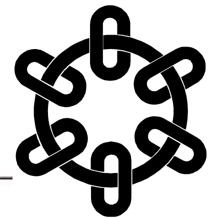
Norsk RegnskapsStiftelse



8 January 2021

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft ED/2020/4: Lease Liability in a Sale and Leaseback - Proposed amendment to IFRS 16

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit its views on ED/2020/4 Lease Liability in a Sale and Leaseback - Proposed amendment to IFRS 16.

NASB agrees with the proposed amendment and supports providing greater clarity on the accounting for sale and leaseback transactions, both at the date of transaction and subsequently.

NASB observes that the amendment establishes different measurement requirements for lease liabilities arising in a sale and leaseback transaction than for general lease liabilities. This difference has limited conceptual basis. However, NASB is of the view that this alternative measurement rules is necessary to support the overall objective of accounting for sale and leaseback transactions in a way that more truly reflect the economics of the transaction.

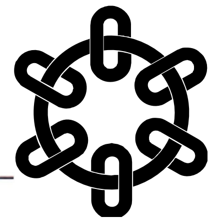
NASB further supports adding an illustrative example on the application of the requirements for sale and leaseback transactions with variable lease payments, both related to volume adjustments as well as index changes among other.

NASB also agrees to the proposed retrospective application method for implementation, including the specific requirements included to avoid the use of hindsight.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

Norsk RegnskapsStiftelse



10 May 2021

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 10, 11 and 12

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 10, 11 and 12.*

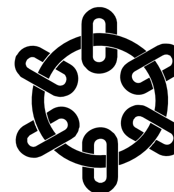
In our view these standards in general result in financial reporting that provide useful information to the users, however we think there are issues to consider regarding IFRS 10, 11 and 12 where the standards could be improved, or more guidance be provided.

Our comments are enclosed in the appendix to this letter. NASB has used its scarce resources to focus on frequent issues arising from typical Norwegian industries and Norwegian companies when applying IFRS 10, 11 and 12. For issues that we have not had the capacity to comment on, we provide no opinion, and trust these are dealt with by other respondents.

We are available to further discuss our comments. Please do not hesitate to contact the undersigned.

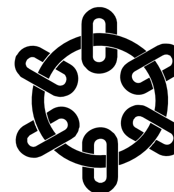
Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS
bjorn.einar.strandberg@pwc.com

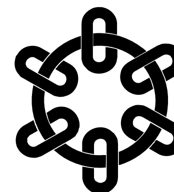


Appendix

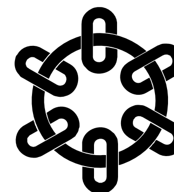
Question reference	**2(b) Rights that give an investor power**
Paragraph in standard	IFRS 10.B22-B24 and B26-B33
Industries or country conditions of particular relevance to the issue	All
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The guidance in B22-24 is helpful to determine whether a right is substantive or not. Nevertheless, it is a complex analysis when rights in general first need to be analysed using the preceding text in B14-B21 and for example weighting B18 against B19-20 and then in the next stage assess if each right is substantive or not. We regard B26-B33 on franchises as akin to 'application guidance' for this particular business model. The guidance has the effect that we have not observed any franchisor consolidating its franchisees. We do not see this as a major problem, as the practice is not diverse, and the effect of any consolidation might not be material on net profit or other key figures. A larger problem is that entities that are not franchisors apply this guidance to argue that substantive rights are merely protective. We find the rationale provided in B33 to be particularly difficult as legal form and funding for a typical franchisee in the retail business would only marginally affect the returns, whereas the franchisor's power to decide opening hours, prices, campaigns, menu etc. likely affect much more. To use this guidance as an 'authorised' example of how substantive rights have to be weighted against each other may lead to the wrong conclusion. Moreover, the fact that legal form and funding structure are labelled 'fundamental decisions' in B33, which is also used as a criterion in B26 to identify protective rights, are similarly unhelpful.
Assessment of the matter's pervasiveness	This matter causes challenges for situations with two major stakeholders, which happens quite often.
Example(s)	See text above.
Possible way to solve the issue	We would encourage to provide additional guidance or rephrasing the standard so it limits the franchise guidance to those particular facts and circumstances and remove ambiguous wording that may be misused by other entities.



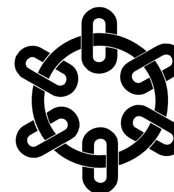
Question reference	2(c) Control without a majority of voting rights
Industries or country conditions of particular relevance to the issue	All
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	IFRS 10 B43-46 is not providing neither rebuttable assumptions, expressing level of certainty of control or offering relevant examples on how to assess de facto control situations as example 4 and 6 are too obvious be of actual help. Hence, we do experience a lot of inconsistency and uncertainty when de facto control situations are assessed, and accounting solutions are concluded. We also refer to our comment to your question 10, where we suggest that the Board assess to introduce a means of stickiness, to avoid frequent changes in accounting, as this is burdensome to the prepares and do not represent useful information to the users.
Assessment of the matter's pervasiveness	This issue is generally pervasive across companies, industries and situations.
Possible way to solve the issue	Prepare a more sophisticated example in addition to Example 4 and 6, which discuss in more detail how to assess a situation where the facts and circumstances are between these two fact patterns. A suggestion is to introduce a rebuttable assumption regarding when to assume de facto control or not? Should the level of certainty be indicated? In the current IFRS 10 no level of certainty to conclude on de facto is expressed. For de facto control there is a default option when it is not clear, namely to not consolidate. Some would hold the view that it would be more prudent to consolidate than not. This is based on the rationale that internal gains are fully eliminated, gross liabilities are shown clearly with full IFRS 7 disclosures and in general more transparent reporting with the extensive disclosures for large NCI-items. On balance we support such a view, and a consequence would be to remove "not" in B46: *(... the investor does ~~not~~ control the investee").*



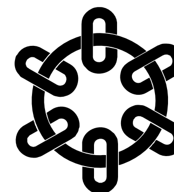
Question reference	5(a) Loss of control and translation difference
Paragraph in standard	IFRS 10.B98-B99
Industries or country conditions of particular relevance to the issue	All, but smaller territories with their own currencies more than other.
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Under the control model in IFRS 10, loss of control is the trigger for reclassification of all of the accumulated translation differences. We understand that the general principle of recognising any non-controlling interest after loss of control at fair value is not up for discussion. The rationale being that losing control is a fundamental change that warrants or allows for remeasurement. However, we question whether this applies with the same logic for accumulated translation differences. The underlying accounting rationale for deferring these, and not recognising translation differences in profit or loss as they are incurred are obscure and based on conventions. The currency risk involved when investing in a foreign operation is somewhat discussed in IFRIC 16, which focus on the real economic risk inherent between parent's functional currency and that of subsidiaries. This currency exposure is real until the investment is returned to the parent's functional currency. In a situation where control is lost by way of dilution only, and the investor has the same currency exposure as the invested amount in the same foreign operation is unchanged, it is difficult to understand why this warrants a gain/loss recognition. In a similar pattern, a sale to an NCI for 49% with control retained, which in fact represents a realisation of the currency exposure for the parent, is deferred until control is lost. In this situation the NCI number that includes a portion of historical accumulated translation differences has no economic meaning. We are critical to reclassification to profit or loss upon a change of control if this does not arise from a transaction that represents a realisation or a change in the underlying currency risk for the parent. Further there is a perceived inconsistency in the guidance for accumulated translation reserve that is attributed to NCI upon loss of control. B99 requires amounts previously



	recognised in OCI to be reclassified as if the net assets had been directly disposed of. B98a also requires derecognition of NCI (including its portion of OCI) when measuring the gain or loss. IAS 21.48B prohibits reclassification of currency translation attributable to NCI. The interaction between these rules may be refined to avoid inconsistent interpretation and practice.
Assessment of the matter's pervasiveness	Infrequent, but regularly.
Example(s)	Loss of control by dilution only, or by contract with the same amount invested in the foreign currency. Change from control to joint control when establishing a joint venture with the same currency exposure before and after.
Possible way to solve the issue	We realise that the currency component of the gain or loss upon loss of control might be perceived as outside the scope of this RFI, but encourage IASB to assess if this should be addressed in this project nevertheless as it is closely related, and the rationale for gain/loss in general are less fitting for currency.

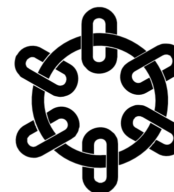


Question reference	6 Collaborative arrangements
Industries or country conditions of particular relevance to the issue	The use of collaborative arrangements that do not meet the IFRS 11 definition of “joint arrangement” is common in Norway across different industries. Typically, we observe such arrangements in • Oil and gas related activities • Hydroelectric power production • Mining activities • Industrial production such as metal production
	(a) How widespread are collaborative arrangements that do not meet the IFRS 11 definition of “joint arrangement” because the parties to the arrangement do not have joint control? Please provide a description of the features of these collaborative arrangements, including whether they are structure through a separate legal vehicle
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	These arrangements are considered outside the scope of IFRS 11, typically because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity. An important feature in such arrangements is often distribution of the output (product) in kind to the owner, usually in quantities relative to their economic interest, and with the requirement for owners to cover their relative share of cost. Cost coverage comes in many different shapes and forms depending on whether the arrangements are unincorporated arrangements, incorporated tax transparent arrangements or incorporated taxable arrangements. Decision making arrangements may vary and may in some situation be complex. Such arrangements often have few participants, typically 3-6 entities, engaged in the same industry, or in complementary industries which might be the case when the production results in a main product and a by-product, utilized by different owners. Economic realities between the parties may be more influenced by other aspects of the arrangements than whether the arrangement is incorporated (and thus covered by IAS 28 and/or IFRS 11).



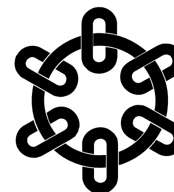
	(b) **How do entities that apply IFRS standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why**
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Accounting for such arrangement gives rise to significant debate. We have observed the following accounting solutions: • Unincorporated arrangements are often accounted for similarly to joint operations under IFRS 11 • Incorporated arrangement may be accounted for as associates (equity method) or similarly to joint operations based on an interpretation that other agreements nullifies the corporate structure and establishes rights and obligations to the underlying assets and liabilities for the owners
Assessment of the matter's pervasiveness	
Example(s)	

Question reference	**7 Classifying joint arrangements**
Industries or country conditions of particular relevance to the issue	Typically, we observe this issue in relation to; • Oil and gas related activities • Hydroelectric power production • Mining activities • Industrial production such as metal production
	(a) **How frequently does a party to a joint arrangement need to consider other facts and circumstances to determine the classification of the joint arrangement after having considered the legal form and the contractual arrangement?**
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	IFRS 11.12 requires an entity to considering all facts and circumstances, so in principle the "other facts and circumstances" is always considered. In our experience there is often a need to assess the "other facts and circumstances" to classify a joint arrangement structured through a separate vehicle. To which degree the "other facts and circumstances" are helpful factors with regards to classification is more uncertain.

