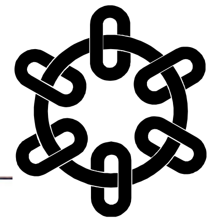
Norsk RegnskapsStiftelse



International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

7 January 2022

Dear Sir/Madam

Comment letter to ED/2021/3: Disclosure requirements in IFRS Standards – A pilot Approach

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) hereby submit our views on the exposure draft "Disclosure requirements in IFRS Standards – A Pilot Approach". Our comment letter is somewhat limited as we only provide our general and overall views on the direction of the proposal.

We welcome the IASBs work to reduce the disclosure problem and increase the effectiveness of communications in the financial statements. Overall, we believe the disclosure problem is primarily a behavioural problem, and less a problem with the disclosure requirements in the standards. Changing behaviour takes time. For preparers and auditors to arrive at the right level and content of disclosures, not only a better understanding of the objective of disclosures is needed, but even more so clarifying a correct expectation level for the users and regulators. We do believe that the recent years attention and focus on the disclosure problem has initiated a change in the right direction. Our observation is that the enforcers are supportive of a reasonable approach to disclosures rather than a pure checklist approach which has been evidenced in review processes.

The exposure draft proposes that the IASB spends more time on understanding the users' need for information in the standard setting process, and that the standards include clearly articulated disclosure objectives supplemented with an explanation of how the information provided to meet the disclosure objective will help the users of financial statements. We are highly supportive of such an approach. The IASBs research on IAS 19 *Employee Benefits* revealed that users receive insufficient information about the cashflow effects of employee benefit plans. Instead, other detailed information, like sensitivity analyses, that is less useful for users are disclosed. At the same time, companies find the cashflow information less onerous to prepare than many of the detailed disclosures that users find less useful. This illustrates that a proper understanding of users' needs, and a clear articulation of disclosure objectives, can be beneficial for both users and preparers. Having a clear understanding of users' needs and clearly articulated disclosure objectives, is important regardless of whether the standards include a list of required disclosure as today, or only include a list of non-mandatory items of information as proposed in the new guidance.

As we see it, the exposure draft poses a fundamental change from the existing guidance. Under existing guidance there is a presumption that the users' need for information is met if a list of disclosures is met. An entity is not required to fulfil a specific disclosure requirement if the information resulting from that disclosure is not material. Additional information is

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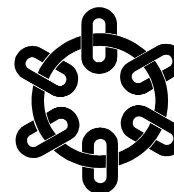


required if compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, events and conditions on the entity's financial position and financial performance (IAS 1.17 (c)). Under the new guidance, the entities will be required to comply with overall and specific disclosure objectives, supported by a non-mandatory list of items of information to consider.

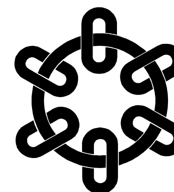
In theory, the top-down approach, starting with the users' need for information, seems more efficient and appropriate than the checklist approach. Some preparers find it more onerous to prepare evidence that a disclosure requirement is immaterial and therefore should be omitted, than providing the disclosure, thereby including all the information in the checklist. Focusing on identifying the material disclosures that should be included, rather than arguing why specific disclosure requirements are immaterial, seems a more effective and efficient way to fulfil the overall objective to meet users' needs for information. Properly applied, we do believe this approach could help entities, auditors and regulators to better understand investors needs for information, avoid using the disclosure requirements as a checklist and eliminate immaterial disclosures.

However, this approach will require more judgement, and we are concerned that the approach will be difficult to apply, especially for smaller, less resourced and/or less sophisticated entities. The field test is essential to evaluate if this new approach will work in practice. We emphasise that it is important that also smaller entities with limited resources participate in the field test.

While the new approach may reduce immaterial disclosures, we are not convinced that the new approach will solve the problem of "too little relevant information". The testing of the new approach on IFRS 13 is illustrative in this regard. Investors reported that they receive information about fair value measurements that are *not* material to the financial statements, but at the same time they receive limited information about the fair value measurements that *are* material. In our experience, detailed and entity specific information is often lacking because producers consider this type of information to be too sensitive, and not because the information is costly to prepare.

On the other hand, we are concerned that there will be a lower threshold for auditors and regulators to require additional information with reference to the disclosure objectives of specific IFRSs under the new approach, than requiring additional information with reference to IAS 1 paragraph 17, and that the new approach may require entities to disclose detailed information that is sensitive and/or costly to prepare. For example, the proposed overall and specific disclosure objective of IFRS 13 is quite wide and it is challenging to see how an entity can avoid giving disclosure that are costly to prepare because it is detailed and/or sensitive if users state the information could be useful.

