Norsk RegnskapsStiftelse

28 June 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir or Madam

Re: Exposure Draft ED/2013/3 Financial Instruments: Expected Credit Losses

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Financial Instruments: Expected Credit Losses*.

As we have stated in previous comments, we support the Board's initiative to replace the current incurred loss approach with an expected loss approach. We believe the incurred loss approach fails to reflect the underlying economic substance of financial assets by allowing for revenue recognition and measurement that is not reflecting the inherent credit loss expectations in the contractual cash flows.

Our comments
We do not support the approaches proposed by the Board in this ED. We believe that amortised cost should be a method of integrated measurement and thus believe it is a mistake to introduce the use of two different interest rates to calculate an amount defined as amortised cost.

We believe that the principle of an expected cash flow based amortised cost measure was adequately presented in the 2009 ED and recommend the Board to continue developing that approach.

We acknowledge that the Board has tried to incorporate comments on operational challenges related to the 2009 exposure draft on credit losses; however we regard the rule based simplifications proposed by the Board to be an inferior solution.

We do not support the proposed solutions because in our opinion they override and disguise the principle of an expected cash flow based amortised cost measure. By requiring day one losses and arbitrary bright lines the Board enters into a rule based standard setting that fails to provide faithful representations of the economic phenomena of the relevant instruments. In our view the starting point of a standard (and its default solution) should always be a principle which is soundly based on economic theory and the conceptual framework. If need be, the standard may contain stated acceptable deviations from that main principle in order to facilitate its application by the preparers, but a standard should not require such deviations.

We believe that many of the arguments brought up against the 2009 ED are based on the assumption that amortised cost will be applied to instruments and situations for which this measurement model is not intended. That is, we are concerned that the changes that are

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proposed to make the measurement model practicable (cost effective to apply) is solving a problem caused by possible abuse of the model. We believe the arguments being presented for the separation of the measurement of impairment from the calculation of the amortised cost are driven by failures in the understanding of when and for which circumstances amortised cost should be applied.

Information about expected cash flows are cost effective to provide and thus apply when expected cash flows can be derived from statistical sources, and / or can be assumed to coincide with the contractual cash flows. The costs of providing expected cash flows are generally acceptable when expected cash flows are close to contractual cash flows and when the expected cash flow is derived from statistical data. However if, and when, cash flow data is to be individually assessed for each financial instrument, then the data set required to calculate amortised cost becomes more expensive while at the same time it merges with the data set needed to measure fair value.

Our understanding of the conclusion of the Board is that amortised cost is the most relevant measurement attribute when the cash flow characteristics of the financial instrument are such that the cash flows represent solely payments of principal and interest on the principal amount outstanding and the instrument is held to collect contractual cash flows.

The cost and complexity of measuring amortised cost increase significantly when it has to be calculated based upon an individual assessment of the cash flows that are significantly deviating from the contractual cash flows. However, when the expected cash flows as determined on an instrument by instrument level deviate significantly from the contractual cash flows it is no longer a compatible assumption that the instrument is held to collect contractual cash flows.

Thus, we conclude that an integrated expected cash flow based amortised cost measure can be calculated in a cost efficient manner when expectations are based upon statistics. Moreover we conclude that amortised cost is not to be applied to complex cash flows or cash flows of instruments where it is individually identified that the expected cash flows deviate from the contractual cash flow and thus the instrument cannot reasonably be held to collect contractually cash flows. Thus, we do not see a need to abandon the 2009 ED and strongly disagree with the concept of rule based deviations from the principle of amortised cost.

Our recommendation
We encourage you to produce a new, principle based draft along the lines of the 2009 ED, focusing on helping the preparers understand how this can be best implemented in practice by illustrative examples.

Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

CC: EFRAG