the financial information needed to make economic decisions and assess stewardship by management).

Are the endorsement criteria appropriate (sufficient, relevant and robust)?*

- (x) Yes
- ( ) Yes, to some extent
- ( ) No
- ( ) No opinion

23. There is a necessary trade-off between the aim of promoting a set of globally accepted accounting standards and the need to ensure these standards respond to EU needs. This is why the IAS regulation limits the Commission's freedom to modify the content of the standards adopted by the IASB.

Does the IAS Regulation reflect this trade-off appropriately, in your view? *

- (x) Yes
- ( ) No
- ( ) No opinion

24. Have you experienced any significant problems due to differences between the IFRS as adopted by the EU and the IFRS as published by the IASB ("carve-out" for IAS 39 concerning macro-hedging allowing banks to reflect their risk-management practices in their financial statements)? *

- ( ) Yes
- (x) No
- ( ) No opinion

Quality of IFRS financial statements

25. What is your overall opinion of the quality (transparency, understandability, relevance, reliability and comparability) of financial statements prepared by EU companies using IFRS?*

- (x) Very good
- ( ) Good
- ( ) Moderate
- ( ) Low
- ( ) Very low
- ( ) No opinion

25.1. Please provide any additional comments you think might be helpful.

The quality of IFRS financial statements is not just dependent on the IFRS standards. It is the quality of the standards used, the preparation of the financial statements, audit and enforcement that together contribute to make IFRS financial statements produced in the EU of quality. The standards are themselves only one component. If all components are present, IFRS financial statements are of very good quality compared to other frameworks.

As of today, NRS considers the overall quality of IFRS financial statements prepared under IFRS in the EU as being "very good". However, NRS believes that there is still room for improvement in some areas of the set of the IFRS standards. NRS has already commented in the past on these to the IASB during prior consultations. For instance, the IASB still needs to work (and is doing work) on the disclosure overload and to complete some key projects, such as the standard on insurance contracts, the conceptual framework, the accounting for macro-hedging, etc.

Finally, we believe that national enforcement quality has improved in many EU countries, which has helped to improve of the quality of financial statements. However, in NRS' opinion, there is still room for improvement.

26. Given that firms have complex business models and transactions, how would you rate financial statements prepared in accordance with IFRS in terms of complexity and understandability?*

- ( ) Very complex & difficult to understand
- ( ) Fairly complex & difficult to understand
- (x) Reasonable
- ( ) Not complex or difficult
- ( ) No opinion

26.1. Please provide any further comments you think might be helpful, specifying any particular areas of accounting concerned, if appropriate.

Complexity that exists in financial reporting is not necessarily due to the financial reporting standards. In NRS' opinion, the complexity that exists in financial statements is mostly due to the complexity in the business and transactions that entities undertake.

Given the complexity of transactions, we believe that IFRS's complexity is reasonable, taking into account the need for a high quality set of financial statements. However, some standards induce disclosure overload and may produce accounting outcomes in a few cases that can be difficult to explain to non-IFRS experts.

27. How would you rate financial statements prepared using IFRS in terms of complexity and understandability – compared with other sets of standards you use?

	IFRS information is easier to understand than...	IFRS information is neither easier nor more difficult to understand than ...	IFRS information is more difficult to understand than ...	No opinion
Information under your local GAAPs	○	○	○	●
Information under any other GAAPs	○	○	○	●

27.1. What are your local GAAPs?

This question seems to assume that the consolidated financial statements of listed companies are issued using other accounting standards in addition to IFRS. Normally this is not the case. NRS believes that the local or other GAAP that aim to provide the same level of quality in financial statements as the IFRS would have the same degree of complexity.

The local GAAP in Norway is Norwegian Generally Accepted Accounting Standards (Norwegian GAAP). Norwegian GAAP are aimed at non-listed companies. Therefore, the regulation might have less complex requirements, lack regulation on complex issues that are less common among non-listed companies, and have simplified disclosure requirements compared to IFRS. Applying Norwegian GAAP to the financial statements of listed companies might therefore lead to reduced quality and understandability.

27.2. Please identify other GAAPs you are using as a basis for comparison.

28. How do IFRS compare with other GAAPs in terms of providing a true and fair view of a company's (group's) performance and financial position?