In our view, the disclosure requirements should strike a balance between cost for the producer and the benefit for the user. As we see it, it is the IASB's role as a standard setter to do this cost-benefit analysis when determining the appropriate disclosure requirements. We believe it will be more challenging to incorporate the cost-benefit constraint into a disclosure objective, than in a list of required disclosures (as today).



There is a trade-off between the objective of providing entity specific information and comparable information. We acknowledge that requiring standardised and comparable information, is of little value if the information is not material. However, we are of the opinion that there should be a minimum list of disclosure as we believe there is some information that generally will be relevant for most users.

For required information that should be given in a tabular format, we also think it should be considered whether to require a standardised table format. An example is the disclosure of changes in liabilities arising from financing activities in accordance with IAS 7.44A-E. For this disclosure requirement a standardised format would increase comparability and readability without being more difficult or costly to prepare for the entity.

If the new approach is implemented, we would encourage the IASB to carefully consider comparability when determining which "items of information" that should be required, and whether that information should be given in a standardised format.

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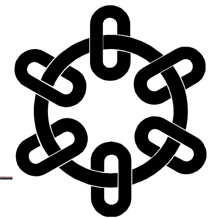
Please contact us if you would like to discuss any of our above comments.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS

Norsk RegnskapsStiftelse



International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

28 January 2022

Dear Mr Barckow,

Comment letter to Request for Information: Post-implementation Review IFRS 9 Financial Instruments Classification and Measurement

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) is pleased to submit our views on the RFI-PIR on IFRS 9 *Financial Instruments*, Classification and Measurement. Our responses to the Board's questions are set out in the appendix.

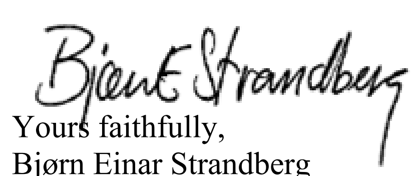
In general, we believe that the classification and measurement requirements work well and as intended, although we have addressed some concerns in our responses to the Board's questions in the attached document.

We do also want to draw your attention to some specific issues related to the scope of IFRS 9 for non-financial contracts and derivatives embedded in such contracts. These are issues of special concern for a number of entities in our jurisdiction.

We remind the Board that several issues regarding non-financial contracts and the scope of IAS 39 *Financial Instruments: Recognition and Measurement* were raised with the IFRIC in 2009/2010. In relation to these submissions, the staff noted that "the best course of action is for the IFRIC to recommend to the IASB that it should comprehensively address the issues experienced in practice concerning the scope of IAS 39 as part of the replacement of that standard".

However, as far as we have observed, the guidance regarding the scope for non-financial contracts and embedded derivatives in such contracts was carried over to IFRS 9 without material changes. We do want to encourage the Board to reconsider the scope of IFRS 9 in this area as part of the PIR, as this could help to reduce complexity and diversity in practice. As illustrated in the response to question 9 in the attached document, we do also believe that a revision of the Standard in these areas could result in accounting outcomes that generally are considered to better reflect underlying transactions.

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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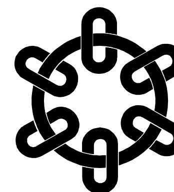


Appendix

Question 1—Classification and measurement
Do the classification and measurement requirements in IFRS 9:

(a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not?

(b) result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows? Why or why not?

Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing or using information about financial instruments. This question aims to help the Board understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. Sections 2–8 seek more detailed information on the specific requirements.

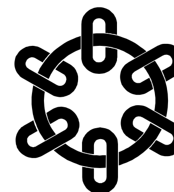
Generally, we find that classification and measurement requirements work as intended and provide useful information to users of financial statements. For most of an entity's financial instruments the underlying principles for classification and measurement are not considered difficult to apply, and we observe that the introduction of IFRS 9 had limited impact on the accounting treatment for most entities. However, some preparers and auditors experience difficulties in the practical use of the standard due to its complex overall structure and extensive cross-referencing. This is further detailed under Question 9(b) in this PIR.

Question 2—Business model for managing financial assets

(a) *Is the business model assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the Board's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows.*

(b) *Can the business model assessment be applied consistently? Why or why not? Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.*

(c) *Are there any unexpected effects arising from the business model assessment? How significant are these effects? Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.*



In responding to (a)–(c), please include information about reclassification of financial assets (see Spotlight 2).

