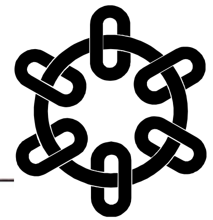
# Norsk RegnskapsStiftelse



7 March 2023

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

**IAS 12 Exposure Draft International Tax Reform—Pillar Two Model Rules**

We refer to the invitation to comment the *IAS 12 Exposure Draft International Tax Reform—Pillar Two Model Rules* published January 2023.

The Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) is supportive of the proposals in the Exposure Draft.

We question whether the exception implicitly scopes all top-up taxes within IAS 12, for all entities, and whether this needs to be made clearer.

Lastly, we would like to express a concern that the subject matter in this exposure draft illustrates that there may be more fundamental issues of concern related to IAS 12 in general. New and sophisticated tax schemes, like the Pillar Two Model Rules and the EU's measures for high energy prices (revenue caps and windfall tax) illustrates that IAS 12 is lacking in its objectives, definitions and scope. Had this issue surfaced a year ago, we question whether it would have given the IAS 12 standard more attention in the Boards Agenda process.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS

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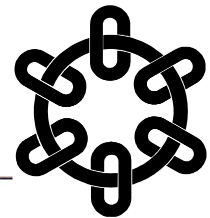
Norsk RegnskapsStiftelse



International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

23 July 2023

Dear Madam/Sir

**ED 2023-2 Amendments to the Classification and Measurement of Financial Instruments**

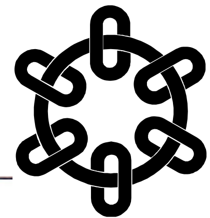
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) welcomes the opportunity to submit our views on the exposure draft "Amendments to the Classification and Measurement of Financial Instruments". Our comment letter is somewhat limited as we only provide our general and overall views on the direction of the proposal.

In general, NASB welcomes the IASB's ED and agrees with the proposed amendments to the classification and measurement of financial instruments.

Yours faithfully,

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

# Norsk RegnskapsStiftelse



27 October 2023

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

**Post-implementation Review IFRS 15 *Revenue from contracts with customers***
Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 15 Revenues from Contracts with Customers.*

Overall, we believe that IFRS 15 has achieved its objective, and that the core principles and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting.

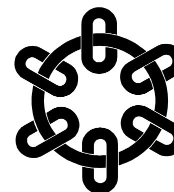
In a few areas we believe education material would be beneficial. This includes guidance on principal-agent, whether excise taxes should be included in the transaction price and accounting for connection fees (formerly regulated by IFRC 18). In these ares we observe diversity in practice. We also encourage the board to clarify if IFRS 15 should be applied when goods or services are sold within a corporate wrapper, and to make necessary amendments to the standard.

Our comments are enclosed in the appendix to this letter. We have focused on issues frequently arising in our territory.

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



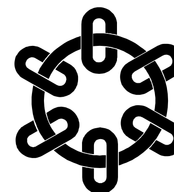
**Appendix**

| **Question 1—Overall assessment of IFRS 15**<br>(a) In your view, has IFRS 15 achieved its objective? Why or why not?<br>Please explain whether the core principle and the supporting five-step revenue recognition model provide a clear and suitable basis for revenue accounting decisions that result in useful information about an entity's revenue from contracts with customers.<br><br>If not, please explain what you think are the fundamental questions (fatal flaws) about the clarity and suitability of the core principle or the five-step revenue recognition model.<br><br>(b) Do you have any feedback on the understandability and accessibility of IFRS 15 that the IASB could consider:<br>(i) in developing future Standards; or<br>(ii) in assessing whether, and if so how, it could improve the understandability of IFRS 15 without changing its requirements or causing significant cost and disruption to entities already applying the Standard—for example, by providing education materials or flowcharts explaining the links between the requirements?<br><br>(c) What are the ongoing costs and benefits of applying the requirements in IFRS 15 and how significant are they? |
|---|

**Response to question 1(a)**
In general, we believe that IFRS 15 works well. The 5-step model provides a structured approach to assess customer contracts and we have not identified any fatal flaws based on our experience from the use of the standard in Norway.