	IFRS are better than...	IFRS are equivalent to...	IFRS are worse than...	No opinion
Your local GAAPs (as identified under question 27)	●	○	○	○
Any other GAAPs (as identified under question 27)	○	○	○	●

28.1. Please provide any additional comments you think might be helpful.

We assume that the question relates to the financial statements of listed companies. Norwegian GAAP are aimed at non-listed companies. We believe that IFRS are better in terms of providing a true and fair view of a listed company's (listed group's) performance and financial position than Norwegian GAAP aimed at non-listed companies.

29. How often is it necessary to depart from IFRS under "extremely rare circumstances" (as allowed by IFRS), to reflect the reality of a company's financial performance and position in a fairer way?*

- [ ] Often
- [ ] Sometimes
- [ ] Hardly ever
- [x] Never
- [ ] No opinion

29.1. Please provide additional comments and examples of departures from IFRS that you have seen.

We are not aware of any Norwegian companies that have used this exemption.

As a side note, we question the two first alternatives in the question. "Extremely rare circumstances" presumably "hardly ever" or "never" happen. Applying the exception "often" or "sometimes" is in our view not possible within the scope of the exception.

30. How would you rate the extent to which IFRS allows you to reflect your company's business model in your financial statements?*

- ○ This is not an issue
- ○ IFRS are flexible enough
- ○ IFRS should be more flexible, so different business models can be reflected
- ● No opinion

Enforcement

Since 2011, the European Securities and Markets Authority (ESMA) has been coordinating national enforcers' operational activities concerning compliance with IFRS in the EU. ESMA has taken over where the Committee of European Securities Regulators (CESR) left off.

Enforcement activities regarding companies listed on regulated markets are defined in the Transparency Directive (2004/109/EC , as subsequently amended).

31. Are the IFRS adequately enforced in your country?*

- ● Yes
- ○ Yes, to some extent
- ○ No
- ○ Not applicable
- ○ No opinion

31.1. Please provide any additional comments you think might be helpful.

Although there is always room for further improvements, NRS believes that for the most part enforcement is working properly in Norway.

32. Does ESMA coordinate enforcers at EU level satisfactorily? *

- ( ) Yes
- (•) Yes, to some extent
- ( ) No
- ( ) Not applicable
- ( ) No opinion

32.1. Please provide any additional comments you think might be helpful.

In NRS' opinion ESMA's role is important in the context of the overall efforts to achieve consistency in the EU.

On the other hand, NRS observes that ESMA operates within the boundaries of its role as a coordinator since ESMA is not an enforcer itself.

33. Has enforcement of accounting standards in your country changed with the introduction of IFRS?*

- (•) Enforcement is now more difficult
- ( ) Enforcement has not changed
- ( ) Enforcement is now easier
- ( ) Not applicable
- ( ) No opinion

33.1. Please provide any specific relevant examples.

(80) NRS thinks that enforcement is more challenging for the companies than the enforcement before the introduction of IFRS. Making this comparison without further analysis might however not be very meaningful. The situation was very different before the introduction of IFRS, because the purpose was then ensuring consistent application nationally between Norwegian listed companies applying Norwegian General Accepted Accounting Principles. Now the purpose is consistent application of IFRS globally. Compared to the situation before the introduction of IFRS, there are more complex business transactions, and more complexity in the accounting standards. The enforcement may also have become more challenging due to those changes.

34. In your experience, have national law requirements influenced the application of IFRS in the EU country or countries in which you are active? *

- ○ Yes, significant influence
- ○ Yes, slight influence
- ◉ No
- ○ No opinion
- ○ Not applicable

35. If you are aware of any significant differences in enforcement between EU countries or with other jurisdictions, do they affect your practice in applying IFRS or analysing financial statements? *

- ○ Yes, significantly
- ○ Yes, but the impact is limited
- ◉ No
- ○ No opinion
- ○ Not applicable

35.1. Please provide specific details.

```
NRS observes that there are some differences in enforcement practices
between EU countries, but we do not believe it influences the practice
in applying IFRS or analysing Financial statements.

NRS observes that there are some differences in enforcement practices
between EU countries, but we do not believe those differences influence
practice or the usefulness of financial statements.
```

36. The recitals of the IAS Regulation stress that a system of rigorous enforcement is key to investor confidence in financial markets. However, the Regulation contains no specific rules on penalties or enforcement activities, or their coordination by the EU.

Should the IAS Regulation be clarified as regards penalties and enforcement activities?*

- ○ Yes
- ◉ No
- ○ No opinion

37. Should more guidance be provided on how to apply the IFRS? *

- ◉ Yes
- ○ No
- ○ No opinion

37.1. If so, by whom? Please detail.*

NRS believes more implementation guidance from the IASB would be welcome.