In general, we believe the business model assessment works as intended and can be applied consistently. However, we observe that certain key terms such as "infrequent" and "insignificant" (IFRS 9.B4.1.3B) are not clearly defined and that this leads to different interpretations and therefore application in practice. The Board should consider if further guidance or examples in these areas may be helpful.

Question 3—Contractual cash flow characteristics

(a) Is the cash flow characteristics assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics achieves the Board's objective of entities providing users of financial statements with useful information about the amount, timing and uncertainty of future cash flows. If, in your view, useful information could be provided about a financial asset with cash flows that are not SPPI applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a different measurement approach (that is, using amortised cost or fair value through OCI) please explain:

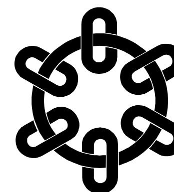
(i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI).

(ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk). (See Section 7 for more questions about applying the effective interest method.)

(b) Can the cash flow characteristics assessment be applied consistently? Why or why not? Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features). If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

(c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects? Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators.
In responding to (a)–(c), please include information about financial instruments with sustainability-linked features (see Spotlight 3.1) and contractually linked instruments (see Spotlight 3.2).

We believe that the cash flow characteristics assessment works as intended. However, there is uncertainty regarding how to assess lending arrangements with elements of interest rates linked to ESG goals. Due to the rapid increase in the use of such terms, we believe that this issue should be addressed urgently and separately from the IFRS 9 PIR.



Question 4—Equity instruments and other comprehensive income
(a) Is the option to present fair value changes on investments in equity instruments in OCI working as the Board intended? Why or why not? Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both

(i) equity instruments measured at fair value through profit and loss; and

(ii) equity instruments to which the OCI presentation option has been applied).

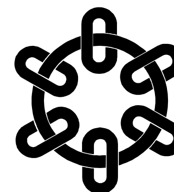
For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the Board intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7.

(b) For what equity instruments do entities elect to present fair value changes in OCI? Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments.

(c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects? Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the Board to understand the context and significance of the effects.

In responding to (a)–(c), please include information about recycling of gains and losses (see Spotlight 4).

We believe that the principles in IFRS 9 for equity instruments work as intended and provides useful and relevant information to users of financial statements. For instruments that are not held primarily for increases in the value of the investment, most preparers and users of financial statements seem to consider *FVPL with a FVOCI option* a relevant and simple way to account for these instruments. We do not observe FVOCI being applied to a large extent in our jurisdiction. We do believe that the current model has clear advantages compared to the prior model for equity instruments classified as AFS under IAS 39. We recognise that there are voices that would like to reintroduce the former model, but in our opinion the resulting impairment assessments and recycling, would increase complexity of a standard that is already complex enough and we do not believe this to be an improvement. Any regulatory consequences for particular industries are best dealt with by legislation to adjust for such items.



Question 5— Financial liabilities and own credit
(a) Are the requirements for presenting the effects of own credit in OCI working as the Board intended? Why or why not? Please explain whether the requirements, including the related disclosure requirements, achieved the Board's objective, in particular, whether the requirements capture the appropriate population of financial liabilities.

(b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)? Please explain the matter and why it relates to the assessments the

Board makes in a post-implementation review.

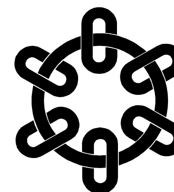
We agree on the treatment of own credit risk in principle. However, we rarely see material effects from own credit risk in OCI in our jurisdiction, because liabilities are very seldom designated as measured at FVPL.

Question 6— Modifications to contractual cash flows
(a) Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not? Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a financial liability for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements?

(b) Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not? Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities? If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

Generally, we believe that the requirements for modifications work as intended. However, we note that there is limited guidance for what is considered a "significant" modification of a financial asset. Many entities look to the 10 per cent test for financial liabilities, but the guidance for financial liabilities cannot be applied similarly to financial assets in all circumstances, among else due to issues related to credit risk of financial assets. We do believe that further guidance for what is considered a significant modification of financial assets may be helpful.

We also note that there is certain "stickiness" when it comes to modifications of financial assets in stage 3 in the general impairment model, mainly because banks and other entities, for good reasons, do not want to reclassify troubled debt to stage 1 due to a modification that might be regarded as significant. Possibly this is an issue that is well dealt with in practice, so no further standard-setting is required. However, we note that the guidance regarding presentation of modification gains and losses for stage 3 assets may not be as clear as warranted so preparers may find it helpful with further guidance.



Question 7—Amortised cost and the effective interest method
(a) Is the effective interest method working as the Board intended? Why or why not? Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method.

(b) Can the effective interest method be applied consistently? Why or why not? Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply. Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements.