We believe that IFRS 15 has resulted in more useful information to users of financial statements in most instances. Some industries had to change the pattern of revenue recognition due to IFRS 15, with mixed approval by the users (multi-client seismic and construction of apartments).

**Response to question 1(b)**
The implementation of IFRS 15 was challenging for certain industries. Recently IASB has provided very useful webinars on various topics, for example on Supplier Finance Arrangements. We believe such educational material available when implementing future Standards would be helpful for the users. In the future we would encourage the Board to ensure that useful guidance in Transition Resource Groups are formalised and archived in a way that makes it accessible.



**Response to question 1 (c)**
Certain industries are having continued costs of applying the requirements in IFRS. For example, significant resources are required in the Telecom industry to manage the reporting of the numerous customer contracts for small amounts but with multiple elements, of which some are based on estimates. As an example a sale of a handset may include accounting for replacement (swap) arrangements, financing components, insurance components, double hit issues due to ECL requirements of IFRS 9, principal-agent assessment when handset is sold through external channels and material rights with build-up of quota for data usage. Typically, the net timing effect from all these issues for multiple contract types will seldom be material compared to invoiced amounts on an overall basis. However, as it is challenging to prove and document that the impact is immaterial as required in IFRS 15, the Telecom companies in practice have to keep and update systems to account for all these effects.

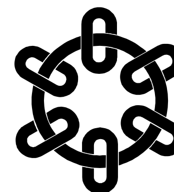
**Question 2—Identifying performance obligations in a contract**

**(a) Does IFRS 15 provide a clear and sufficient basis to identify performance obligations in a contract? If not, why not?**

Please describe fact patterns in which the requirements:
(i) are unclear or are applied inconsistently;
(ii) lead to outcomes that in your view do not reflect the underlying economic substance of the contract; or
(iii) lead to significant ongoing costs.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified? instruments.**



**Response to Question 2 (a)**

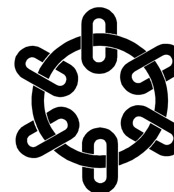
In general we believe that IFRS 15.22-15.30 provides a clear and sufficient basis to identify performance obligations in a contract.

We would like to point to the fact that IFRIC 18 *Transfers of Assets from customers* was superseded by IFRS 15. Judgement is needed in order to determine if connection fees received or transfers of assets from customers represent consideration for a separate performance obligation. Consequently, there are diversity in the accounting of connection fees and transfers of PPE from customers.

In our jurisdiction, utilities (or network operators providing services in respect of a utility) who are subject to regulation of prices charged to customers, are entitled under legislation to have the costs covered by the customer when connecting a new property to their network. This may take place in the form of physical assets installed by the customer or a developer and transferred to the utilities for use in its future provision of services. Or the utility may install the necessary connection and receive a connection fee at an amount specified (or capped) by regulation, typically based on cost plus a small margin. For rate regulated utilities, in contrast to network assets in general, assets related to connection of a new customer are typically not included in the capital base and in such cases it does not increase future regulated income.

Following the withdrawal of IFRIC 18 *Transfers of Assets from Customers* upon publication of IFRS 15, IFRS does not include specific guidance regarding such transactions. In making that determination under IFRS 15, it is necessary to determine if connection of a new customer to the network by investments in a connection asset represents the satisfaction of a performance obligation itself (resulting in recognition of revenue when the connection is made) or whether it is not distinct and need to be included in the future services provided by the total network, including the connection asset. The latter solution typically leads to assets and liabilities (deferred revenue) that are amortised symmetrically over a very long period (even if the original customer is expected to be replaced by another customer long before the asset is depreciated).

In summary, we observe that there is diversity in accounting for connection fees. Connection fees can be material, particularly in the statement of financial position where such amounts accumulate as assets and deferred revenue (as the amortization is over very long period) if not deemed a separate performance obligation.



**Response to question 2 (b)**
We assess the principles in IFRS 15 to be clear. Nevertheless, we believe that educational materials could be helpful highlighting the assessments according to the standard, and we suggest IASB to provide additional illustrative examples of fact patterns related to identifying performance obligations that have posed application challenges, especially in areas commented on above and earlier regulated by IFRIC 18. In particular, it could be useful to provide guidance on how possible and uncertain indirect future effects on subsequent deliveries should be assessed, in particular when there is no material right and future rates are identical for those that pay for a new connection and those that are already connected.