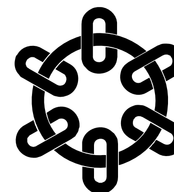


	An example is how to assess predetermined rights for the parties to the arrangement to receive/purchase the output and substantially all of the future economic benefits of the arrangement for the whole life versus only for a lesser defined period (e.g. a wind park may have predetermined right to output that cover a period of 15-20 years while the economic life of the park is 25-30 years). What can be perceived as a challenge with IFRS 11 is that minor changes in facts and circumstances (judgemental), may lead to a different conclusion with regards to classification. Under IFRS 16 an entity shall assess at inception of a contract, whether the contract is or contains a lease, and only reassess if the term and conditions of the contract are changed. As for IFRS 11, this is a dynamic process that could lead to several changes in classification throughout the ownership period. From a user perspective, an approach with an initial assessment and then a higher hurdle for subsequent changes in classification may be perceived as more useful for the users of the financial statements.

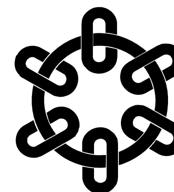
Question reference	**8 Accounting requirements for joint operations**
Industries or country conditions of particular relevance to the issue	Typically, we observe this issue in relation to; • Oil and gas related activities • Hydroelectric power production • Mining activities • Industrial production such as metal production
	(a) To what extent does applying the requirements in IFRS 11 enable a joint operator to report its assets, liabilities, revenues and expenses in a relevant and faithful manner?
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	In general, the principles for a joint operator in IFRS 11 are well understood and work satisfactorily. There is somewhat uncertainty regarding how a liability is incurred jointly, ref para 20 (b). The use of this principle is in our opinion a part of the judgement relevant for how to recognise lease liabilities. A common point of view is that some contracts entered into by the lead operator, on behalf of the arrangement, for the sole purpose of serving a specific joint operation, should be



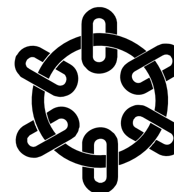
	accounted for similarly by all joint operators to that joint operation, because this reflects the economic and commercial substance of the activity. See below for lease contracts. We also consider IFRS 11 as well as other standards lacking in helping to clarify how assets are owned jointly when control is used as a main criterion for recognising assets. Some assets in farm-out arrangements are combined by various parties into one cash generating unit (e.g. an oil field). The use of control vs. working interest in the combined asset may lead to quite different accounting. It would be helpful to provide some guidance on how economic interest in an asset vs. legal and operational control has to be assessed.
	(b) Are there situations in which a joint operator cannot so report? If so, please describe these situations and explain why the report fails to constitute a relevant and faithful representation of the joint operator's assets, liabilities, revenues and expenses?
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The use of unincorporated joint operations in the oil and gas industry has a long practice as the method for sharing risks in joint exploration, development and production activities. From an economic point of view, the substance of this set-up reflects a common understanding that all joint operators in practice shares the same economic risks and benefits regardless of which party has the primary responsibility for an obligation, when this obligation relates to the lease of an identified asset specifically entered into for the use in the joint operation. Following the March 2019 IFRIC agenda decision on "liabilities in relation to a joint operator's interest in a joint operation (IFRS 11 Joint Arrangements)" many leases entered into by the lead operator on behalf of an unincorporated joint operation can no longer be accounted for according to the economic substance of the arrangement. This has resulted in uncertainty on the wider application of IFRS 11 in respect of accounting for liabilities in joint operations. We have heard from issuers that believe the accounting instead should reflect that all parties to the joint operation in substance carries the same economic risks relating to the contract, also considering any guarantees towards third parties and joint and several responsibilities between the joint operators. In accordance with that view, the operator only acts as an agent in these situations, and the accounting should reflect that the substance of these arrangements, namely that the customer is the joint arrangement as such (thereby



	reflected proportionally by the parties to that joint arrangement). The solution from the March 2019 IFRIC agenda decision would gross up costs and revenue in the lead operator's accounts, as well as cash flows from operations. We heard concern related to the appropriateness of a gross presentation of these transactions, as the lead operator recharges these costs on a no gain/no loss basis, with reference also to IAS 1.34, which requires net presentation of costs and revenues which are incidental to its revenue-generating activities, and where the substance of the transactions requires a net presentation. For operators within the oil and gas industry, there is also a concern that by grossing up revenue, cost and capex within 'non-green' activities within the new EU Taxonomy. A lower compliant share of 'green' activities could potentially result in higher financing costs for these companies as they may be perceived less attractive by investors. *Perceived conflict between IFRS 11 and IFRS 16* Based on the aforementioned March 2019 IFRIC Agenda decision, we believe there may be a conflict between IFRS 11 par 20 (b) and IFRS 16 par B11 that should be addressed by the IASB in this post implementation review of IFRS 11. IFRS 16 states that a joint arrangement can be a customer in a contract for the purpose of determining the existence of a lease (IFRS 16.B11), without restricting this to joint ventures. In the agenda decision joint operations seem to not be recognised as a customer, as the lead operator is to account for the lease contract as a whole. It is further not helpful that the agenda decision does not provide help in recognising the asset side of the contract. Questions arise as to whether the debit is a right-of use asset or a financial lease or something else towards the other participants.

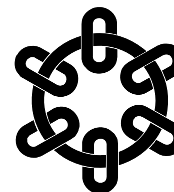


Question reference	9 IFRS 12
Industries or country conditions of particular relevance to the issue	
	(b) Do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	We hear situations where companies have investments in joint ventures or associated that is not considered material to the reporting entity (high threshold), but also not so insignificant that they would follow all the disclosure requirement for those considered material. The reporting entity then apply judgment and itself considers what is useful information and disclose this and hence can be a source for inconsistent reporting between entities. When such voluntary information is given it is often on a prorate basis, and not on a 100% basis as required in IFRS 12.B14. Any disclosure requirements for such investments not considered material for the entity should be based on prorate information in accordance with how the income statement and balance sheet exposure for the reporting entity-
	(d) Does the IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise I the provision of this information
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Many find the requirements in IFRS 12.B14 to include summarized financial information about investments in joint ventures or associates based on 100% entity numbers basis, and not in accordance with the reporting entities ownership share in these entities, not meaningful or relevant. In a situation where the reporting entity has acquired the share in the joint venture or associate in an acquisition where the guidance in IFRS 3 where applied, and the purchase price where higher than the share of net book value of the acquiree, the share of assets and liabilities taken from the investees financial statements (100%) will not reflect the financial



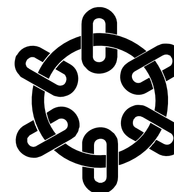
	exposure, or relevant balance sheet information, by the reporting entity. We believe the IASB should change the disclosure requirements to a disclosure focusing on the pro rata share and based on balance sheet and income statement impact for the entity (i.e. include excess/less value impact from IFRS 3 acquisitions, difference in accounting principles etc)

Question reference	10 Sale of a subsidiary to a customer
Paragraph in standard	IFRS 10.25 / IFRS 15.5(c)
Industries or country conditions of particular relevance to the issue	Real estate, Yards
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The issue *"Sale of a subsidiary to a customer*" has been discussed by both the IASB IC (June 2019) and the Board (June 2020) with no solution to the issue. To apply IFRS 15 in certain situations seems to be generally acknowledged to provide the most useful information in many situations. The unsolved question is how to set the boundaries of an exception from IFRS 10.25.
Assessment of the matter's pervasiveness	Both these issues are of relevance for Norwegian companies and industries.
Example(s)	Some construction companies have a business model where they perform most or all of their activities through sale of single purpose companies. With the current accounting regulation, they end up without recognising revenue and are forced to account for their sales through subsidiaries net. This is not aligned with how they communicate to the market through management presentations, APMs, segment information etc.
Possible way to solve the issue	In acquisition of subsidiaries a line is drawn between the acquisition of a business and a single asset (or a group of assets). Would it make sense to draw the same line with sale of a subsidiary, i.e. apply IFRS 10.25 when a business is sold and apply a (new) IFRS 15 exemption when assets are sold?

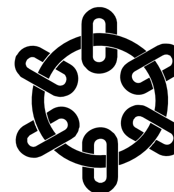


Question reference	10 Sale and Leaseback of an asset in a single-Asset Entity
Paragraph in standard	IFRS 10.25 IFRS 16.99-102
Industries or country conditions of particular relevance to the issue	Real estate, Oil Service, Yards
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The issue *"Sale and Leaseback of an Asset in a Single-Asset Entity"* was discussed by the IASB IC in February 2021. No Agenda Decision was issued, but instead IFRIC passed on the issue to the IASB Board for potential standard setting.
Assessment of the matter's pervasiveness	Many of the same entities are affected by both the issue regarding the sale of subsidiary in a corporate wrapper discussed above and the issue described in this section regarding the sale and leaseback and the issues should probably be assessed together, as they relate to the interaction between IFRS 10 and other standards

Question reference	10 Stickiness of the control assessment
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	We have experienced that there is a preference by preparers, auditors, and users of financial statement to apply some "stickiness" in the assessment of whether an investor has control over an entity, and hence controls it. Likewise, we experience the same stickiness when there are other "change in relationship" between the investor and investee (ref Question 5(a). We experience inconsistency in practice regarding whether, and if applied, to what extent, such "stickiness" is applied. Further, we hear from users of financial statement that it is disturbing and often not useful to account for frequent changes in relationship, as these changes have substantial effects on the financial reporting which also makes it more challenging to analyse financial performance over time.
Assessment of the matter's pervasiveness	This issue is generally very pervasive across companies, industries and situations
Possible way to solve the issue	After first assessment, there could be introduces a "stickiness paragraph", e.g. inspired by IFRS 16.20 which requires a "significant event" or a "significant change in circumstances" to reassess whether it is reasonably certain to exercise an option to extend a lease, and hence change the lease term.