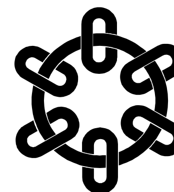
In responding to questions (a)–(b), please include information about interest rates subject to conditions and estimating future cash flows (see Spotlight 7).

Generally, we believe that the effective interest method works as intended and can be applied consistently. However, we note that, especially for some complex financial liabilities, more guidance would be helpful. For example, it would be helpful with more guidance on accounting for liabilities with an interest that is linked to an entity's performance (e.g. EBITDA or other revenue or performance related measures). Provided that these factors are not separated as embedded derivatives, how should they be factored into the effective interest method?

Question 8—Transition
(a) Did the transition requirements work as the Board intended? Why or why not? Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please also explain whether, and for what requirements, the Board could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements.

(b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not? Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome?

No comments provided.



Question 9—Other matters
(a) Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement requirements in IFRS 9? If yes, what are those matters and why should they be examined? Please explain why those matters should be considered in the context of the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant.

As already mentioned in the introduction to this response letter, we think it would be helpful if the Board would consider the scope of IFRS 9 regarding non-financial contracts and embedded derivatives in such contracts.

Based on previous communication with the IASB Staff we were encouraged to bring these issues into this first phase of the project.

Several issues regarding non-financial contracts and the scope of IAS 39 *Financial Instruments: Recognition and Measurement* were raised with the IFRIC in 2009/2010. In relation to these submissions, the staff noted that:

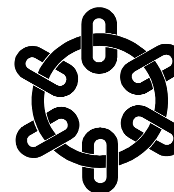
> *"the issue of the submission (forward contracts with volumetric optionality on non-financial items that are readily convertible to cash) is only one of many practice issues with respect to the scope provisions in IAS 39.5-7. These paragraphs, which are based on US GAAP (but which do not include the many detailed implementation guidance), are difficult to apply in practice. For example, there is divergence in practice not only over when a commodity is readily convertible to cash but also how that notion is to be applied to the parties to the contract (as the staff have observed in its outreach – see paragraph 9(b) of this paper). Consequently, the staff believe that the best course of action is for the IFRIC to recommend to the IASB that it should comprehensively address the issues experienced in practice concerning the scope of IAS 39 as part of the replacement of that standard".*

However, the guidance regarding the scope for non-financial contracts and embedded derivatives in such contracts was carried over to IFRS 9 without material changes. We do want to encourage the Board to reconsider the scope of IFRS 9 in this area as part of the PIR, as this could help to reduce complexity and diversity in practice.

Non-financial contracts and the scope of IFRS 9 for these is an important topic for a number of Norwegian entities. We note that there are several issues regarding the topic that we believe should be addressed.

EURO in electricity contracts – a regional currency
Both the physical spot market and the financial forward market in the Nordic region (Scandinavia, Finland and The Baltics primarily) are quoted in Euro. This despite only the smaller markets of Finland and Estland belonging to the Euro area. It is common to enter into local long-term own-use contracts with price fixed in Euro.

Under the current rules in IFRS 9.B4.3.8(d) the Euro exposure vis-à-vis local currency has to be separated as an embedded derivative. The Euro-derivative is currently not considered



closely related to the host contract when the buyer and seller are both non-Euro functional currency companies, and power purchase and sales contracts are not routinely denominated in Euro in commercial transactions *around the world*, and Euro is not commonly used in e.g. Norway and Sweden for local business transactions.

Entities that have entered into long-term, large volume physical own use power contracts denominated in Euro with other entities in the local market, therefore experience significant volatility in profit or loss from embedded FX derivatives, despite the contract being denominated in a currency that is routinely used in the regulated regional spot power exchanges as well as in the financial forward market. As physical and financial contracts for power in many instances may be interchangeable, this make rise to complications and the volatility in the income statement is not understood by users of the financial statements. Typically, such effects are removed in APMs prepared by the entities. It is further difficult to explain to users that two identical contracts are accounted for differently based on who the counterparty is (i.e. depending of which functional currency the counterparty uses). As the rule is at least partly influenced by anti-abuse concerns, we recognise that sometimes such side-effects may be a consequence.

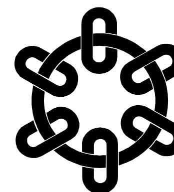
Power is a commodity that is not storable, and with limited ability to transport it to a global market. In practice only national and regional markets exist. Our suggestion is therefore that this issue may be solved by also including regional markets when the underlying goods in the host contract is not capable of being sold on a global market. A revised IFRS 9.B4.3.8(d)(ii) may say something like (…commercial transactions around the world or commonly used in regional markets…), or by using a more principles based (and less rule based) approach to embedded derivatives. By linking the good or service to a price commonly used in the regional market place we are of the opinion that the anti-abuse element is appropriately considered.