Consistency of EU law

There are different types of reporting requirements in the EU (e.g. prudential requirements, company law, tax, etc.)

38. How would you assess the combined effects of, and interaction between, different reporting requirements, including prudential ones? *

NRS identifies that there is, to a certain degree, overlap between some EU regulations and financial reporting. To a certain extent this is also true for regulatory reporting and financial reporting and the requirements under IFRSs. As a recent example, regarding the Country-by-Country Reporting requirements of the Capital Requirement Directive IV, some of the requirements (for instance in Article 89) are already partly available under the IFRS 8 -Operating Segments disclosures in the financial statements. Such overlaps should be avoided as they might ad complexity and confusion.

39. Do you see any tensions in interaction between the IAS Regulation and EU law, in particular:

	No	Yes	To some extent	No opinion
Prudential regulations (banks, insurance companies)	○	○	●	○
Company law	○	○	●	○
Other	○	○	○	●

39.2. If you answered "yes" or "to some extent", please give details and state what the main effects of these tensions are.*

Tensions also exist with prudential regulations particularly where valuations are required, as the overall objectives of the information provided may not be the same.

User-friendliness of legislation

All standards are translated into the official EU languages before they are adopted. The Commission also regularly draws up a consolidated version of the current standards enacted by the EU (http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:02008R1126-20130331:EN:NOT). The consolidated version does not include any standards that are not yet in force, but can be applied before the date of entry into force.

40. Are you satisfied with the **consolidated version** of *IFRS standards adopted by the EU*, which is not legally binding, or would you like to see improvements?

- ( ) Satisfied
- (x) Need for improvements
- ( ) I wasn't aware of it
- ( ) I don't use it
- ( ) No opinion

40.1. Need for improvements - please specify.*

The legally binding version should be consolidated more often (last time 2008?).

41. Are you satisfied with the quality of **translation** of IFRS into your language *provided by the EU* ?*

- ( ) Yes
- (x) Yes, to some extent
- ( ) No
- ( ) No opinion
- ( ) Not applicable

41.1. Please give details.

We acknowledge the difficulty of performing the translation exercise. However, we sometimes receive feedback that translations are not always satisfactory.

General

42. Do you have any other comments on or suggestions about the IAS Regulation?

Additional comments to question 22:
We believe that the endorsement of standards should remain based on the 2002 IAS Regulation. Therefore, the existing endorsement criteria do not need to be altered and/or expanded.

If however felt necessary the existing criteria set forth by the IAS Regulation could be clarified by additional guidance without changing the Regulation. This could maximise the potential of the current endorsement mechanism, while avoiding a procrastinated legislative procedure to amend the IAS Regulation.

There has been much debate on the endorsement criteria including the negative effects of flexible endorsement. In his report, Mr Maystadt clearly stated the potential negative effects of such a flexible endorsement. However, he seemed to suggest that these negative effects could perhaps be alleviated by ‘precise and restrictive criteria and conditions’. NRS fundamentally disagrees with ‘opening a door’ towards more flexibility for the EU in endorsing IFRSs as this would not bring flexibility, but would defeat the very purpose of having global standards.

We are against the introduction of new endorsement criteria. The two criteria suggested by Mr Maystadt, “the endangering of financial stability” and “the hindrance to economic development”, are very vague and wide. They may prove harmless, but they may also become a source for

endless discussions that paralyze decision-making.

Additional comments to question 23:
The primary objective of the IAS Regulation (article 1) is still valid: adopting international standards to harmonise financial information in order to ensure a high degree of transparency and comparability of financial statements and hence an efficient functioning of the EU capital market and of the Internal Market. In addition, on the basis of experience, Europe has shown that it struggles to agree on accounting matters and therefore greatly benefits from relying on an independent standard setter whose aim, according to its Handbooks, is to develop, in the public interest, a single set of high quality, understandable, enforceable and globally accepted financial reporting standards based on clearly articulated principles.

The fact that all requirements of the standards are to be endorsed could in principle endanger the advantages of truly global standards by non-endorsements, "carve-outs" and delays. This has mostly not been a problem in practice in the 10 years period the IAS Regulation has existed, as EU has only seen the need to make one "carve-out", which is limited in scope. As mentioned in our answer to question 21, the current 8 month long endorsement process seems especially long and cumbersome, and we would like to see changes to the process to reduce the delays.