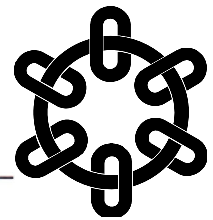


Question reference	**10 Consolidation - “How to” and fundamental building blocks**
Paragraph in standard	IFRS 10.Appendix A
Industries or country conditions of particular relevance to the issue	All
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Despite the label “Consolidated Financial Statements”, the standard itself is somewhat meagre in the “how to” of consolidation and some of the fundamental building blocks and conceptual thinking behind those with only paragraph 19, B86-B93 and the definition in Appendix A of consolidated statements covering this. The definition in Appendix A states that it is the financial statements of a group in which assets, liabilities, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. We point to the fact that the word ‘presented’ in modern standards is restricted to the presentation and not recognition and measurement. By applying such a narrow understanding in the definition and use of this basic concept different interpretations in practice has evolved for common issues. The concept of the group as *one economic entity* where all legal boundaries are perceived as non-existent for recognition and measurement purposes may be useful as an interpretative tool for arriving at sensible solutions. An example illustrates this: An asset is transferred between two subsidiaries, both with different levels of NCI and in different functional currencies. The elimination of the gain poses questions that is not easy to solve based on the current limited guidance: - Should the elimination follow the asset, or the selling entity? - If it follows the asset, it would be logical that NCI of the buyer is reduced with its portion of the elimination. - If it follows the asset, the elimination will be kept in the records in the functional currency of the buyer. - If it follows the selling entity, the NCI of the seller will pick up their portion of the gain, and the gain elimination will be kept in the functional currency of the seller.



	- If it follows the selling entity, should the gain be recognised when the selling entity is disposed of, as there is no elimination anymore? In general, we would support the 'asset approach' but recognise that this may be due to our background from local GAAP in Norway. We have observed other jurisdictions where the 'seller approach' is deemed appropriate. The accounting manuals have provided some guidance in these areas, but we believe it would be better to clarify the definition of the consolidated statements. We have also noted that a loan from the parent to a subsidiary that are eliminated until deconsolidation of the subsidiary are interpreted somewhat different as to whether the loan in fact has a history under IFRS 9 after deconsolidation or whether it is a pristine loan just being recognised for the first time upon deconsolidation. It is a question of whether the elimination entry is merely a presentation issue, or whether the loan actually existed in the eyes of the group prior to deconsolidation.
Assessment of the matter's pervasiveness	Very frequent
Possible way to solve the issue	We believe that expanding the definition of consolidated statements to include text that also covers recognition and measurement would be helpful. This will ensure that assets and liabilities are initially recognised only once, upon entrance to the perimeter of the group, and measured consistently throughout the end of its life, as it would be if it was one legal entity.

Norsk RegnskapsStiftelse



International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

20 July 2021

Dear Sir/Madam

Comment letter to ED 2021/1 Regulatory Assets and Liabilities

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit its views on ED 2021/1: Regulatory Assets and Regulatory Liabilities.

In general, we support the proposals in the ED. The existence of a regulatory agreement gives rise to rights and obligations that in our opinion should be reflected in the financial statements.

The scope of the standard must be very clear, as the recognition and measurement rules are different from other standards. In this regard IASB should reassess whether there is a need for a definition of who might be a regulator. We are concerned of unintended consequences of entities being within scope that should not be or vice versa.

We have some concerns about how the regulation should be put into practice for cost recoveries where there is a time lag between when the cost is expensed and when it affects the regulated cost base and thereby the allowed rate. Also, we encourage IASB to look into situations where there is a "standard cost" or "benchmark cost" that replaces the actual cost for some of the operations. We provide more details in the enclosed comments and appendix to this letter.

We are concerned about the suggested retrospective implementation method. We believe this would not be feasible in practice and expect that some reliefs or modified transition methods are introduced in the final standard.

Lastly, in order to meet user needs and support a smooth implementation and consistent application, it would be helpful if IASB provides examples that are more realistic and not as simple as those currently included.

We stand ready to discuss further the issues raised in this paper.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS

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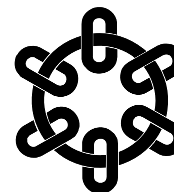


Question 1—Objective and scope
Paragraph 1 of the Exposure Draft sets out the proposed objective: an entity should provide relevant information that faithfully represents how regulatory income and regulatory expense affect the entity's financial performance, and how regulatory assets and regulatory liabilities affect its financial position.

Paragraph 3 of the Exposure Draft proposes that an entity apply the [draft] Standard to all its regulatory assets and all its regulatory liabilities. Regulatory assets and regulatory liabilities are created by a regulatory agreement that determines the regulated rate in such a way that part of the total allowed compensation for goods or services supplied in one period is charged to customers through the regulated rates for goods or services supplied in a different period (past or future).1 The [draft] Standard would not apply to any other rights or obligations created by the regulatory agreement—an entity would continue to apply other IFRS Standards in accounting for the effects of those other rights or obligations.

Paragraphs BC78–BC86 of the Basis for Conclusions describe the reasoning behind the Board's proposals. They also explain why the Exposure Draft does not restrict the scope of the proposed requirements to apply only to regulatory agreements with a particular legal form or only to those enforced by a regulator with particular attributes.

(a) Do you agree with the objective of the Exposure Draft? Why or why not?

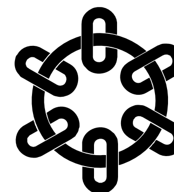
Yes. We believe the draft will improve the measurement of performance when there is a different timing of revenue in accordance with IFRS 15 and total allowed compensation. We agree that when the entity has an enforceable right or liability to increase or deduct an amount in the future rates towards its customers based on past transactions, this should affect the measurement of income in the same period as the services are delivered.

(b) Do you agree with the proposed scope of the Exposure Draft? Why or why not?
If not, what scope do you suggest and why?

In general, we are supportive of how the scope has been set. We are satisfied that the features of the DP in BC83 has been abandoned as a scoping criterion. However, we are of the opinion that it would be beneficial to also define who may be a 'regulator'. We sense that the 'regulator' should have some attributes of a governmental body or an entity with delegated authority. Rights and obligations from contracts between private entities should not in general qualify.

Our analysis has focused on the only major industry in Norway that seem to be affected, namely operators of the Norwegian electric grid. We would expect these operators to be within the scope of the [draft] Standard, but have come across some issues that we want to bring to your attention:

ED 6 (b) states that the regulatory agreement <u>determines the regulated rate</u>. We understand this description to be interpreted widely, by setting a clear overall allowed



income to be charged to the customers. The operator may still be free to set the rates per unit for each individual period, but need to over time be within the allowed income

(c) Do you agree that the proposals in the Exposure Draft are clear enough to enable an entity to determine whether a regulatory agreement gives rise to regulatory assets and regulatory liabilities? If not, what additional requirements do you recommend and why?

In general, we believe the proposals are clear enough. But when explaining how the ED works, we believe that the example used in para 13 is so simple that it would not be seen in practice. But the example illustrates the main principles and we assume that due to the complexities of various regulated regimes around the world, this principle needs to be adapted and interpreted. When interpreting the standard, we note that the objective is to provide useful information about the effect on financial performance and not only its financial position. We believe that some of the interpretation issues may be more easily solved by looking at the financial performance for the period.

(d) Do you agree that the requirements proposed in the Exposure Draft should apply to all regulatory agreements and not only to those that have a particular legal form or those enforced by a regulator with particular attributes? Why or why not? If not, how and why should the Board specify what form a regulatory agreement should have, and how and why should it define a regulator?

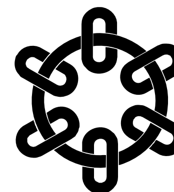
See our response to 1 (b).

(e) Have you identified any situations in which the proposed requirements would affect activities that you do not view as subject to rate regulation? If so, please describe the situations, state whether you have any concerns about those effects and explain what your concerns are.

None identified or observed at the current time.

(f) Do you agree that an entity should not recognise any assets or liabilities created by a regulatory agreement other than regulatory assets and regulatory liabilities and other assets and liabilities, if any, that are already required or permitted to be recognised by IFRS Standards?

Yes, we agree. No other assets and liabilities apart from the regulatory assets and liabilities should be recognised due to the ED.



Question 2—Regulatory assets and regulatory liabilities

The Exposure Draft defines a regulatory asset as an enforceable present right, created by a regulatory agreement, to add an amount in determining a regulated rate to be charged to customers in future periods because part of the total allowed compensation for goods or services already supplied will be included in revenue in the future.

The Exposure Draft defines a regulatory liability as an enforceable present obligation, created by a regulatory agreement, to deduct an amount in determining a regulated rate to be charged to customers in future periods because the revenue already recognised includes an amount that will provide part of the total allowed compensation for goods or services to be supplied in the future.

Paragraphs BC36–BC62 of the Basis for Conclusions discuss what regulatory assets and regulatory liabilities are and why the Board proposes that an entity account for them separately.

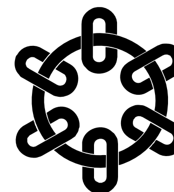
(a) Do you agree with the proposed definitions? Why or why not? If not, what changes do you suggest and why?

Yes, we believe definitions are workable.

We have an example from the Norwegian grid that illustrates a situation that may fall outside the definition. If two grid operators merge, the new total allowed compensation will be lower than the sum of the total allowed compensation for the two before the merger. This is due to a more demanding benchmark for larger operators than for small. The regulator compensates for this disadvantage by giving the merged company a right to charge the net present value of the difference for the first 30 years. This amount is not segregated from other underbilling and accrues interest and may be included in the rates when the operator chooses to.

As this 'merge compensation' does not arise from the delivery of core goods or services, but of the merger itself, it seems to fall outside the definition of a regulatory asset.

(b) The proposed definitions refer to total allowed compensation for goods or services. Total allowed compensation would include the recovery of allowable expenses and a profit component (paragraphs BC87–BC113 of the Basis for Conclusions). This concept differs from the concepts underlying some current accounting approaches for the effects of rate regulation, which focus on cost deferral and may not involve a profit component (paragraphs BC224 and BC233–BC244 of the Basis for Conclusions). Do you agree with the focus on total allowed compensation, including both the recovery of allowable expenses and a profit component? Why or why not?



Yes, we agree that the focus should be on total allowed compensation. Over time the total allowed compensation and the amount billed to customers should be equal.

We have some concerns relating to the practical determination of the total allowed compensation for the period and refer to our response to question 3 (b) below.

(c) Do you agree that regulatory assets and regulatory liabilities meet the definitions of assets and liabilities within the Conceptual Framework for Financial Reporting (paragraphs BC37–BC47)? Why or why not?

While there may be different views with regard to whether regulatory assets and liabilities qualifies as assets and liabilities under the Conceptual Framework, we support the Boards work to clarify the basis for recognising these items as assets and liabilities through standard setting

(d) Do you agree that an entity should account for regulatory assets and regulatory liabilities separately from the rest of the regulatory agreement (paragraphs BC58–BC62)? Why or why not?

Yes, we agree. In theory, the concession or licence to operate are the real economic value in the long for a regulated business. Such concessions may be recognised in the accounts if the entity has been acquired in a business combination. This asset should not be mixed with more short-term regulatory balances.

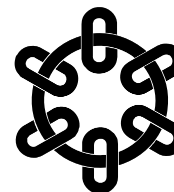
(e) Have you identified any situations in which the proposed definitions would result in regulatory assets or regulatory liabilities being recognised when their recognition would provide information that is not useful to users of financial statements?

None identified as of today.