Readily convertible to cash

Regarding the scope of IFRS 9 for non-financial contracts (IFRS 9.2.4-7) we note that there is limited guidance in IFRS 9 explaining what is meant by “readily convertible to cash” and to what degree past practice prevent an entity from treating similar contracts as “own use”. For example, is “readily convertible to cash” assessed from seller’s or buyer’s perspective, or both?

Limits for own use contracts

Some entities experience difficulties when applying IFRS 9 in situations when there is seasonality in the production volume (as for many Norwegian hydro-power production facilities), while industrial buyers require purchase contracts with fixed volumes during the year as they have stable consumption during the year. During the summer season when power prices are low power producers may find it advantageous to purchase power in the spot market to fulfil its delivery obligations under long-term, fixed volume delivery contracts, while “saving water” in the reservoirs for production in winter periods with expected higher power prices (due to seasonality in consumption). Generally, purchases in the power market to supplement deliveries under long-term sales contracts (instead of delivering own produced power) may be considered “net settlement” of the long-term sales contracts, with a consequence that the sales contracts fail the “own use” requirements and will have to be accounted for as derivatives under IFRS 9. Entities may find it difficult to set thresholds as for



how much net settlement is acceptable before a contract is considered not to qualify as an "own use" contract. Production from non-flexible sources such as windmills and hydropower production from rivers without reservoirs further complicates this picture. Entities do not find it logical that a rational behavior (save water when prices are low during summer season, to produce more during winter when demand and prices are higher) should lead to derivative accounting for the remaining life of the sales contracts.

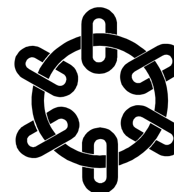
Failing the own-use criteria
We provide a couple of illustrations to focus on difficulties entities experience when applying IFRS 9 for non-financial contracts that fail the own-use criteria:

- Similar to the example above for seasonality with reservoirs, but without the discretion of saving production for later, wind farms also risk having to account for fixed volume sales contracts as derivatives because there will be periods with no or little wind. In these periods the entity will have to purchase power to meet delivery requirements under the sales contracts. Again, there is uncertainty related to what constitutes a breach in the criteria for being an own use contract. Is a limited level of expected net settlement (in the form of purchases in the market to meet delivery obligations) acceptable or will any expected net settlement trigger derivative accounting for the sales contracts? For low flexibility production assets (e.g. wind farms and hydro power production from rivers without reservoirs) it is almost impossible not to end up in a "short" position (where the entity has to purchase from market to meet delivery obligations) if the entity enters into fixed volume contracts. There is a perception that the current accounting rules makes it difficult for these entities to achieve the off-balance "hedging effect" of fixed price, fixed volume contracts.
- When entities construct new power plants, they may want to enter into long-term sales contracts to reduce the risk related to their investments. Due to purchaser's requirements and/or delays in development of the new plant, there may be short periods where the entity must purchase in the market to meet its delivery obligations. This may also result in a conclusion that the sales contracts have failed as own use contracts.

With respect to these examples, we also note that there is no or limited guidance in IFRS 9 as to whether an entity can define a portion or a proportion of a contract for the purpose of assessing the contract in relation to the scope of IFRS 9. We believe that more guidance and/or a more principles-based approach to these assessments may assist entities to achieve an accounting for these transactions that better reflect the purpose of the transactions. Further, we believe contracts should be judged to be "similar" as to their purpose within the business (e.g., for trading or for physical supply) and not just as to their contractual terms.

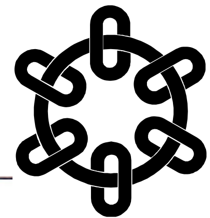
(b) Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard-setting projects?

IFRS 9 is a long standard and is written in a way that makes it difficult to use. We assume this is a consequence of the wide scope of instruments it aims to address. The use of generic terms rather than specific terms, makes it hard for stakeholders to understand which paragraphs are



relevant even for simple instruments. Moreover, the many references back and forth in the standard reduce the readability of the standard. Specifically, some believe that cross-references to paragraph numbers within the standard, without indication to the content of the referred to paragraphs, makes the standard more time-consuming to use, and for students of accounting it is deemed extremely difficult.