NRS is against more flexible endorsement criteria. Moving toward flexible endorsement of IFRS would be detrimental to Europe. In order to retain the advantages of global standards, the EU should avoid increasing the flexibility of the current endorsement process and moving directly or implicitly toward specific European standards. Mr Maystadt's final report duly recognises many of the risks associated with such an approach. We fully agree that increased flexibility in IFRS endorsement would negatively influence the worldwide efforts towards a single set of standards and would endanger the coherence of the financial reporting framework. Therefore, flexible endorsement would isolate Europe and damage its credibility.

The aim of taking more adequate account of Members States' reservations to the adoption of certain IFRSs can be achieved in more constructive ways. Therefore, the EU should seek to increase its engagement with the international accounting debate, resulting in standards that better suit the needs of Members States.

Additional comments to question 24:
The carve-out is available, but is not applied by any Norwegian entities. Carve-outs diminish the principle of truly global accounting standards. Therefore the carve-out represents a negative effects for everyone else than the approximately 20 companies using it. We do not have figures that can quantify this as a significant problem for Norwegian entities. As a side note we do not concur to the premise that the carve-out allows the banks to reflect their true risk-management practices in their financial statements.

Additional comments to question 36:
We see no need for the IAS Regulation to have specific rules on penalties; each country can address that issue on the national level.

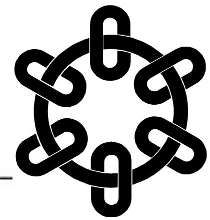
ESMA's terms of reference include issuing best practice guidelines to NCAs, for example early in 2014 ESMA consulted with EU constituents re the revision of guidelines for Alternative Performance Measures. Within its powers, ESMA issues publicly available reports which list those NCAs that do not comply (which also include the reasons for non-compliance). We do not see the need for specific rules on enforcement activities in the IAS Regulation.

Thank you for your valuable contribution.

Contact

✉ MARKT-F3@ec.europa.eu

Norsk RegnskapsStiftelse



17 December 2014

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Dear Sir/Madam

EFRAG Short Discussion Series
LEVIES: WHAT WOULD HAVE TO BE CHANGED IN IFRS FOR A DIFFERENT ACCOUNTING OUTCOME?

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on EFRAGs Short Discussion Series paper on Levies "What would have to be changed in IFRS for a different accounting outcome?" (hereinafter referred to as the DP)

We welcome EFRAG's initiative to discuss aspects of IFRIC 21 in this manner. We believe the DP will be helpful in order to focus on whether further clarification is needed in order to avoid inconsistent application of the interpretation and undesirable accounting outcomes.

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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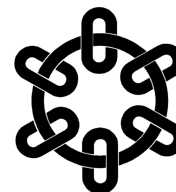


Appendix

Questions to constituents

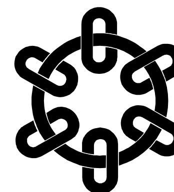
Q1 Do you have concerns that the application of IFRIC 21 and other relevant Standards may sometimes result in inappropriate outcomes (such as charging immediately to profit or loss the cost of a levy that should be instead recognised over a period)? (see paragraph 3)

We do have some concerns that the application of IFRIC 21 may sometimes result in inappropriate outcomes. Immediate charging of e.g. licence to operate costs that cover a period would distort earnings in interim (and potentially annual) reporting periods, and require unnecessary note disclosures and adjustments to be made by users of financial statements. However, we do not believe this should warrant a full revision of the principles of IAS 37 by itself.

In our view, the key aspect of the assessment under IFRIC 21 is whether the debit entry is in the income statement or in the balance sheet. Hence, in situations where this is unclear we believe that the focus should be on whether further clarification is needed with regards to this assessment (i.e. whether the debit entry is an asset or not). Therefore it could be necessary to develop further guidance regarding whether an entity is receiving an asset or a service in exchange for the payment of the levy.

Q2 Based on the existing applicable Standards, do you think that entities will be able in practice to identify assets or services received in exchange for levies? (see paragraphs 58-64)

We are not convinced that in most instances it would be relatively straight forward to determine the assets (rights) or services received. As discussed under the answer to the previous question we believe it could be necessary to develop further guidance regarding whether an entity is receiving an asset or a service in exchange for the payment of the levy, especially if it turns out that the application is used inconsistently.