Question 3—Total allowed compensation

Paragraphs B3–B27 of the Exposure Draft set out how an entity would determine whether components of total allowed compensation included in determining the regulated rates charged to customers in a period, and hence included in the revenue recognised in the period, relate to goods or services supplied in the same period, or to goods or services supplied in a different period. Paragraphs BC87–BC113 of the Basis for Conclusions explain the reasoning behind the Board's proposals.

(a) Do you agree with the proposed guidance on how an entity would determine total allowed compensation for goods or services supplied in a period if a regulatory agreement provides:



(i) regulatory returns calculated by applying a return rate to a base, such as a regulatory capital base (paragraphs B13–B14 and BC92–BC95)?

(ii) regulatory returns on a balance relating to assets not yet available for use (paragraphs B15 and BC96–BC100)?

(iii) performance incentives (paragraphs B16–B20 and BC101–BC110)?

Yes, we agree that B3-B27 are quite clear, for these three components.

We have identified that there may be different return rates for various timing differences, some are adjusted for inflation and some with a floating reference rate plus a margin. The practical application of the standard may therefore necessitate some simplifications or the use of a blended rate.

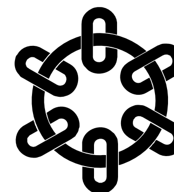
(b) Do you agree with how the proposed guidance in paragraphs B3–B27 would treat all components of total allowed compensation not listed in question 3(a)? Why or why not? If not, what approach do you recommend and why?

We agree with the guidance as proposed and find it to be well articulated and useful for target profit, including both performance incentives and regulatory returns.

The guidance for cost recovery is more difficult to use in practice. We like to draw your attention to the two following scenarios drawn from the Norwegian grid:

- *The cost recovery is regulated by the regulator using the costs of year 1 to set the allowed compensation for year 3. If there is a general increase in cost over time (due to inflation etc.) there will always be a deferred asset element in the balance sheet. It will only be recovered if the cost base comes back to the level at the first year of the regulatory regime. (This also provides a difficulty in the implementation of the standard when using it retrospectively.) We understand that the measurement rules will probably restrict the asset from being presented in the balance sheet when using a DCF-model. (See appendix example 2).*

- *In our national grid only 40% of the allowable costs are recovered by affecting the regulated allowed income two years later. The remaining cost compensation is based on benchmark numbers from a peer group (where the operator may be one of those, or even a large operator of that group). In this situation it is difficult to establish which costs that may be recovered, and whether other operator's costs for the period should have effect on the total allowable compensation. (See appendix example 1)*



- *When the expenses of a peer-group for the period affects the regulated income for the same period, the estimation of the amount of expenses incurred by other entities in the peer group may be challenging as that information typically will not be available.*

(c) Should the Board provide any further guidance on how to apply the concept of total allowed compensation? If so, what guidance is needed and why?

Yes, we think that an example of a time lag and for a situation where some of the costs to be recovered are based on a benchmark, as described for our national grid would be welcomed as this may be a quite typical scenario.

Question 4—Recognition

Paragraphs 25–28 of the Exposure Draft propose that:

• an entity recognises all its regulatory assets and regulatory liabilities; and

• if it is uncertain whether a regulatory asset or regulatory liability exists, an entity should recognise that regulatory asset or regulatory liability if it is more likely than not that it exists. It could be certain that a regulatory asset or regulatory liability exists even if it is uncertain whether that asset or liability will ultimately generate any inflows or outflows of cash. Uncertainty of outcome would be addressed in measurement (Question 5).

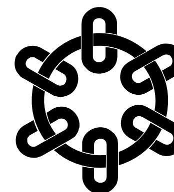
Paragraphs BC122–BC129 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree that an entity should recognise all its regulatory assets and regulatory liabilities? Why or why not?

Yes.

(b) Do you agree that a 'more likely than not' recognition threshold should apply when it is uncertain whether a regulatory asset or regulatory liability exists? Why or why not? If not, what recognition threshold do you suggest and why?

Yes, we support using the same likelihood for whether a regulatory asset or a regulatory liability should be recognised (similar to uncertain tax positions in IFRIC 23, and different from the general asymmetrical requirements in IAS 37).



Question 5—Measurement

Paragraph 29 of the Exposure Draft specifies the measurement basis. Paragraphs 29–45 of the Exposure Draft propose that an entity measure regulatory assets and regulatory liabilities at historical cost, modified by using updated estimates of future cash flows. An entity would implement that measurement basis by applying a cash-flow-based measurement technique. That technique would involve estimating future cash flows — including future cash flows arising from regulatory interest — and updating those estimates at the end of each reporting period to reflect conditions existing at that date.
The future cash flows would be discounted (in most cases at the regulatory interest rate — see Question 6). Paragraphs BC130–BC158 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree with the proposed measurement basis? Why or why not? If not, what basis do you suggest and why?

Yes, we agree with the measurement basis.

However, we think the description in para 29 may be clarified. There is no explicit reference to initial recognition, but it seems to be historical cost, as the DCF model is the subsequent modification. We cannot see that any difference between the initial and subsequent measurement is warranted.

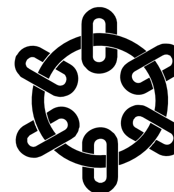
As we have described above (and in the example in Appendix 2), a time-lag in recovery of costs in an inflation scenario will lead to parts of the expenses never to be recovered, and it seems as this need to be taken into consideration on the initial measurement when using discounted cash flows. To defer the write-down to the subsequent measurement would be inappropriate.

(b) Do you agree with the proposed cash-flow-based measurement technique? Why or why not? If not, what technique do you suggest and why?

We generally support the use of a cash-flow-based measurement technique that reflect any uncertainty relating to the cash flow.

Some of our members would argue that a higher threshold for uncertain assets might we warranted, similar to variable consideration under IFRS 15. For the coherence of the standards, it is difficult to argue that an uncertain variable future income arising from a regulation is recognised at a higher amount than one stemming from a contract with a customer.

In some jurisdictions, the uncertainty connected to regulatory approval for certain items of expenses may be high (but less than 50 %), and the prudence of IFRS 15 may be warranted.



A different example may be incentive payments with duration over several periods. Using the more likely than not recognition criteria and a neutral cash-flow-based technique may lead to assets that have a significant risk of a material negative adjustment.

If cash flows arising from a regulatory asset or regulatory liability are uncertain, the Exposure Draft proposes that an entity estimate those cash flows applying whichever of two methods—the 'most likely amount' method or 'expected value' method—better predicts the cash flows. The entity should apply the chosen method consistently from initial recognition to recovery or fulfilment. Paragraphs BC136–BC139 of the Basis for Conclusions describe the reasoning behind the Board's proposal.

(c) Do you agree with this proposal? Why or why not? If not, what approach do you suggest and why?

Yes, we agree.

Question 6—Discount rate

Paragraphs 46–49 of the Exposure Draft propose that an entity discount the estimated future cash flows used in measuring regulatory assets and regulatory liabilities. Except in specified circumstances, the discount rate would be the regulatory interest rate that the regulatory agreement provides. Paragraphs BC159–BC166 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

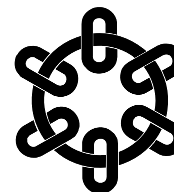
(a) Do you agree with these proposals? Why or why not? If not, what approach do you suggest and why?

Yes, regulatory rate and the discount rate should as the main rule be equal. As for our national grid, the regulatory rate aims at reflecting a normal WACC for such an operator.

Paragraphs 50–53 of the Exposure Draft set out proposed requirements for an entity to estimate the minimum interest rate and to use this rate to discount the estimated future cash flows if the regulatory interest rate provided for a regulatory asset is insufficient to compensate the entity. The Board is proposing no similar requirement for regulatory liabilities. For a regulatory liability, an entity would use the regulatory interest rate as the discount rate in all circumstances. Paragraphs BC167–BC170 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(b) Do you agree with these proposed requirements for cases when the regulatory interest rate provided for a regulatory asset is insufficient? Why or why not?

Yes, even if this might complicate the use of the standard.



(c) Have you identified any other situations in which it would be appropriate to use a discount rate that is not the regulatory interest rate? If so, please describe the situations, state what discount rate you recommend and explain why it would be a more appropriate discount rate than the regulatory interest rate.

We have not identified such situations.

Paragraph 54 of the Exposure Draft addresses cases when a regulatory agreement provides regulatory interest unevenly by applying a series of different regulatory interest rates in successive periods. It proposes that an entity should translate those rates into a single discount rate for use throughout the life of the regulatory asset or regulatory liability.

(d) Do you agree with the proposal? Why or why not? If not, what do you recommend and why?

We have no comment to this, as we have not yet recognised any situations where this is applicable in our jurisdiction.

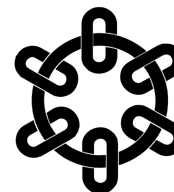
Question 7—Items affecting regulated rates only when related cash is paid or Received

In some cases, a regulatory agreement includes an item of expense or income in determining the regulated rates in the period only when an entity pays or receives the related cash, or soon after that, instead of when the entity recognises that item as expense or income in its financial statements. Paragraphs 59–66 of the Exposure Draft propose that in such cases, an entity would measure any resulting regulatory asset or regulatory liability using the measurement basis that the entity would use in measuring the related liability or related asset by applying IFRS Standards. An entity would adjust that measurement to reflect any uncertainty that is present in the regulatory asset or regulatory liability but not present in the related liability or related asset. Paragraphs BC174–BC177 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree with the measurement proposals when items of expense or income affect regulated rates only when related cash is paid or received? Why or why not? If not, what approach do you suggest for such items and why?

Yes.

When these measurement proposals apply and result in regulatory income or regulatory expense arising from remeasuring the related liability or related asset through other comprehensive income, paragraph 69 of the Exposure Draft proposes



that an entity would also present the resulting regulatory income or regulatory expense in other comprehensive income. Paragraphs BC183–BC186 of the Basis for Conclusions describe the reasoning behind the Board's proposal.

(b) Do you agree with the proposal to present regulatory income or regulatory expense in other comprehensive income in this case? Why or why not? If not, what approach do you suggest and why?

Yes, we agree that it should follow the classification of the underlying expense.

Question 8—Presentation in the statement(s) of financial performance

Paragraph 67 of the Exposure Draft proposes that an entity present all regulatory income minus all regulatory expense as a separate line item immediately below revenue. Paragraph 68 proposes that regulatory income includes regulatory interest income and regulatory expense includes regulatory interest expense. Paragraphs BC178–BC182 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree that an entity should present all regulatory income minus all regulatory expense as a separate line item immediately below revenue (except in the case described in Question 7(b))? Why or why not? If not, what approach do you suggest and why?

Yes, we agree. While these items are not revenue in itself, its major function is to adjust the revenue recognised according to IFRS 15 for timing differences.

