Norsk RegnskapsStiftelse

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

Oslo, November 7 2008

Dear Sir/Madam

ED Improvements to IFRSs

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) appreciates the opportunity to comment on the Exposure Draft Improvements to IFRSs.

Our detailed comments are set out in the appendix to this letter.

Yours faithfully
Norsk RegnskapsStiftelse

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Chairman of the Technical Committee on IFRS

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Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

Topic 1: IFRS 2 Share based payment
We do agree with the proposed amendment.

Topic 2: IFRS 5 Non-current Assets Held for sale and Discontinued operations
We do agree with the proposed amendment. However, we believe the last sentence in the proposed 5A (the reference to IAS 1) should be deleted since it is redundant. A reference to IAS 1 could raise doubt about the understanding and implication of IAS 1 when no such reference is made in other standards.

Topic 3: IFRS 8 Operating segments
We do agree with the proposed amendment. However, we do believe the clarification could have been made by amending the Standard text as well. That is, the guidance in question is needed because the wording in the Standard lacks clarity. It is unclear to us why not the Board attempts to clarify the meaning of the Standard by addressing the Standard itself.

Topic 4: IAS 7 Statement of Cash Flows
We do not agree with the proposed amendment.

We are not convinced that the determining factor separating operating activities and investing activities for the purpose of a cash flow analysis necessarily should be corresponding with the asset recognition criteria. That is, there may be situations in which an asset is recognized, but the cash flows are operating in nature. For instance, exploration costs incurred in the oil and gas industry may be capitalized under the so-called successful efforts method, but may not end up qualifying as an asset. According to the proposed amendment, it seems to us that the costs incurred during exploration nevertheless would be considered investing cash flows. Also, in some cases the costs incurred in investing activities would under the proposed amendment be considered operating cash flows. For instance, under IFRS 3 (R), acquisition costs are to be expensed. To consider such costs operating may not be meaningful.

We believe this proposal needs further consideration, and suggest that it is addressed as part of the joint project on Financial Statement Presentation.

Topic 5: IAS 18:Revenue
See answer to question 3 below.

Topic 6: IAS 36 Impairment of Assets
We do agree with the proposed amendment.

Topic 7: IAS 38 Intangible Assets
We do agree with the proposed amendments.

Topic 8: IAS 39 Financial Instruments: Recognition and Measurement

IAS 39.2(g)
In regard to the scope of IAS 39 related to subsidiaries or entities that are to become subsidiaries, it is our understanding that IAS 39.2(a) scopes out derivatives that are equity instruments in the subsidiary and IAS 39.2(g) scopes out contracts to buy (a "to become" subsidiary) or to sell a current subsidiary.

The board are now proposing to amend IAS 39.2(g) such that only firm commitments to buy a "to become" subsidiary or to sell a current subsidiary are scoped out of IAS 39 through paragraph 2(g).

A transaction to buy or sell an entity can be structured in a number of ways including forwards and options with fixed strikes or with strikes represented by formulas that take account of changing conditions bout before or after change of control (after change of control typically in the form of contingent considerations (earn-outs).

Contingent considerations that do not fulfil the definition of an equity instrument in the entity are (after IFRS 3R) within the scope of IAS 39.

It is not clear to us what the principle is behind only excluding forward contracts that are firm commitments and not other structures that economically are identically (but structured as options) or very similar (includes minor adjustments of prices before change of control).

We understand that the scope consideration is to be made upon initial recognition of the derivative contract. We question if the proposed wording might create scope consideration issues as it might not be clear at initial recognition which forward (or indeed option) transactions that might eventually lead to a business combination.

Initial recognition of a business combination is at fair value. We question if it would not be conceptually cleaner to delete the scope exclusion in IAS 39.2(g) all together. We recognise that this might be a more wide reaching amendment that should not be made as part of an annual improvement project.

We do not agree that the proposed amendment of IAS 39.2(g) should be made effective without a further clarification of the underlying principle of the scope exemption.

IAS 39.11A
We do not support the change suggested to IAS 39.11A. We support that the fair value option in IAS 39.11A should apply both to financial and non-financial host contracts. We believe that the Boards rationale for permitting the fair value option for financial contracts with embedded derivatives applies equally well to non-financial contracts with embedded derivatives.