Q3 *Is the proposed guidance in paragraph 62 helpful in this respect? And, should the guidance also include criteria to distinguish if an entity has received an asset rather than a service (or vice versa)? (see paragraph 64)*

The proposed guidance in paragraph 62 is helpful. Whether the counterpart to the levy constitutes an asset or a service to be received or amortised over a time period of e.g. a year should not make a significant difference in most cases, and further guidance may thus not be necessary.

Q4 *For those levies where the law indicates a point-in-time obligation, do you agree that there may be other elements in the law to designate the obligating event? If so, do you agree with the elements described in paragraphs 65 to 68?*

We agree that there may be other elements in the law to designate the obligating event. We have also observed that in some cases the application and interpretation of laws are subject to court decisions that could provide useful insight into whether the liability to pay a levy should be recognised progressively over time, or not. We find paragraph 67 particularly helpful.

In this context we would also like to draw your attention to BC 18 c) of IFRIC 21, which we believe should be removed.

Q5 *In which cases, if any, can a levy measured on a balance sheet figure be linked to an activity performed over time? (see paragraphs 56 and 74)*

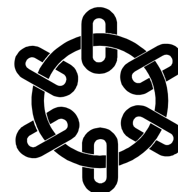
We think the basis for the law or the levy will often lead to the actual levy being linked to an asset (e.g. licence to operate) or service to be received over time even when the measurement is based on asset values at a certain date. The reason for the measurement basis could be that this is considered a good indication of the various entities' involvement and exposure to this particular market or business.

Q6 Do you agree with the inclusion of a specific requirement in IAS 34 as a short term solution? (see paragraph 76)

The inclusion of an illustrative example dealing with levies in IAS 34 would in our view be helpful.

Q7 Do you agree that the IASB should add to its agenda a Research project to deal with transactions with Government authorities in their capacity as authorities? (see paragraphs 82-83)

We do not believe the IASB should add such a project to its agenda at present. Further guidance regarding whether an entity is receiving an asset or a service in exchange for the payment of the levy and inclusion of illustrative examples in IAS 34 as discussed in

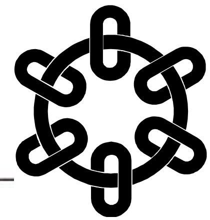


this DP would be sufficient to overcome the concerns with IFRIC 21. In our view, the accounting for these types of transactions should follow the Conceptual Framework and ordinary IFRSs.

Q8 Do you think that other different alternatives could be explored in the paper in order to reach a different outcome when accounting for levies?

We are not aware of any such alternative.

Norsk RegnskapsStiftelse



IFRS Foundation
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, 18 December 2014

Dear Mr Hoogervorst

Exposure Draft ED/2014/3: Recognition of Deferred Tax Assets for Unrealised Losses
Proposed amendments to IAS 12

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Recognition of Deferred Tax Assets for Unrealised Losses.*

We agree with the proposed amendments to IAS 12 in the ED/2014/3. We believe the proposed amendments appropriately clarify issues that have caused diversity in practice. Notwithstanding, we believe these proposed amendments are narrow-scoped like several previous amendments to IAS 12. We prefer amendments to have a broader focus and to be more principle-based.

IAS 12 is a complex standard and lack of clarity in definitions and principles may lead to diversity in practice. We acknowledge that the IASB has a long term research project on income taxes on its agenda, and we request the Board to give this project stronger priority.

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.

Yours faithfully,

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

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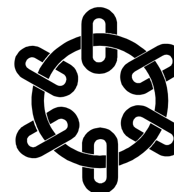


Appendix - Detailed comments on amendments proposed in ED 2014/3

Question 1—Existence of a deductible temporary difference

The IASB proposes to confirm that decreases in the carrying amount of a fixed-rate debt instrument for which the principal is paid on maturity give rise to a deductible temporary difference if this debt instrument is measured at fair value and if its tax base remains at cost. This applies irrespective of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use, ie by holding it to maturity, or whether it is probable that the issuer will pay all the contractual cash flows.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree that the situation described above will give rise to a deductible temporary difference. Furthermore, we agree that this applies irrespective of whether the debt instrument holder expects to recover the carrying amount of the debt instrument by sale or by use.

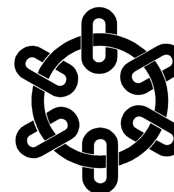
We believe the proposed example illustrating paragraph 26 (d) of IAS 12 will clarify an issue that has caused diversity in practice. However, we recommend that the proposed example also explains that a deductible temporary difference arises regardless of whether the debt instrument is measured at fair value through profit or loss (FVPL) or fair value through other comprehensive income (FVOCI).