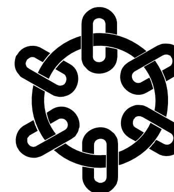
(b) Do you agree with the proposed inclusion of regulatory interest income and regulatory interest expense within the line item immediately below revenue? Why or why not? If not, what approach do you suggest and why?

Yes, we agree in order to simplify the accounting. In theory we are less supportive.

Question 9—Disclosure

Paragraph 72 of the Exposure Draft describes the proposed overall objective of the disclosure requirements. That objective focuses on information about an entity's regulatory income, regulatory expense, regulatory assets and regulatory liabilities, for reasons explained in paragraphs BC187–BC202 of the Basis for Conclusions. The Board does not propose a broader objective of providing users of financial statements with information about the nature of the regulatory agreement, the risks associated with it and its effects on the entity's financial performance, financial position or cash flows.

(a) Do you agree that the overall disclosure objective should focus on information about an entity's regulatory income, regulatory expense, regulatory assets and



regulatory liabilities? Why or why not? If not, what focus do you suggest and why?

Yes. If the risks associated with the regulatory agreement is significant, IAS 1 and general disclosure requirements may warrant a more extensive package of information. There is no need to duplicate such requirements in the ED.

(b) Do you have any other comments on the proposed overall disclosure objective? Paragraphs 77–83 of the Exposure Draft set out the Board's proposals for specific disclosure objectives and disclosure requirements.

We question whether the requirements in the notes shall be disclosed per regulation or in aggregate for several operations or subsidiaries. What if all operations, while keeping separate records vis-à-vis the regulator, are under the same regulatory framework? Should the amounts be presented net or gross in the notes? This is a question of the unit of account for disclosure purposes.

Further, we note the details required in paragraph 78 (a)-(d) and cannot see that all four components may be applicable for one unit of account simultaneously. For one period there can only be a reduction in the regulatory asset and only the creation of a regulatory liability if the current year's difference is larger than the opening regulatory asset and vice versa.

(c) Do you have any comments on these proposals? Should any other disclosures be required? If so, how would requiring those other disclosures help an entity better meet the proposed disclosure objectives?

No.

(d) Are the proposed overall and specific disclosure objectives and disclosure requirements worded in a way that would make it possible for preparers, auditors, regulators and enforcement bodies to assess whether information disclosed is sufficient to meet those objectives?

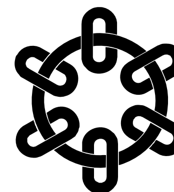
See our comments above.

Question 10—Effective date and transition

Appendix C to the Exposure Draft describes the proposed transition requirements. Paragraphs BC203–BC213 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you agree with these proposals?

(b) Do you have any comments you wish the Board to consider when it sets the effective date for the Standard?



We believe that a full retrospective implementation is too complex and burdensome for most entities. As described above and in appendix 2, in situations with a time-lag and increase in prices, to identify the historical cost of the regulatory asset there is a need to go back to the beginning of the regulatory regime, with adjustments in the regulatory regime that may have taken place multiple times. A practical expedient to measure the regulatory assets and liabilities at the opening balance of the comparative period at the DCF amount would be welcomed.
Due to the complexity of the standard, the effective dates should be set providing a longer period than normal to prepare for the implementation.

Question 11—Other IFRS Standards

Paragraphs B41–B47 of the Exposure Draft propose guidance on how the proposed requirements would interact with the requirements of other IFRS Standards. Appendix D to the Exposure Draft proposes amendments to other IFRS Standards. Paragraphs BC252–BC266 of the Basis for Conclusions describe the reasoning behind the Board's proposals.

(a) Do you have any comments on these proposals? Should the Board provide any further guidance on how the requirements proposed in the Exposure Draft would interact with any other IFRS Standards? If yes, what is needed and why?

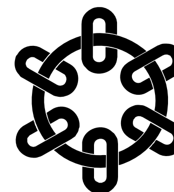
We note that in explaining the effects of tax expense on the regulated income or expense for the period, the wording uses an initial estimate of the tax expense, with variations to actual tax expense as giving rise to a regulatory asset or liability for the period. Based on the general reading of the ED, this is different from the way cost recovery is described. This may cause some confusion. If all income taxes are recoverable, we cannot see that this is different than any other costs, meaning that the IFRS expense for the period determines the amount of the total allowed compensation, and thereby the regulatory asset or liability for the period.

Without doing a detailed analysis, we question whether there may be an iterative process in arriving at the amount recognised, as the regulatory asset itself typically creates a temporary difference that affects the tax expense?

As for B45-B46 we are not satisfied with the line of reasoning. In B45 it states clearly that the measurement of the regulatory asset is based on cash flows after tax. The example in B46 continues this line of reasoning, but concludes (surprisingly in the context of the preceding text) that this should be presented gross based on the pre-tax cash flows with the tax effect as a deferred tax liability. We think these two paragraphs may confuse readers.

(b) Do you have any comments on the proposed amendments to other IFRS Standards?

We have no comments.



Question 12—Likely effects of the proposals

Paragraphs BC214–BC251 of the Basis for Conclusions set out the Board's analysis of the likely effects of implementing the Board's proposals.

(a) Paragraphs BC222–BC244 provide the Board's analysis of the likely effects of implementing the proposals on information reported in the financial statements and on the quality of financial reporting. Do you agree with this analysis? Why or why not? If not, with which aspects of the analysis do you disagree and why?

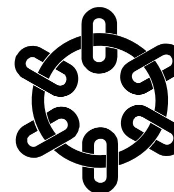
We have no comments.

(b) Paragraphs BC245–BC250 provide the Board's analysis of the likely costs of implementing the proposals. Do you agree with this analysis? Why or why not? If not, with which aspects of the analysis do you disagree and why?

We think that the initial adoption of the ED may be quite costly for entities as specifics of the regulatory agreements and the particular workings of how the total allowed compensation is arrived at may be complex. There is also current costs of maintaining the regulatory accounts in the financial statements that may be significant. While the Norwegian regulation seem to be quite predictable, other countries may have short concession period, uncertainties in the regulatory regime, higher political risk and uncertainties around the final determination of the allowed compensation. The cost may therefore differ from jurisdiction to jurisdiction and entity to entity.

(c) Do you have any other comments on how the Board should assess whether the likely benefits of implementing the proposals outweigh the likely costs of implementing them or on any other factors the Board should consider in analysing the likely effects?

On balance we believe that the benefits outweigh the cost of presenting the information.



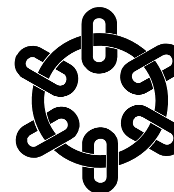
Question 13—Other comments

Do you have any other comments on the proposals in the Exposure Draft or on the Illustrative Examples accompanying the Exposure Draft?

As described above, we believe that there should be given more examples that reflects some of the complexities arising in practice.

We also notice that the ED does not intend to regulate the recognition and measurement of allowable expenses. A large part of a regional operator's cost base is the payment to the national grid. The income of the national grid will be within the scope of the ED, while the cost for the regional operators that this income represents will only be measured following the general recognition criteria (being the tariff applicable for the volume delivered in a period).

We agree not to include similar standard setting for the expense side as this would make the ED too complex, and only lead to grossing up numbers in the accounts. We note that this asymmetry may create a problem for national statistics though.



Appendix

The Norwegian regulation of operators of the electric network uses an incentive-based model that is more complex than the regulation presented in the examples of the ED and the accompanied Illustrative Examples. In the Norwegian model the recoverable expenses are calculated based on a formula of 40% cost recovery and 60% cost norm resulting from benchmarking models. There is a two-year lag in most of the cost data, but the model also uses data from the year under regulation for some costs.

We illustrate two of these issues in isolation.

1. **Expenses recovered through benchmarking analysis**

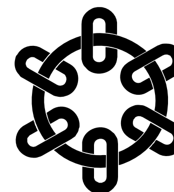
According to the regulatory agreement an entity's recoverable expenses will be compensated based on a formula of 40% cost recovery and 60% based on a cost norm derived from benchmarking models:

	Total expenses	Percentage recoverable	Allowed compensation
Entity's own expenses	100	40 %	40
Benchmark norm expenses	90	60 %	54
Total allowed compensation according to regulatory agreement			94

The ED is silent on how recovery of expenses based on benchmark figures should be treated. It may be a combination of performance incentives regulated by B17 and a recovery of allowable expenses regulated by B4. The use of a benchmark figure works as an incentive to be more efficient than its peers.

Should the actual expenses of its peers for the year in question be estimated and included in the estimate for the total allowed compensation for the year? Are other entities transactions a basis for identifying a regulatory asset, or should the entity wait until the regulator in fact approves a higher benchmark norm based on reported expenses for the period (which may be a year or two later)?

In fact, the entity itself is usually one of the members of the benchmark group, and as such a portion of the benchmark expenses may be derived from the entity's actual costs.



2. **Allowable expenses determine allowed compensation with a time lag**

ED13 and ED14 provides an example where the under-recovery of input costs in year 1 is added to the regulated rate for year 2. This means that the entity will receive full recovery of input costs over time.

However, in this example the regulatory allowable compensation for a single year is set by the regulator based on the actual costs of the year before. There is no true up for the year if actual costs deviate from the assumptions inherent in the allowable compensation set by the regulator, but the next period's allowable compensation will be based on this period's actual expenses. Over time actual expenses will be recovered, but with a time lag, but with the deviation between the costs of the first year in the regime and the current year never to be recovered if nominal prices increase.

	yr0	**yr1**	**yr2**	**yr3**
Actual expenses for the year	100	105	110	115
Allowed compensation set by regulator		100	105	110
Total allowed compensation as per the ED		105	110	115
Billed		100	105	110
Underbilling/overbilling recognised by regulator		0	0	0
Regulatory asset according to ED (at 'cost') Subsequent measurement of regulatory asset (at DCF)		5 ~0	10 ~0	15 ~0

We believe that there is a basis for recognising a regulatory asset in this case, as any cost deviation in the current period will affect future rates.

However, as can be seen from the table, in a situation with general price increase in the society, the regulatory asset created each year will just accumulate over time, and never be recovered unless prices and cost levels decline back to year 0. Based on the measurement using the DCF-model, this component will therefore likely be measured at zero.

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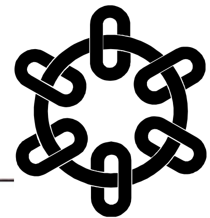

1 September 2021

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Discussion paper (DP) 2020/2: Business combinations under Common Control Impairment

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit its views on DP 2020/2: Business combinations under Common Control.

We recognise the work of IASB over many years. The end result of the project should provide preparers with guidelines that help to provide useful information with a robust conceptual underpinning. The current practice in this area seems to be varied. In our jurisdiction such transactions with high profile public entities involved are not common. However, for such transaction that do take place, the current lack of guidance is problematic as the accounting principle used has a material effect both in the year of the transaction and many years thereafter. Also, as the recognition and measurement rules of IFRS are often used in the separate statements, future guidance will affect a large number of financial statements. We therefore believe this is an important project for the IASB to complete within a reasonable amount of time.