**Question 3—Determining the transaction price**

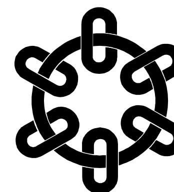
**(a) Does IFRS 15 provide a clear and sufficient basis to determine the transaction price in a contract—in particular, in relation to accounting for consideration payable to a customer? If not, why not?**

Please describe fact patterns in which the requirements on how to account for incentives paid by an agent to the end customer or for negative net consideration from a contract (see Spotlight 3) are unclear or are applied inconsistently.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified?**

**Response to question 3**
We would like to draw the attention to the issue of certain taxes that are levied for the purpose of disincentivizing consumption (certain sales taxes, 'sin' taxes, environmental taxes etc.) and whether such taxes should be included in the transaction price. We have observed diversity in the application of IFRS 15 in this respect. We are of the understanding that the guidance to be used is linked to the assessment for principal vs. agent. We have therefor provided our detailed comments on this under question 5.



**Question 4—Determining when to recognise revenue**

**(a) Does IFRS 15 provide a clear and sufficient basis to determine when to recognise revenue? If not, why not?**
Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the criteria for recognising revenue over time (see Spotlight 4).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified?**

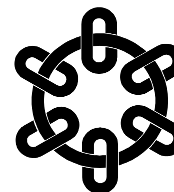
**Response to question 4**
In general, we find that the standard provides a clear basis to determine when to recognise revenue. However, we have an observation related to companies in the construction industry using a progress method to recognise revenue over time.

<u>Costs to fulfil a contract</u>

We experienced that the construction industry found it challenging to interpret how to determine the appropriate progress method for revenues in IFRS 15 at the time of implementation. While no preferable measure of progress is recommended, the IASB states that conceptually an output measure is the most faithful depiction of an entity's performance [IFRS 15.BC164]. Further, the contract cost chapter is organised to first identify contract costs, then it sets out criteria for what contract costs can be capitalised and what shall be expensed, and finally the chapter describes how capitalised contract costs are amortised. This is similar to the structure in the previous IAS 11 Construction contracts.

When IFRIC issued its AD related to this topic in 2019, it became clear that contract costs shall generally be expensed according to IFRS 15.98(c), which states costs related to satisfied (or partially satisfied) performance obligations are expensed. IFRIC further concluded that IFRS provide an adequate basis for determining how to recognise costs incurred in fulfilling a contract and decided not to add this matter to its standard-setting agenda.

We do not agree IFRS 15.98(c) is clear in its wording. If an output method has been identified as the best measure on how goods and services are transferred to the customer, the output method is a measure of how performance obligations are satisfied, i.e. how control has been transferred to the customer. In our understanding IFRS 15.98(c) may well be understood as allowing costs to be expensed according to the same progress method, so both revenues and



expenses reflect how performance obligations are satisfied. In our opinion, the standard does not give a clear explanation why IFRS 15.98(c) means generally all incurred contract costs (with a few exceptions) relate to “satisfied performance obligations” or “past performance” by default and shall be expensed as incurred. In practice we are of the opinion that only a cost to cost progress measure is available following the AD.

Uninstalled materials

Further, we observe that the solution in IFRS 15 for “unistalled materials” in IFRS 15.B19(b) and IFRS 15.IE95 of recognising revenue and cost at the same amount (with zero profit) gives an accounting impact that contradicts the assessment of performance obligations and allocating transaction prices. The IFRS 15 solution to this issue is something we have not observed in other parts of IFRS.

**(b) Do you have any suggestions for resolving the matters you have identified?**

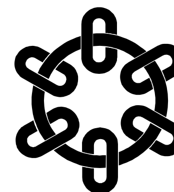
Costs to fulfil a contract:

We believe that relevant text and the illustrative example in the agenda decision issued by IFRIC in March 2019 should be embedded in IFRS 15. This would clarify the principle set out in the agenda decision that contract costs are generally expensed. Determining the progress method is a crucial accounting judgment for construction companies, and we are not convinced that IFRS 15 gives an adequate basis for determining how contract costs shall be expensed.