The suggested changes would limit the scope of the fair value option in IAS 39.11A. We are only aware that IAS 39.11A have been applied, or considered applied, to contracts that would have fallen within the scope of IAS 39 through paragraph 5 and 6 short for the own use exemption. We are not aware that any entities have applied the fair value option in IAS 39.11A to non-commodity contracts or in any way that might be considered an abuse. Thus we do not see a need for this proposed change that goes in the opposite direction to the long term solution for financial contracts suggested in the discussion paper on reducing complexity.

We have as a part of our response to the discussion paper on reducing complexity suggested to make the own use exemption optional (as is currently the situation in US-GAAP). An option on the application of the own use exemption would be a more principle based solution for the entities that we currently see using, or considering using, the fair value option in IAS 39.11A. We do not support changing IAS 39.11A before a change has been made to the own use exemption.

We do observe that IASB and FASB are now fast-tracking the effort on reducing complexity in reporting financial instruments. If the board wants to amend IAS 39.11A, we recommend that it is done as a part of that process together with our proposed amendments to the own use exemption.

IAS 39.97 and IAS 39.100

We do support these minor clarifications in the standard. We do not expect these clarifications to change existing practice.

IAS 39.AG33(d)

We do support the idea of clarifying the understanding of "economic environment" in determining whether a currency is commonly used in contracts to buy or sell non-financial items; hence with a likely impact of reducing the number of foreign currency embedded derivatives that are to be separated from host contracts that are not financial instruments. We do also see the need to keep some limits to avoid entities circumventing the fundamental principle in IAS 39 that all derivatives are to be recognised and measured at fair value. We do however have some concerns with the approach in the current standard, and which is brought forward in the proposed amendment, of connecting the definition of closely related to the functional currency analysis of the contract counterparty. It is not often found that all the considerations that go into determining the correct functional currency of the counterparty are publicly available when considering whether a non-financial contract contains an embedded currency derivative. We would also draw the Boards attention to the currencies listed in BC 19 and make the question as to whether the characteristics of a functional currency in IAS 21 The Effects of Changes in Foreign Exchange Rates would match these examples. Based on our reading and understanding we do believe there could be inconsistencies between the wording in BC 19 and the characteristics of a functional currency described in IAS 21.9.

Embedding a currency derivative in an insurance contract or a host contract that is not a financial instrument is often a costly and inflexible way of creating an intended currency position.

We propose a more far reaching amendment of IAS 39.AG33(d). Embedded foreign currency derivative should be regarded not closely related to the host contract only in case they are leveraged, contain option features, or lacks a business rationale related to the host contract.

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We do agree with the proposed transitional provisions and effective dates proposed. We believe that the reason for not to include an effective date and transitional provisions in the context of the proposed amendments to IFRS 8 and IAS 18 is that these two amendments deal with literature not part of the standards (but rather basis for conclusions (IFRS 8) and appendix (IAS 18)). However, it is not clear to us how an entity should adopt these amendments (in cases where the amendments effectively require a change in policy). Therefore we urge the Board to clarify whether these amendments should be adopted by retrospective application or not.

We do not support all the proposed amendments to IAS 39. However to the extent that the board do proceeds with all the amendments, we recommend that it is clarified that the amendments in IAS 39.2(g), 11A, 97, 100 and AG33(d) applies prospectively to transactions and hedging relationship entered into after 1 January 2010.

Question 3

The Board proposes to include in the Appendix of IAS 18 Revenue guidance on determining whether an entity is acting as a principal or as an agent. What indicators, if any, other than those considered by the Board should be included in the guidance proposed?

We welcome further clarification on this issue, but do believe other indicators could be included as well. Many entities have applied EITF 99-19 in considering whether an entity is acting as principal or agent under IFRS and we believe the appendix should be extended to include all the indicators listed in EITF 99-19. We also believe a clarification regarding the term "individually or in combination" is needed. We would propose to change the wording to be more in line with the following *"none of the indicators should be considered presumptive or determinative; however, the relative strength of each indicator should be considered."* (extract from EITF 99-19). Furthermore, adding guidance on the relative strength of the indicators, along the lines in EITF 99-19, should be considered.