NASB believe that the direction of the DP is appropriate as both current and book values is relevant in different circumstances. We are nevertheless hesitant to move from being unregulated to, what may be perceived as, quite detailed rules with little discretion to deviate based on facts and circumstances. We are of the opinion that a more flexible approach where the objectives and assessment criteria, and how these should be weighted or prioritised, could have been more clearly laid out.

Our main concerns with the DP are the following:

- We disagree with IASB that the transferred company's book values are the most relevant figures in all instances. In general, we believe that often it is more relevant to use values from the most recent transaction which resides higher in the group. Book values in the transferred company are often reported under local GAAP, so the cost-benefit are often in favour of using values from a higher level in the group.

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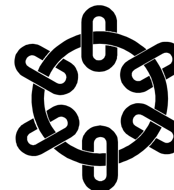

- We do not think it is beneficial to disallow retrospective reporting (restating pre-combination information) under an ‘as is’ methodology. When measurement is based on book values due to no real change of control, in most instances it is more relevant to show the combined entities for all periods presented, and let the owner’s perspective not only affect the measurement, but also the presentation. For example; when the receiving entity is a Newco, the receiving entity is in substance a continuation of the transferred entity and including pre-combination comparatives seems more relevant than excluding such information. Such reporting is generally also better aligned with the financial reporting to the reporting investors typically are presented with in a prospectus or other transaction related information (typically carve-out and/or combined financial statements).

We provide more detailed responses in the answer to your questions below.

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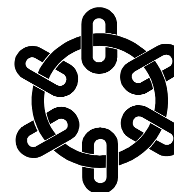
To discuss the issues raised in this paper please contact us.

Yours faithfully,
Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS



Question 1
Paragraphs 1.10–1.23 discuss the IASB's preliminary view that it should develop proposals that cover reporting by the receiving company for all transfers of a business under common control (in the Discussion Paper, collectively called business combinations under common control) even if the transfer:
(a) is preceded by an acquisition from an external party or followed by a sale of one or more of the combining companies to an external party (that is, a party outside the group); or
(b) is conditional on a sale of the combining companies to an external party, such as in an initial public offering.
Do you agree with the IASB's preliminary view on the scope of the proposals it should develop? Why or why not? If you disagree, what transactions do you suggest that the IASB consider and why?

NASB's response
We agree that the scope should include situations where external transactions precede or follow the BCUCC.

As the proposed scope also includes some restructurings, it would be more helpful if the terminology was better aligned. By using the scope exemption terminology in IFRS 3 of "entities and businesses under common control" the scope will fit better, provided there is an appropriate caveat regarding the 'transitory control' condition.

In our opinion, the project should also provide principle-based guidance for so called "hive-ups" or legal mergers with wholly owned subsidiary in the parents separate financial statements. Such transfers are frequent and regulating such transactions should be less complex than regulating BCUCC.

Question 2
Paragraphs 2.15–2.34 of the DP discuss the IASB's preliminary views that:

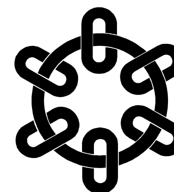
(a) neither the acquisition method nor a book-value method should be applied to all business combinations under common control.

Do you agree? Why or why not? If you disagree, which method do you think should be applied to all such combinations and why?

(b) in principle, the acquisition method should be applied if the business combination under common control affects non-controlling shareholders of the receiving company, subject to the cost–benefit trade-off and other practical considerations discussed in paragraphs 2.35–2.47 of the DP.

Do you agree? Why or why not? If you disagree, in your view, when should the acquisition method be applied and why?

(c) a book-value method should be applied to all other business combinations under common control, including all combinations between wholly owned companies.



Do you agree? Why or why not? If you disagree, in your view, when should a book-value method be applied and why?

NASB's response
We agree with providing two measurement methods. Such transactions are on a spectrum where the usefulness and cost-benefit of providing fair value information varies. We believe IASB has proposed an appropriate dividing line where the existence of non-controlling interests is the key indicator for identifying transactions more similar to ordinary business combinations. However, we note that there may be a structuring opportunity when a 100% owner invites NCI as co-investors and by using a NewCo and transfer the business into this will achieve fair value accounting, while by increasing the capital in the existing business, no remeasurement will be done. IASB should consider if NewCos should be treated differently. By using the definition of BCUCC in IFRS 3 such a transfer would fall outside the scope as they do not transfer control and NewCo does not contain a business. See also our response to question 1.

We suggest that IASB consider more closely whether entities with potential non-controlling interests may also be included within scope, such as entities with debt instruments with conversion options, share based payment arrangements, warrants etc.

Question 3
Paragraphs 2.35–2.47 of the DP discuss the cost–benefit trade-off and other practical considerations for business combinations under common control that affect noncontrolling shareholders of the receiving company:
(a) In the IASB's preliminary view, the acquisition method should be required if the receiving company's shares are traded in a public market.
Do you agree? Why or why not?

(b) In the IASB's preliminary view, if the receiving company's shares are privately held:

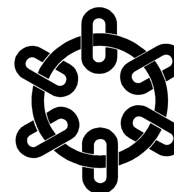
(i) the receiving company should be permitted to use a book-value method if it has informed all of its non-controlling shareholders that it proposes to use a book-value method and they have not objected (the optional exemption from the acquisition method).

Do you agree with this exemption? Why or why not? Do you believe that the exemption will be workable in practice? If not, in your view, how should such an exemption be designed so that it is workable in practice?

(ii) the receiving company should be required to use a book-value method if all of its non-controlling shareholders are related parties of the company (the related-party exception to the acquisition method).

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

(c) If you disagree with the optional exemption (Question 3(b)(i)) or the related-party



exception (Question 3(b)(ii)), in your view, how should the benefits of applying the acquisition method be balanced against the costs of applying that method for privately held companies?

NASB's response

In general, we believe that a receiving company with non-controlling interests shall be allowed to use the book value method if the non-controlling shareholders agree. It is hard to justify a difference between private and publicly traded companies in this regard. Some private companies have a significant non-controlling interest that rely on the financial statements in the same way as non-controlling interest in a publicly traded company.

In general, we support the exemption if non-controlling shareholders do not object. This is a known method under IFRS 10, but our experience is that positive consent would often be required in order to plan the reporting and in order to obtain audit evidence for the non-objection.

We also think that the definition of a publicly traded company may warrant more specific guidance than currently included in IFRS 8 and IAS 33. For example, in our jurisdiction we have stock-markets which are regulated markets according to the EU-directives, non-regulated stock-markets and over-the-counter markets where information about performed transactions (volume and price) and bid-ask prices are publicly available on a daily basis. The guidance may be given in a more principle-based way instead of detailing which type of markets, whether it is liquid or not or regulated or not.

We suggest that a de-minimis objection to the use of book values should not be relevant in the decision of which method to use.

Question 4

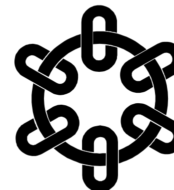
Paragraphs 2.48–2.54 of the DP discuss suggestions from some stakeholders that the optional exemption from and the related-party exception to the acquisition method should also apply to publicly traded companies. However, in the IASB's preliminary view, publicly traded receiving companies should always apply the acquisition method.

(a) Do you agree that the optional exemption from the acquisition method should not be available for publicly traded receiving companies? Why or why not? If you disagree, in your view, how should such an exemption be designed so that it is workable in practice?

NASB's response

We disagree. If a traded company receives consent from all non-controlling interests we see no good arguments for excluding these entities as the rationale for the acquisition method is the information need for the non-controlling interests, although in practice we believe such consent will seldom or never be obtained, so this will sort itself out automatically.

(b) Do you agree that the related-party exception to the acquisition method should

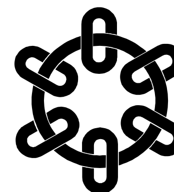


not apply to publicly traded receiving companies? Why or why not?

NASB's response

We cannot really see that publicly traded companies would ever have only related parties as non-controlling interests, so in practice there would be no need for this exception for these.

We believe it would therefore not make any difference if the rule was general to all BCUCCs.



Question 5
Paragraphs 3.11–3.20 discuss how to apply the acquisition method to business combinations under common control.

(a) In the IASB's preliminary view, it should not develop a requirement for the receiving company to identify, measure and recognise a distribution from equity when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach for identifying and measuring a distribution from equity do you recommend and why? In particular, do you recommend either of the two approaches discussed in Appendix C or do you have a different recommendation?

(b) In the IASB's preliminary view, it should develop a requirement for the receiving company to recognise any excess fair value of the identifiable acquired assets and liabilities over the consideration paid as a contribution to equity, not as a bargain purchase gain in the statement of profit or loss, when applying the acquisition method to a business combination under common control.

Do you agree? Why or why not? If you disagree, what approach do you recommend and why?

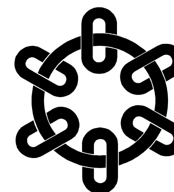
(c) Do you recommend that the IASB develop any other special requirements for the receiving company on how to apply the acquisition method to business combinations under common control? If so, what requirements should be developed and why are any such requirements needed?

NASB's response

We recognise that IASB has identified as a problem the issue of measuring transactions between related parties that may not be fully at arm's length. In general, we believe the accounting should reflect the fair value of the assets and liabilities that are exchanged.

For listed companies though, both company law and stock exchange rules generally mandate a thorough process to arrive at the appropriate price. Thus, we agree that it is not necessary to develop requirements for how the receiving entity could identify and recognise differences between the price paid and the fair value. If there is indeed an imbalance in the receiving entities disfavour, this is not very different from goodwill due to an overpayment which IFRS 3 recognises and leaves any overvaluation for IAS 36 to correct if necessary, as an impairment loss.

In general, we agree that any bargain gain should not be recognised in profit or loss, as this may provide less useful information for a BCUCC. A bargain gain would not be the result of the receiving management's performance in most cases, but a reflection of the controlling party's willingness to provide more resources than what is paid for. A caveat may be if a nominal deferred tax asset is recognised with a fair value significantly lower. This may lead to a bargain gain that does not have the characteristics of a contribution, but of a measuring problem. In practice this will be very seldom.



It seems as the identification of the acquiring party should be performed (ref 2.27) which may lead to reverse acquisition accounting also for common control transactions. We point to the definition of the **receiving company** in Appendix A in this respect. If identification of the acquirer according to IFRS 3 is applicable, we think an ED should elaborate on this and provide some additional guidelines, as the transaction often is controlled by neither of the two transacting entities, but by the controlling party/parties of both. We suggest that IASB may provide guidance on how to put different weight to the various indicators for BCUCC-transactions. To avoid structuring opportunities, one suggestion is to put more weight on objective measures such as size, gross assets and value of the companies in identifying the acquirer, and less on composition of the Board and the like.