The complexity of the standard might be justified if only considering companies with many complex instruments, and we acknowledge the need for making a standard that is sufficiently robust to address future instruments. However, most companies have few complex instruments. For these, the current standard is difficult to use; even well-educated accountants struggle in using the standard. We recommend the IASB to consider how the standard can be made more accessible for the majority of companies that mainly have simple instruments.



International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

23 May 2022

Dear Madam/Sir

Tentative Agenda Decision: Lessor Forgiveness of Lease Payments

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the tentative agenda decisions "Lessor Forgiveness of Lease Payments".

Paragraph 87 of IFRS 16 requires a lessor to consider any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease. The tentative agenda decision clarifies that a lessor applies the impairment and derecognition requirements in IFRS 9 for lease receivables. Further, when a lessor grants forgiveness of lease payments, payments due from the lessee (ie: lease receivables) are not considered accrued lease payments and are therefore not included in lease payments for the new lease when applying IFRS 16.87.

This has been illustrated by an example in the agenda paper to the Interpretations Committee meeting in March 2022. The example illustrates forgiveness of a lease receivable related to a past period (ie: rent concession for month 10-12 is granted in the end of month 12). In our opinion the tentative agenda decisions may be reasonable in such a scenario, even if there may be inherent difficulties in a model that distinguishes between recognised and unrecognised rights under the contract. Situations that are quite similar in substance will end up in different pattern of recognition, which may lead to accounting arbitrage.

The main concern we want to raise in our letter is that the TAD does not provide a clear reference to the application of the tentative agenda decision for leases with prepayments. Prepaid leases are predominant in our jurisdiction, and we have concerns regarding the application of the tentative agenda decision in such situations. As referred to above, para 87 does not distinguish between accruals and prepayments.

Consider the following scenario:

> A lessor has financial year ending 31 December. The lessor has a five-year non-cancellable lease from 1 January year 1 to 31 December year 5. Lease payments are due annually in advance on 1 January (ie: the lease payment for year 1 is due 1 January year 1, the lease payment for year 2 is due January 1 year 2 and so forth).
>
> The lease payment for year 1 is paid as agreed. During the first year the lessee experiences financial difficulties, and the lessor grants a rent concession for the lease payment for year 2.

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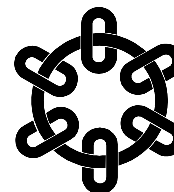


Our understanding is that a lease receivable to be accounted for under IFRS 9, is recognised when the lease payment is due, and that the lease payment for year 2 becomes a lease receivable on 1 January year 2. As we see it, this follows by analogy from IFRS 15 (see paragraph 106 and 108, IE199-200 and BC 325). The tentative agenda decision also implies that lease payments due are lease receivables.

Based on this understanding, if the rent concession is granted in December year 1, there is no lease receivable when the rent concession is granted and therefore no impairment loss or loss from de-recognition of a lease receivable. However, if the rent concession is granted in January year 2, after the lease payment for year 2 is due, application of the tentative agenda decisions implies that there will be a loss on derecognition of the lease receivable in year 2.

In the above scenario the accounting will be quite different depending on whether the rent concession for year 2, is granted on 30 December year 1 or 2 January year 2. We are not convinced that this is a reasonable outcome as we cannot see that the economic substance of the rent concession is any different whether the rent concession is granted 30 December or 2 January.

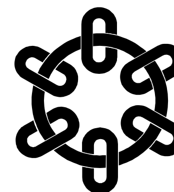
An alternative method could be to only consider the lease payments that are both due and recognised as revenue when the rent concession is granted under IFRS 9, while lease receivables with a corresponding pre-paid rent to be recognised as revenue in future periods, are included in the lease payments for the new lease under IFRS 16.87. In other words, this means that the lease receivable is adjusted by any corresponding pre-paid rent recognised before a credit loss is recorded.

In the appendix we have included a numerical example to illustrate our understanding of the application of the tentative agenda decision when a rent concession is granted in a pre-paid contract, and also illustrated our alternative approach described above on the same numerical example.

We would like to point out, that similar issues may arise in the context of IFRS 15 and IFRS 9 for non-cancellable contracts with customers requiring pre-payment, and where both a receivable and a contract liability is recognised when the pre-payment becomes due. It is not obvious how IFRS 15 and IFRS 9 interact if the customer breaches the contract due to financial difficulties, and the goods/services under the contract are not delivered.

