

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

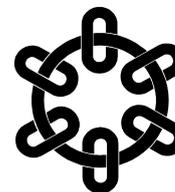
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your discussion paper DP/2013/1, A Review on the Conceptual Framework for Financial Reporting. We have for a number of years urged you to give priority to this project, and we are very pleased with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

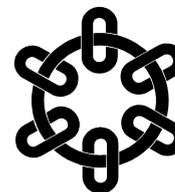
The NASB thinks that it would be useful in conjunction with the issuing of an ED to prepare a table that shows all conflicts between existing standards and the proposed framework.



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

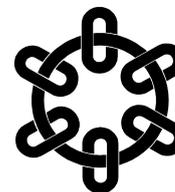
The definitions of an asset and a liability are discussed in paragraphs 2.6–2.16 of the DP. The IASB proposes the following definitions:

- (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.

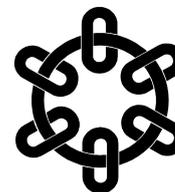
(c)

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

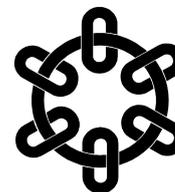
We agree with the conclusion derived in 2.4 that each primary statement should only include items that are elements defined for that statement, and totals and subtotals of those elements. This is an important point that should not be abandoned in the course of this project.

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.*

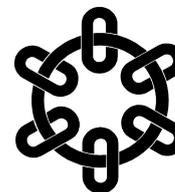
The IASB has tentatively rejected View 1. However, it has not reached a preliminary view in favour of View 2 or View 3.

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.

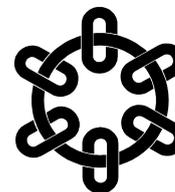
We recommend that "always" is removed form paragraph 3.34 as the proof of it not being so is included in the same sentence.

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

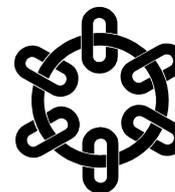
In the IASB's preliminary view, as set out in paragraphs 4.28–4.51 of the DP, an entity should derecognise an asset or a liability when it no longer meets the recognition criteria. (This is the control approach described in paragraph 4.36(a)). However, if the entity retains a component of an asset or 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 too 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

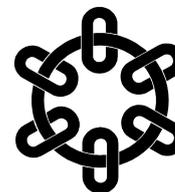
The definition of equity, the measurement and presentation of different classes of equity, and how to distinguish liabilities from equity instruments are discussed in paragraphs 5.1-5.59 of the DP. In the IASB's preliminary view:

- (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 Board and should not be repeated for specific topics.

Other comments to chapter 5

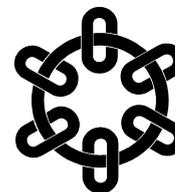
In paragraph 5.7(d) we recommend the Board to consider whether it is necessary to include "financial" in the definition of an equity instrument. When considered together with the definitions of financial assets and financial liabilities we are uncertain of whether the inclusion of "financial" in the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

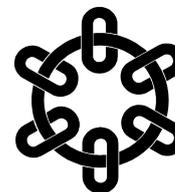
Question 11

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 if 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.*

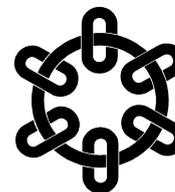
Do you agree with these preliminary views and the proposed guidance in these paragraphs? Why or why not? If you disagree, please describe what alternative approach you would support.

(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.

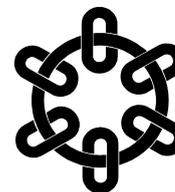
Question 14

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

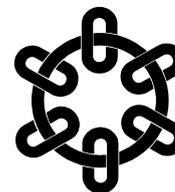
Question 16

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.

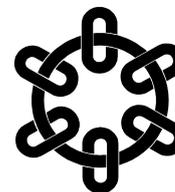
We would also question the usefulness of developing additional guidance in the format of education material. We believe such guidance should be included as additional guidance related to new or existing standards if IASB were to develop such guidance.

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.

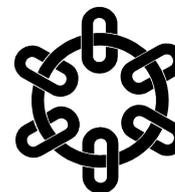
Do you agree? Why or why not?

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 be included in the measurement section.

Section 9

Question 22

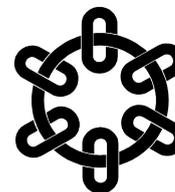
Chapters 1 and 3 of the existing Conceptual Framework

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.



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

Reliability: 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.

Prudence:

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

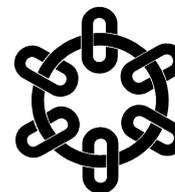
The business model concept is discussed in paragraphs 9.23–9.34. This DP does not define the business model concept. However, the IASB’s preliminary view is that financial statements can be made more relevant if the IASB considers, when developing or revising particular Standards, how an entity conducts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

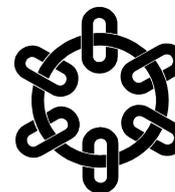
Question 26

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.