Question 6

Paragraphs 4.10–4.19 discuss the IASB's preliminary view that, when applying a book value method to a business combination under common control, the receiving company should measure the assets and liabilities received using the transferred company's book values.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

NASB's response

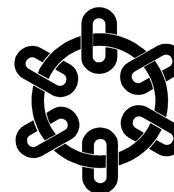
We do not agree that the only applicable measurement should be the book values of the entity under transfer. In some cases, for example when a business is transferred to a Newco, book value may be most relevant. However, we believe that often it is more relevant to use present values from the most recent transaction which resides higher in the group.

While using book value of the transferred entity sometimes is the easiest approach to apply, it may provide information that is less useful, especially if there has been a more recent transaction that has measured a lot more intangibles, and for which accounting information exist on a higher level.

We would also point out that using book values from the transferred entity is not necessarily easy in practice. In many cases the cost related to establish the appropriate book values of the entity under transfer may be high, especially if the entity is reporting under local GAAP, and there is a need for an IFRS 1 transition (with possible accounting choices to be made, such as deemed cost at fair value for PP&E etc.).

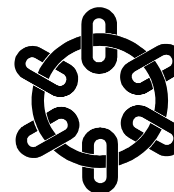
The DP uses text that may indicate that only the figures from the separate statements are to be used. We find this as having no merit when the transferred entity is itself a parent, and hope that it will be made clear in a future ED that it is the consolidated figures at that level that should be used.

A difficulty with the approach as proposed is that if the transferred entity the parent of a sub-group, there may be no consolidated accounts for this due to the exemption for sub-groups. However, the figures for the sub-group as a whole may exist at a higher level.



We believe that the concept of book value should allow for some kind of push-down accounting in many situations. This would correspond to many regulator's view when carve-out and combined accounts are being prepared in the marketplace. If only values from the separate statements are carried forward, subsequent reporting may not resemble the financial information that has been provided to the market in a prospectus and therefore confuse users. The selection of method could be made based on facts and circumstances.

As an end note we note that there is no guidance in the DP around which of the attributes related to the book values are included. An example is prior impairment losses, and whether these may be reversed in a later period. Other attributes may relate to hedging instruments, classifications of financial instruments, OCI-items that may be reclassified etc.



Question 7
Paragraphs 4.20–4.43 discuss the IASB's preliminary views that:
(a) the IASB should not prescribe how the receiving company should measure the consideration paid in its own shares when applying a book-value method to a business combination under common control; and
(b) when applying that method, the receiving company should measure the consideration paid as follows:

> (i) consideration paid in assets—at the receiving company's book values of those assets at the combination date; and
> (ii) consideration paid by incurring or assuming liabilities—at the amount determined on initial recognition of the liability at the combination date applying IFRS Standards.

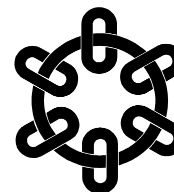
Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

<u>NASB's response</u>
We agree that there is no need to prescribe the accounting for bookings within equity for consideration in own shares.

We disagree that assets transferred as consideration should not be measured at fair value with gain/loss recognition as a general principle. We think this may lead to a risk of abuse or accounting arbitrage. An asset that is not possible to transfer in isolation as it is not a business, nor an entity that may be reorganised could be transferred under the book value method just by merely swapping it with an entity or a business. Whether the asset used as consideration is sold separately, as the settlement of a seller's credit or directly in a BCUCC should not give rise to different accounting. We disagree with the assessment of fair valuing being especially costly. Lastly, we note that the proposal is inconsistent with the general principle in IFRIC 17 for distributions, even if common control distributions currently are scoped out.

We agree that liabilities incurred should be measured using the normal IFRS-standards. We see no merit in treating recognition of liabilities very different from derecognition of assets. Both should be measured following the ordinary standards.

IASB may also consider swapping two businesses in its future guidance.



Question 8
Paragraphs 4.44–4.50 discuss the IASB's preliminary views that:
(a) when applying a book-value method to a business combination under common control, the receiving company should recognise within equity any difference between the consideration paid and the book value of the assets and liabilities received; and
(b) the IASB should not prescribe in which component, or components, of equity the receiving company should present that difference.

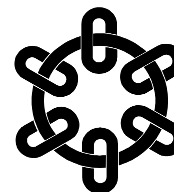
Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

NASB's response
We agree with the proposal. It would be useful if a future ED could be more explicit in its guidance of whether the equity components of the transferred entity should be continued in the receiving entity, in particular reserves in accumulated OCI that may be reclassified in future periods.

Question 9
Paragraphs 4.51–4.56 discuss the IASB's preliminary view that, when applying a book value method to a business combination under common control, the receiving company should recognise transaction costs as an expense in the period in which they are incurred, except that the costs of issuing shares or debt instruments should be accounted for in accordance with the applicable IFRS Standards.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

NASB's response
We agree with the proposal.



Question 10
Paragraphs 4.57–4.65 discuss the IASB's preliminary view that, when applying a bookvalue method to a business combination under common control, the receiving company should include in its financial statements the assets, liabilities, income and expenses of the transferred company prospectively from the combination date, without restating pre-combination information.

Do you agree with the IASB's preliminary view? Why or why not? If you disagree, what approach do you suggest and why?

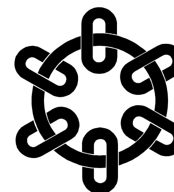
<u>NASB's response</u>
We disagree with the preliminary view. While accounting for such transactions purely prospectively clearly has merits, the fact that the entities has been under common control, and in some cases also been part of the same accounting entity at a higher level indicates that there should be an option to apply retrospective accounting. This would facilitate a better transition from the current requirements from regulators when presenting carve out and combined statements ahead of such transactions till the official financial statement post transaction.

We do not believe retrospective presentation should be mandated, as there are numerous instances where this would be impracticable or not meeting the cost-benefit constrain for standard setting of financial accounting.

As a separate comment, when only applying book values prospectively it may be understood as a measurement rule only, thereby setting accumulated OCI-items to nil, and establishing a new historical cost which may not allow for reversals of prior impairment losses of PP&E and intangibles. See our comments above where we request a clear regulation for such items.

Question 11
Paragraphs 5.5–5.12 of the DP discuss the IASB's preliminary views that for business combinations under common control to which the acquisition method applies:
(a) the receiving company should be required to comply with the disclosure requirements in IFRS 3 Business Combinations, including any improvements to those requirements resulting from the Discussion Paper Business Combinations - Disclosures, Goodwill and Impairment; and
(b) the IASB should provide application guidance on how to apply those disclosure requirements together with the disclosure requirements in IAS 24 Related Party Disclosures when providing information about these combinations, particularly information about the terms of the combination.
Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

<u>NASB's response</u>
In general we support using the IFRS 3 disclosures when the acquisition method is used. We welcome any reasonable disclosure requirements linked to IAS 24 based on the modern approach to disclosures to avoid information overload.



Question 12
Paragraphs 5.13–5.28 of the DP discuss the IASB's preliminary views that for business combinations under common control to which a book-value method applies:

(a) some, but not all, of the disclosure requirements in IFRS 3 Business Combinations, including any improvements to those requirements resulting from the Discussion Paper Business Combinations - Disclosures, Goodwill and Impairment, are appropriate (as summarised in paragraphs 5.17 and 5.19) of the DP;

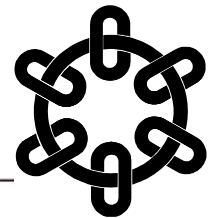
(b) the IASB should not require the disclosure of pre-combination information; and

(c) the receiving company should disclose:
(i) the amount recognised in equity for any difference between the consideration paid and the book value of the assets and liabilities received; and
(ii) the component, or components, of equity that includes this difference.

Do you agree with the IASB's preliminary views? Why or why not? If you disagree, what approach do you suggest and why?

NASB's response We agree in general and have no further comments.

Norsk RegnskapsStiftelse



27 September 2021

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information: Third Agenda Consultation
Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our views on the *Request for Information: Third Agenda Consultation*.

In general, we support the IASB's strategic direction, the balance of its activities and the criteria used for prioritising projects.

In our response to question 3, we argue for high priority on four large projects:

- A complete review of the standards IAS 7, IAS 38 and IFRS 5
- The IASB must prioritise sustainability issues that are important for the financial reporting. We do not suggest any specific sustainability project, but we recommend the IASB to plan for spending resources on sustainability issues, and to clarify the interface between the work of the IASB and the IFRS Foundation's new board on sustainability reporting.

In addition, we argue for high priority on three smaller projects:

- Variable and contingent considerations
- IAS 12 - The tax issue referred to as "technical goodwill"
- IAS 41 - Reconsidering the use of fair value on a subset of biological assets.

In our country, the IAS 41 issue is important as fish farming is the second largest industry of export and market cap. We realise that larger territories will have different priorities as agriculture usually is of lesser importance. We nevertheless urge the Board to look at this specifically.

In the following pages, we provide detailed responses to each of your questions.

Please, do not hesitate to contact us for further discussion of the issues raised in this paper.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS

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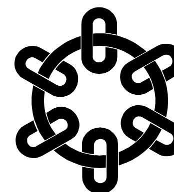


Question 1: Strategic direction and balance of the Board's activities
The Board's main activities include: • developing new IFRS Standards and major amendments to IFRS Standards; • maintaining IFRS Standards and supporting their consistent application; • developing and maintaining the *IFRS for SMEs* Standard; • supporting digital financial reporting by developing and maintaining the IFRS Taxonomy; • improving the understandability and accessibility of the Standards; and • engaging with stakeholders. Paragraphs 14–18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities. a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes. b) Should the Board undertake any other activities within the current scope of its work?

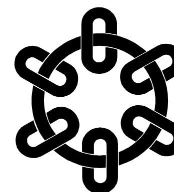
The current balance of the IASB's main activities appears to be aligned with the needs of primary users, and we have no suggestion for any significant change in the overall balance.

Nevertheless, the increasing importance of digital financial reporting makes it important to develop effective tagging taxonomies. In this regard, the current level of time spent in this area may be too little. However, it is not given that the IASB should be sole responsible for developing the taxonomy, and the current level on activity may be appropriate if it is developed in cooperation with other parties.

Question 2: Criteria for assessing the priority of financial reporting issues that could be added to the Board's work plan
Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan. a) Do you think the Board has identified the right criteria to use? Why or why not? b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

In general, we agree with the proposed criteria.

However, the first criterion refers to the importance to investors only. We expect that the IASB will consider the importance for all primary users, not only a subgroup of the primary users.