Yours faithfully,

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



Appendix: Illustration

Background information:

- Lessor has a financial year ending 31 December
- Lessor enters into a five-year non-cancellable lease commencing 1 January year 1
- Lessor recognises lease revenue on a straight-line basis over the lease term
- Annual lease payments are 1200 and are due in advance on 1 January each year
- The lease payment for year 1 is paid as agreed 1 January year 1
- During year 1 the lessee experiences financial difficulties and the lessee does not pay the rent for year 2 within the due date 1 January year 2
- 31 January year 2 the lessor grants the following rent concession:
  - The rent for year 2 is forgiven entirely
  - The rent for year 3 is reduced to 600
  - The rent for year 4 and 5 is unchanged (still 1200)
- In year 2, immediately before the rent concession the lessor has recognised 100 in lease revenue for January, and recognised the following in the statement of financial position:
  - Lease receivable: 1200 (Dr)
  - Pre-paid rent: 1100 (Cr)

Application of the tentative agenda decision as we understand it:

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Lease revenue	1 200	1 060	1 047	1 047	1 047	5 400
Credit loss/loss on derecognition of lease receivable	-	- 1 200				- 1 200
P/L	1 200	- 140	1 047	1 047	1 047	4 200

Notes:

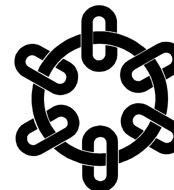
- A credit loss/derecognition loss is recognised of the lease receivable (1200)
- Lease payments for the new/modified lease are 4100 (ie: prepaid rent (1100), modified rent year 2 (0), modified rent year 3 (600), rent year 4 (1200) and year 5 (1200))
- Remaining lease term for the new lease is 47 months (11+3*12), monthly revenue is 87
- Revenue year 2: 100*1+87*11=1060, revenue year 3-5: 12*87=1047

Application of alternative method:

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Lease revenue	1 200	802	766	766	766	4 300
Credit loss/loss on derecognition of lease receivable	-	- 100				- 100
P/L	1 200	702	766	766	766	4 200

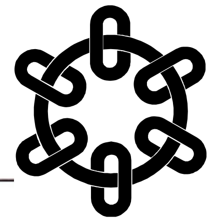
Notes:

- Pre-paid rent of 1100 is netted against lease receivable of 1200, and 100 is recognised as a credit loss/derecognition loss on the lease receivable related to already recognised revenue for January year 2.



- Lease payments for the new/modified lease is 3000 (year 2 (0), year 3 (600), year 4(1200), year 5(1200)
- Remaining lease term for the new lease is 47 months (11+3*12)
- Modified lease payments per month is 64 (3000/47)
- Revenue year 2: 100*1+11*64=802, revenue year 3-5: 12*64=766

Norsk RegnskapsStiftelse



30 June 2022

EFRAG
Email: commentletters@efrag.org

Dear Sir/Madam

Better information on intangibles – which is the best way to go?

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit comments on your discussion paper *Better information on intangibles – which is the best way to go?*

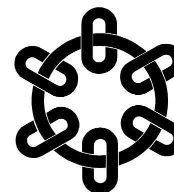
The Technical Committee has only briefly discussed the content of the DP in our meetings. However, together with EFRAG we organised an outreach event on 24 May for our constituents. In the following pages, we will summarise comments received during the meeting. NASB does not express any opinion on these comments. Nevertheless, we assume the comments may be useful for EFRAG in its work on this highly important topic.

The NASB acknowledges that a lot of time and resources are required to arrive at standards that address all issues raised in the discussion paper. We suggest that to divide the project into several projects with different timelines might be necessary. In order to gain insights from users, a project on improved disclosures for intangibles could be the first step.

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

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS



The outreach event of 24 May

The event was held as a physical meeting only, and all presentations and discussions were held in Norwegian. Close to 40 persons attended the meeting, which is a satisfactory participation-rate for such events in Norway. The participants represented mainly accounting firms, preparers, and academia; few users attended.

Didrik Thrane-Nielsen and Rasmus Sommer from EFRAG presented the discussion paper. We had also invited the head for group financial reporting of a large Norwegian financial institution. She presented her thoughts on the challenges for preparers related to accounting of intangibles. In our summary below, we include some of her prepared comments.

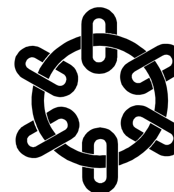
We encouraged the audience to comment during the meeting, and we received many good comments. Below we summarize these comments.

The audience was also asked to answer specific questions by the use of Slido. We understand that EFRAG have full access to the answers, and we have not included them in our summary. We also refer to EFRAG's summary from the meeting, which includes some viewpoints not included in our summary.