We suggest IFRS 15 should be made clearer in order to help the reader to be able to make this conclusion without also having to read the IFRIC agenda decisions.

Uninstalled materials

We currently do not have a solution on how to solve this issue.



**Question 5—Principal versus agent considerations**

**(a) Does IFRS 15 provide a clear and sufficient basis to determine whether an entity is a principal or an agent? If not, why not?**

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to the concept of control and related indicators (see Spotlight 5).

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified?**

**Response to question 5**

The determination of whether the entity is a principal or an agent, is rather difficult and judgmental, and the requirements may be used inconsistently.

Below we provide commentary on various areas where we have observed diversity in practice regarding the principal/agent assessments.

Control assessment vs. indicators

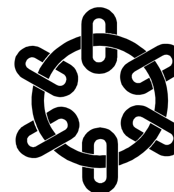
Assessing whether the entity is principal or agent applying IFRS 15.B34-38 is in many cases difficult when transactions are complex. In our view, the control assessment further explained in IFRS 15.33 has not been given enough weight in the text and relevant examples provided for principal-agent assessments. We have observed that the indicators in IFRS 15.B37 are often used in the assessment rather than the criteria in 15.33.

Accounting for certain sales taxes on fuel, sugar, and alcohol etc.

We understand the the principal-agent guidance should also be used to identify whether the collection of certain sales taxes should be included in the transaction price or no.

We have observed that the current guidance in IFRS 15 for the gross/net presentation for certain sales taxes, in particular excise taxes, leads to diversity in practice. For example, companies selling alcoholic beverages present revenues both gross and net of alcohol taxes even if the sales are in the same jurisdiction. The amounts are very material.

Sales taxes that are 'collected on behalf of third parties' (para 47) are not included in the transaction price. The identification and assessment of various excise taxes may be complex for entities operating in various jurisdictions, and Topic 606 in US GAAP was amended to



provide a policy choice to always exclude sales taxes, including some excise taxes, from the transaction price.

Examples include certain luxury taxes, alcohol taxes and fuel taxes. Typically, the tax is levied late in the distribution chain (after production or import, but before the sale take place). In the EECS/1207-02 (2004): *Excise tax on fuel*, there is an expectation that excise taxes incurred when the tax is imposed before the sale transaction take place should be presented gross.

The guidance in IFRS 15 that is relevant for the gross/net presentation is the principal-agent consideration. Typically, B37 seems to be used as indicators for the tax, but as this paragraph only provides indicators for control of the underlying asset, there seem to be different interpretations on how this should be assessed for the excise tax. Some issuers seem to put more weight on the substance and the rationale behind the excise tax itself. When the rationale is to disincentivise the consumption of certain goods this is used as a rationale to argue that the tax is collected on behalf of the government, leading to net presentation according to para 47. These issuers argue that the intention is not to increase the cost of production.

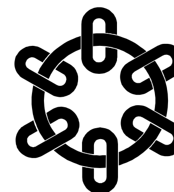
**Response to question 5b**

Control assessment vs. indicators

We believe including text from BC 385D and H should be included in the standard to highlight the importance of the control assessment and how the indicators in B37 are meant to be used.

Accounting for sales tax, sugar- and alcohol tax etc

We believe that IASB could provide guidance in the form of examples to clarify whether it is the control model in B35-B37 that should be used to classify excise taxes gross or net, or whether also the substance or rationale for the tax should be considered based on para 47.



**Question 6—Licensing**

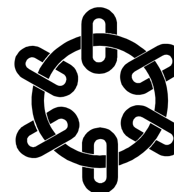
**(a) Does IFRS 15 provide a clear and sufficient basis for accounting for contracts involving licences? If not, why not?**

Please describe fact patterns in which the requirements are unclear or are applied inconsistently—in particular, in relation to matters described in Spotlight 6.