Moreover, it is not clear for us how criterion number six will be used in practice. The criterion refers to complexity as an issue to consider when considering whether to add a potential project to its work plan. Does this mean that complex issues will be prioritised because of the importance of guidelines for such issues, or does it mean it will not be prioritised because it will require much resources? If both of these considerations are relevant, the complexity issue is not a stand-alone criterion and must be assessed in relation to the other criteria.

Question 3: Financial reporting issues that could be added to the Board's work plan

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan.

a) What priority would you give each of the potential projects described in Appendix B—high, medium or low—considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.

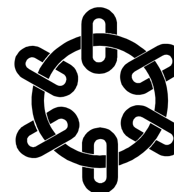
b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:

(i) the nature of the issue; and
(ii) why you think the issue is important.

3.1 High priority

We give high priority to six of the potential projects in Appendix B, see table below, and at the end of our response to Question 3, we also raise an additional project of high importance.

Project	Project size
Statement of cash flow and related matters	Large
Intangible assets	Large
Discontinued operations and disposal group	Large
Climate-related risks Pollutant pricing mechanisms	Large
Variable and contingent consideration	Small-medium
Income tax	Small



In this list, we have identified four large projects with high priority. Three of these projects (IAS 7, IAS 38 and climate-related issues) are to a certain extent interlinked (see examples below), and can benefit from a coordinated review.

3.1.1 Statement of cash flow

The IASB should reconsider the definition of cash and cash equivalents. Since the writing of IAS 7, new payment methods have emerged, and it is not clear whether and how many of these should be considered as cash. Here are some examples:

- cryptocurrencies
- group accounts, cash pool arrangements and treasury centres at group level and company level, including multi-currency arrangements.
- payments made by third parties, for instance supply chain financing

Moreover, payments of activities that are core to an entity's operation may not be categorised as such in the cash flow statement. Two examples are payments for leases and payments for investments when credit period is long, which both are categorised as financing activities. Another example is IAS 7.16, which states that only expenditure that result in a recognised asset are eligible for classification as investing activities. This may cause inconsistent classification of core activities such as research and development. We also refer to comments the IASB received on ED/2019/7 *General Presentation and Disclosure* in relation to the misalignment of categorisation in the statement of profit or loss and the cash flow statement.

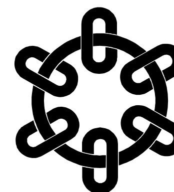
We note that IFRS Interpretation Committee has received several questions on issues that are cash related, such as "Cash Received via Electronic Transfer Settlement for a Financial Asset" and "Demand Deposits with Restrictions on Use". This indicates that there is a need for updating guidelines for the cash flow statement.

We suggest a complete review of the standard.

3.1.2 Intangible assets

This standard has long been criticised for contributing to decreased usefulness of financial reporting since core assets with significant values are not recognized as assets. The tension between acquired and internally developed assets has long been a challenge for accounting of core assets. The problem with off-balance assets has increased in magnitude as technology and digitalisation has developed, and more guidance is needed on the interface between IAS 38 and other standards, such as IFRS 9 and IAS 7 (e.g. cryptocurrencies) and IAS 20 (e.g. governmental incentives in climate-related issues).

One issue that can be revisited, is the current prohibition in IAS 38.71 to recognise previously expensed expenditures as intangible assets. This paragraph is one important reason for core assets being off-balance. Solutions that could be considered is to allow to recognise



previously expensed expenditures. Another solution could be to allow capitalisation of development expenditures as incurred, but with a requirement to test for impairment annually under IAS 36; this solution would allow later reversal of the impairment.

We suggest a complete review of this standard.

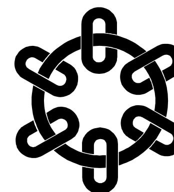
3.1.3 Discontinued operations and disposal groups

This is a difficult standard to apply, and in practice we find diversity in the use of the standard. Not all stakeholders agree that the one-line presentation is useful. For example: It is not uncommon that entities that meet the highly-probable threshold in IFRS 5.7-8 and present in accordance with IFRS 5, ends up with terminating plans to discontinue operations or sell assets. In such cases, the temporary one-line presentation causes unnecessary noise in the financial statements. In our view, the separation of operations as required by IFRS 5, is a construction of pro forma numbers, which could be presented in the notes rather than in the statements of financial position and profit or loss.

Moreover, the accounting standard gives counter-intuitive results, partly because of specific requirements in the standard, and partly because of the interaction with other standards. Here are some examples of such effects:

- Stopping depreciation while still using the asset. This might have material effects on the P/L and result in counter-intuitive super profit.
- The timing of recycling from OCI. Items in OCI are now recycled at the time of disposal and not at the time of separate presentation as discontinued operation or assets held for sale. Similarly, recycling from OCI is not included in impairment tests required by IFRS 5. These timing difference may cause noise in the statement of profit or loss.
- Elimination of group transactions gives counter-intuitive allocation of P/L effects between continued and discontinued operation.
- In a situation where an entity loses control of a subsidiary but keeps a large non-controlling interest, the investment moves from full consolidation to one-line presentation as discontinued operation and in the next period once again included in continued operations as investment in an associate. This may even happen without any change in the capital employed in the business. We believe this is an example that provide numbers that are less useful.

We suggest a complete review of the standard. In general, we believe that discontinued operations may better be presented in the notes, in particular the segment note.



3.1.4 Variable and contingent consideration

For business combinations, this issue is sufficiently addressed in IFRS 3. For other acquisitions, however, guidance is needed. This includes guidance on how to account for the considerations related to equity method investments, investments in subsidiaries in parent company's individual accounts, and other fixed assets. In this project the definition of 'cost' might be defined generically for coherence between standards. The accounting for the seller is also without clear guidance.

We consider this a medium sized project.

3.1.5 Income Tax

For a long time, the NASB has argued that it is of high importance to revise the income tax standard. While still considering the standard far from perfect, we acknowledge that the IASB does not prioritise a complete revision of the standard. Therefore, in this agenda consultation, we focus on one specific issue that is especially important for many companies, namely the issue often referred to as "technical goodwill". When acquiring deferred tax liabilities, companies normally pay fair value. The income tax standard, however, requires measuring the deferred tax at nominal value. The difference between fair value and nominal value creates challenges in the financial reporting.

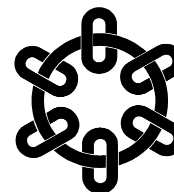
This issue relates both to accounting for tax and to accounting for goodwill. We have not concluded on preferred solution, but two possible solutions may be treat the "technical goodwill" as a separate category of goodwill, or to relax on the prohibition to discount deferred tax assets and liabilities.

We consider this to be a small project and suggest that the IASB gives this issue high priority.

3.1.6 Climate-related risks and pollutant pricing mechanisms

We consider both these projects in Appendix B to be part of a bigger sustainability project. We also note that further climate-related issues are sent to IFRS Interpretation Committee for consideration, such as "Deficit in low/new energy vehicle credits". We acknowledge that this agenda consultation does not seek feedback on issues related to sustainability reporting. We also acknowledge that IFRS already contains guidance that is helpful in addressing the importance of climate related issue. Nevertheless, we urge the IASB to discuss the interface between the IASB's work on IFRS and the work of the IFRS Foundation's new board for sustainability reporting to ensure that important issues are addressed. Some climate related issues will be more financial reporting than sustainability reporting related, and we assume these issues must still be addressed by the IASB. The current focus on climate-related issues suggests that such issues should be given high priority.

3.2 Low priority



We give low priority to six of the potential projects:

- Borrowing costs
- Employee benefits
- Foreign currencies
- Going concern
- Inflation
- Interim financial reporting

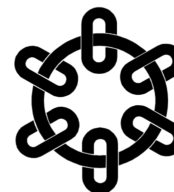
We agree that the current standards and guidelines in these areas could have been improved. In practice, however, accounting in these areas works fine in our jurisdiction, and we experience few major discussions because of imperfections in the standards or the guidelines. One exception is the standard for employee benefits, which does not give sufficient guidelines on new post-employment benefit plans, such as hybrid pension plans. However, the last decade there has been a significant shift in Norway where companies go from defined benefit plans to defined contribution plans, and only few companies have agreed hybrid pension plans.

Therefore, we suggest that the IASB spends its resources on other projects that are more pressing.

3.3 All projects

The table below summarise our priority for each of the 22 potential projects in Appendix B. The projects with high and low priority are commented above.

	Potential project	**High**	**Medium**	**Low**	**No opinion**
1	Borrowing costs			X	
2	Climate-related risks	X			
3	Commodity transactions				X
4	Cryptocurrencies and related transactions	See 14 and 21			
5	Discontinued operations and disposal group	X			
6	Discount rates		X		
7	Employee benefits			X	
8	Expenses - Inventory and cost of sales				X
9	Foreign currencies			X	
10	Going concern			X	
11	Government grants		X		
12	Income taxes	X			
13	Inflation			X	
14	Intangible assets	X			
15	Interim financial reporting			X	
16	Negative interest rates		X		
17	Operating segments		X		



18	Other comprehensive income		X		
19	Pollutant pricing mechanisms	See 2			
20	Separate financial statements		X		
21	Statement of cash flow and related matters	X			
22	Variable and contingent consideration	X			

3.4 Projects not described in Appendix B

We suggest that the IASB reconsider the requirement in IAS 41.12 to measure certain biological assets at fair value. Many biological assets are, in their early phases, not saleable in the market and need to be measured based on a discounted cash flow model.

When inventory of biological assets within a CGU is measured at fair value using a cash flow model, there is no logical rationale to allocate the appropriate cash to the biological asset. Very often there are material other assets within the CGU that require a return on and of capital for which a proper contributory asset charge need to be identified. This is especially true when other long term assets within the CGU is measured at cost (such as a licence or land) is necessary to grow a biological asset. When there are no observable market prices for a notional rent and no observable market prices for the immature biological asset, any contributory asset charge used in order to separate the combined cash flows will by definition be quite arbitrary. Various models are used, some of them creating day-one gains or losses and seldom yield similar results.

Furthermore, a subset of biological assets only accrue value due to the input factors provided, and not or less by the forces of nature. One example is immature fish. The value creationg and economic substance of such assets is very similar to ordinary inventory, and should be measured similarly. Research published in a recent dissertation indicates that the usefulness of fair value information is limited or not existent. Reference is provided to this academic paper:

> Møller (2021) *Valuation of inventory of live biological assets: Measurement, value relevance and usefulness to equity investors*, PhD Thesis, NHH - Norwegian School of Economics. The thesis may be retrieved at https://openaccess.nhh.no/nhh-xmlui/handle/11250/2772861

Question 4—Other comments
Do you have any other comments on the Board's activities and work plan? Appendix A provides a summary of the Board's current work plan.

No further comments. However see the proposal to amend IAS 41 above.