Prepared comments from a preparer

The preparer's presentation included some of her thoughts on the challenges related to accounting of intangibles, especially technology used for retail payments and savings in banks:

- In general, intangibles generated from IT-related project in one way or the other are important for financial institutions. This is due both to the significant need for modernisation of (old) core systems and by digital competition for the customers. In this landscape, intangibles raise many accounting issues and in lack of an updated standard, we spend a lot of time in assessing projects to assure appropriate application within IAS 38.
- Technology is important for banks to attract new customers and keep existing customers, and it is important to be first in the market with new/improved solutions. This requires speedy processes for the development of solutions. Such agile development projects have characteristics that are different from "traditional" development projects that go through the different phases, which seem to form the basis for the thinking in IAS 38.
- Apps are becoming increasingly important for banks, and these must be continuously improved. The apps are "never" completed. It can be difficult to distinguish between maintenance (including bug fixing) and development of new functionality.
- Many services are now in the cloud, which challenges the control requirement in the definition of assets.
- What is useful life for intangibles?



Comments from the audience

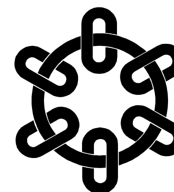
In the following, we summarize some of the comments received from the audience. We have sorted the comments under three headings following the structure of the discussion paper. However, some comments relate to several headings, but are included only once.

Issues with the current information

- In general, it seemed that the audience supported the view that current practice makes it difficult to compare entities that grow organically with those growing by means of acquisition
- IAS 38 is for the most part an R&D standard, other intangibles are hardly addressed
- Today, many users of financial statements may consider capitalised intangibles a red flag. This might be because few intangibles are capitalised, and capitalising intangibles is therefore considered as aggressive accounting.
- Companies are already today required to give additional information on intangibles when it is relevant information. Why don't they?
- Both current IAS 38 and EFRAG's discussion paper refer to *economic benefit* as a condition for recognition. However, this is a vague concept. Will any future cash inflow (or reduced outflow) be an economic benefit? Or must cash inflow be larger than cash outflow? Or must the cash inflow be large enough to generate a satisfactory return? Is this criterion the same or different from the Framework or other standards such as IAS 16?
- Intangibles is a very broad group of assets or resources that may only share one characteristic: the lack of physical substance. If regulated, it may be necessary to separate requirements based on characteristics such as function in the entity's business model, nature of the intangible asset or resource and likely several other relevant characteristics.

Recognition and measurement

- In chapter 3, EFRAG refer to "condition is met" as a threshold for recognition. It is probably hard to agree on conditions since companies and industries are very different
- The alternative "Costs are capitalised and fully impaired until the condition is met, at which point in time the impairment losses are reversed" will probably be inconsistent with the Framework and other standards
- Hard to distinguish development phase and maintenance phase, especially when comparing different industries and different business models.
- It might be hard to measure the cost of internally generated intangibles, including allocating costs to specific intangibles.
- It is common, and even planned, to have unsuccessful projects as part of the bigger process of developing a successful intangible. How should one deal with expenses related to unsuccessful projects? The distinction between normal and abnormal cost may pose difficulties.



Information

- Expenditures on R&D might be presented separately. The Primary Financial Statement project suggests a separate *investing* category in the statement of profit or loss. R&D might be a separate line within this category. Such a presentation may be challenging when using classification based on nature, but should work fine when using classification based on function or in mixed models (if this will be allowed). [We recognise that the investing category as currently described restricts such investments to those with a separate and individual cash flow. This will often not be the case for many intangibles.]
- Why not apply a management approach (as in IFRS 8) for deciding what information that should be disclosed? – Relevant information for management's decision making is probably also relevant information for the users.
- Information on intangibles is important, but intangibles in the balance sheet cause noise.
- If disclosing a value on intangibles, this value may depend on future expenditures. How should future expenditures be disclosed?
- There is commercial sensitive information that companies want not to disclose
- Due to the complexity of the matter, it may not be possible to develop a new/revised comprehensive standard within a reasonable time period that addresses all the issues raised in the discussion paper. An alternative approach may be to separate such an undertaking into a disclosure project (phase 1) first. At a later stage, based on stakeholder feedback on improved disclosures from phase 1, develop an improved recognition and measurement standard, if required (phase 2).
- The 80/20-rule: When requiring disclosures, it would probably be manageable to provide useful information on 80 % of the values without undue cost and effort, while it is cumbersome to provide information on the last 20 %.
- An indicator-approach: when accounting numbers show abnormal profit, the explanation might be intangibles that are not recognised as assets or not amortized. It could be a requirement for companies to explain abnormal profit, whether it relates to market conditions, intangibles or other, and if it is intangibles, provide disclosures on these intangibles.