If diversity in application exists, please explain and provide supporting evidence about how pervasive the diversity is and explain what causes it. Please also explain how the diversity affects entities' financial statements and the usefulness of the resulting information to users of financial statements.

**(b) Do you have any suggestions for resolving the matters you have identified?**

**Response to question 6**
No comments.



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**Question 7—Disclosure requirements**

**(a) Do the disclosure requirements in IFRS 15 result in entities providing useful information to users of financial statements? Why or why not?**

Please identify any disclosures that are particularly useful to users of financial statements and explain why. Please also identify any disclosures that do not provide useful information and explain why the information is not useful.

**(b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?**

Please explain why meeting the requirements is costly and whether the costs are likely to remain high over the long term.

**(c) Have you observed significant variation in the quality of disclosed revenue information? If so, what in your view causes such variation and what steps, if any, could the IASB take to improve the quality of the information provided?**

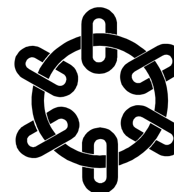
**Response to question 7a**

In our opinion, the disclosure requirements in IFRS 15 result in useful information to users of financial statements. We have not identified any disclosure requirements that do not potentially provide useful information.

**(b) Do any disclosure requirements in IFRS 15 give rise to significant ongoing costs?**

All information needed to comply with certain of IFRS 15's disclosure requirements was not readily available from accounting systems prior to implementation of the Standard.

There are still ongoing costs in order to make IFRS 15 assessments and make changes to IT systems whenever a new type of revenue is introduced, especially in the Telecom industry. However, most costs are non-recurring once changes have been implemented.

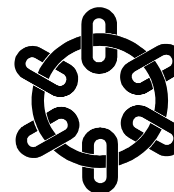


**Question 8—Transition requirements**

**(a) Did the transition requirements work as the IASB intended? Why or why not?**

Please explain:
(i) whether entities applied the modified retrospective method or the practical expedients and why; and
(ii) whether the transition requirements in IFRS 15 achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements.

**Response to question 8 (a)**
In our experience, the modified retrospective method was most commonly used. We have noted significant efforts in order to manage the implementation in the Telecom industry without any significant impact on reported figures. The implementation was also challenging for the construction industry due to certain issues relating to the progress method and recognition of revenues and costs as described as a response to question 4.



**Question 9—Applying IFRS 15 with other IFRS Accounting Standards**

**(a) Is it clear how to apply the requirements in IFRS 15 with the requirements in other IFRS Accounting Standards? If not, why not?**

Please describe and provide supporting evidence about fact patterns in which it is unclear how to apply IFRS 15 with the requirements of other IFRS Accounting Standards, how pervasive the fact patterns are, what causes the ambiguity and how that ambiguity affects entities' financial statements and the usefulness of the resulting information to users of financial statements. The IASB is particularly interested in your experience with the matters described in Spotlights 9.1–9.3.

**(b) Do you have any suggestions for resolving the matters you have identified?**

**Response to question 9(a)**

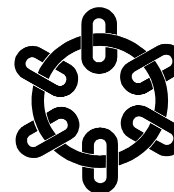
IFRS 9 - Expected credit losses and "double hit"

According to IFRS 15.64, the promised amount of consideration from a customer shall be adjusted for significant financing components, and the entity shall use a discount rate that reflects the credit characteristics of the party receiving financing. As such, a financing component is calculated that takes into account the credit risk. The financing component is deducted from revenues and presented as financial income over the financing period. At the same time, IFRS 9.5.5.15a) requires a provision for lifetime expected credit losses for the trade receivable to be recognised, which will be presented as operating expense. This results in credit losses being deducted from operating profit twice (double hit) when interest income is presented as part of net finance.

IFRS 10 - Corporate wrapper – real estate

We refer to IFRIC's consideration of Sale of a single asset entity containing real estate. There is a need to clarify whether a sale of real estate or other assets in a corporate wrapper should be accounted for as a sale of asset or a sale of a company. A sale accounted for using IFRS 15 versus IFRS 10 gives material differences in P&L as applying IFRS 10 results in a net gain (or loss) in P&L whereas transactions under IFRS 15 results in gross revenue and expense.