Question 2 — Recovering an asset for more than its carrying amount

The IASB proposes to clarify the extent to which an entity's estimate of future taxable profit (paragraph 29) includes amounts from recovering assets for more than their carrying amounts.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposed amendment to clarify that the carrying amount of an asset does not limit the estimation of probable future taxable profit. We believe the rationale for recovering an asset for more than its carrying amount is well illustrated by the scenarios presented in paragraph BC13 of the proposed amendment.



Question 3 — Probable future taxable profit against which deductible temporary differences are assessed for utilisation

The IASB proposes to clarify that an entity's estimate of future taxable profit (paragraph 29) excludes tax deductions resulting from the reversal of deductible temporary differences.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposed amendment to clarify that an entity's estimate of future taxable profit excludes tax deductions resulting from the reversal of deductible temporary differences. Although we believe the proposed clarification will lead to less diversity in practice, we are concerned about the difficult wording in paragraph 29 (a) (i). Hence, we would recommend the IASB to further clarify the issue by including an illustrative example.

Question 4—Combined versus separate assessment

The IASB proposes to clarify that an entity assesses whether to recognise the tax effect of a deductible temporary difference as a deferred tax asset in combination with other deferred tax assets. If tax law restricts the utilisation of tax losses so that an entity can only deduct tax losses against income of a specified type or specified types (eg if it can deduct capital losses only against capital gains), the entity must still assess a deferred tax asset in combination with other deferred tax assets, but only with deferred tax assets of the appropriate type.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposed amendment to add paragraph 27A of IAS 12.

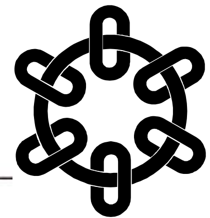
Question 5 — Transition

The IASB proposes to require limited retrospective application of the proposed amendments for entities already applying IFRS. This is so that restatements of the opening retained earnings or other components of equity of the earliest comparative period presented should be allowed but not be required. Full retrospective application would be required for first-time adopters of IFRS.

Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?

We agree with the proposed amendment.

Norsk RegnskapsStiftelse



19 December 2014

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Dear Sir/Madam

EFRAG Short Discussion Series
PRESENTATION OF THE REVERSAL OF ACQUISITION "STEP-UPS"

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on EFRAGs Short Discussion Series paper *Presentation of acquisition "step-ups"* (hereinafter referred to as the DP)

We believe that fair value is the appropriate measurement basis for assets acquired in a business combination. Thus, we do not support a new generic requirement to provide information on the reversal of acquisition step-ups. However, we acknowledge that this information is relevant to some entities, and therefore believe that it should be permitted to disclose the information, if the information is regarded relevant and material to the users of its financial statements.

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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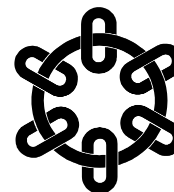

Appendix

Questions to constituents

Q1 *Do you believe that the IASB should introduce new requirements to improve the information on the reversal of acquisition step-ups? If not, why not?*

We believe that fair value is the appropriate measurement basis for assets acquired in a business combination. Thus, we see no reason for separate presentation of the reversal of the step-up in comprehensive income, and certainly not to require the step-up to be presented as part of other comprehensive income, or by offsetting the revenue and cost of goods sold, for the performance of the acquiree until the acquisition date.

However, we acknowledge that this information may be relevant to some entities. We are also aware that some entities provide this type of information, and that analysts of some entities request this information, for the reasons laid out in the DP. However, we do not support a new generic requirement to provide information on the reversal of acquisition step-ups. Rather, we believe that that entities should be permitted to disclose this information, if the information is regarded relevant and material to the users of its financial statements.

Note that we do not see a strong basis for restricting this issue to step-ups that arise through business combinations, or to particular types of assets (such as inventories) acquired as part of a business combination. Furthermore, we do not believe that the DP provides a good argument for making such a distinction. Thus, if the IASB decide to provide guidance on this issue, we believe it should be generally applicable across various types of entities, and independent on the nature of the asset and how the asset was acquired.

Q2 *Which of the alternatives illustrated in the paper do you support? What is your reasoning?*

We believe that entities should be permitted to apply alternative d), if the information is regarded relevant and material to users of its financial statements.

We do not support the other alternatives, for the reason laid out in our answer to question 1.

DRAFT