Further, cash flows related to real estate in a wrapper sold as part of ordinary operations are presented under investing activities in the statement of cash flows in accordance with IAS 7. Changes in "inventories" (real estate portfolio) will, however, be presented under cash flow from operating activities. The presentation does not necessarily reflect the substance of an entity's activity.



**Response to question 9(b)**

IFRS 9 - Expected credit losses and "double hit"

We currently do not have a suggestion on how to resolve the matter.

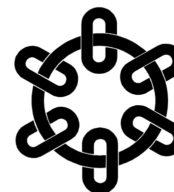
IFRS 10 - Corporate wrapper – real estate

In respect of sales within a corporate wrapper, if a wider project is not undertaken, we believe it would be helpful to include additional guidance in IFRS 15. The diversity in accounting for these transactions will cease if the accounting treatment depends on the sale of business versus sale of asset. Guidance in IFRS 15 will be appreciated, making it clear that when goods or services are sold within a corporate wrapper IFRS 15 should be applied, other than when the entity being sold meets the definition of a business.

**Question 10—Convergence with Topic 606 (a) How important is retaining the current level of convergence between IFRS 15 and Topic 606 to you and why?**

**Response to question 10**

We generally believe it is important to maintain the current level of convergence with Topic 606 (a) and to not increase the differences. Companies in Norway have competitors using US GAAP, and convergence ensures that investors find comparable information for both US GAAP and IFRS companies.



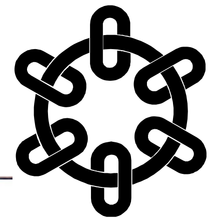
**Question 11—Other matters**
**(a) Are there any further matters that you think the IASB should examine as part of the post-implementation review of IFRS 15? If yes, what are those matters and why should they be examined?**
Please explain why those matters should be considered in the context of this post-implementation review and the pervasiveness of any matter raised.
Please provide examples and supporting evidence

**Response to question 11**

Presentation of amortisation of capitalised contract costs (costs to obtain & certain costs to fulfil)
We have noted that the presentation of amortisation of contract costs varies in practice. Some entities include the amortisations using the original nature of the cost, whereas others present it as amortisation. This matter has been identified in the telecom industry, where certain up-front customer costs are capitalised and amortised. The divergence in practice makes it difficult to compare the results between companies. We suggest that guidance is provided to clarify where to present this cost when amortised to ensure consistency, either as an amendment to IFRS 15 or as part of the IAS 1 Primary Financial Statements project.

This issue may not be as relevant for preparers that use then functional presentation of the income statement. However, most Norwegian companies use the "by nature" presentation. We observe that some issues seem to be adressed with a functional presentation perspective, and remind IASB that both perspectives need to be taken into consideration when determining if the standard is clear enough.

# Norsk RegnskapsStiftelse



11 December 2023

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

**Annual Improvements – Volume 11**
Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to ED 2023/1 *Annual Improvements – Volume 11*.

We welcome the proposals that seek to correct omissions, inconsistencies and other minor adjustments to increase the clarity of the standards, and are in general supportive of those.

However, in our opinion, the change proposed to IFRS 9 for the derecognition of lease liabilities, does not provide the necessary clarity and requires further deliberations by the IASB. The interaction between IFRS 16 and IFRS 9 for an agreed reduction in lease payments seems to require a more thorough regulation. This applies in particular to how to distinguish between a lease modification and an extinguishment or partial distinguishment of a lease liability. It is currently difficult to understand why a reduction in payments does not qualify for the treatment in IFRS 16 IE 7 Example 19, which illustrates the application of the requirements in IFRS 16.46, which are further described in BC203(b). Moreover, as this adjustment seem to cover the same basic issue as the one that gave rise to the IFRS 16 COVID-19 temporary exemptions, we are not convinced that the accounting issue to get to concessions over profit or loss for the lessee was only due to an oversight in IFRS 9. We are concerned that by adding the reference to IFRS 9 3.3.3, the IASB introduces a rule that is in conflict with the lease modification rules in IFRS 16 and the interaction between the two standards continues to be in a perceived conflict with each other.

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

Yours faithfully,

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