NORSK REGNSKAPSSTIFTELSE

International Accounting Standards Board

30 Cannon Street,
London EC4M 6XH
United Kingdom

16. September 2002

Dear Sir David,

Re: Comments on ED of Proposed Improvements to International Accounting Standards

General remarks

The following is the comments of the Norwegian Accounting Standards Board (NASB) on the Exposure Draft of Proposed Improvements to International Accounting Standards (the Improvement Project). The proposed changes are voluminous, and the NASB has been obliged to concentrate our discussions to some of the standards.

Although we will in general commend the Board for the outcome of the efforts invested in the Improvement Project, we feel that the objectives and limitations of the project have not been sufficiently defined. The removal of inconsistencies, the introduction of uniform terminology etc. are natural ingredients of such project. However, the introduction of material changes is not an indispensable ingredient. It is our impression that there are too many material changes in the project, which could preferably have been run as separate projects. Historically changes in accounting practice come about gradually, and the fact that IFRS will have a wider use in the years to come, is not a reason for impatience. It is also our impression that some of the material changes have not been justified in the basis for conclusions.

In our opinion there ought to have been a limitation to the project that no new differences to US GAAP should be created. We will not express the view that US GAAP solutions should be replicated whenever an IFRS is revised. We think, however, that a choice of a solution different from the US GAAP solution should be highlighted and discussed thoroughly. Such choices therefore should have been defined as being outside the improvement project. We have not examined all the proposed changes in order to identify deviations from US GAAP, but we have observed some. As a general statement we declare disagreement with any proposed change (in the improvement project), which create a difference between IAS/IFRS and US GAAP where no there was no difference before.

IAS 1 Presentation of Financial Statements

Comments to specific questions

Question 1
Do you agree with the proposed approach regarding departure from a requirement of an International Financial Reporting Standard or an Interpretation of an International Financial Reporting Standard to achieve a fair presentation?

We are partly in favour of the proposed amendment, but we are confused about the content of par. 15.

Presently, a TFV override is not allowed for Norwegian enterprises. A common view among Norwegian experts is that loyal subjection to high quality rules will result in financial statements that achieve a fair presentation. Therefore we support the initial paragraphs of the overall considerations, and to the extent that the selected new wording makes departure from standards more unlikely than before the changes, we are in favour of them.

When it comes to par. 13-15 we are not convinced about the logic. Compliance with IFRS requires a fair presentation, and if a fair presentation requires a departure from a standard, this must be equally the case irrespective of other relevant regulation. Consequently, in the event that a national regulation prohibits departure from IFRS, and the departure is necessary for the fair presentation for a particular enterprise, the enterprise subject to the regulation simply cannot comply with the IFRS.

Question 2
Do you agree with prohibiting the presentation of items of income and expense as "extraordinary items" in the income statement and the notes?

Yes.

Questions 3 and 4
(on the classification of liabilities as current or non-current)

The liquidity view of classification of liabilities is not in line with established practice in Norway. However, once the liquidity view is chosen, which is already the case with the present IAS 1, we have no objection to amendments that yield a better consistence with other standards and the Framework. Referring to our initial comment, we take it for granted that the proposed changes do not create new differences to US GAAP.

Question 5
Do you agree that an entity should disclose the judgments made by management in applying the accounting policies that have the most significant effect on the amounts of items recognised in the financial statements?

Generally, we are in favour of disclosure of management's accounting judgments. However, the proposed paragraph is so generally expressed, that it will be difficult both to practice and to enforce. We think that such requirement should be developed more before being part of IFRS.

Question 6
Do you agree that an entity should disclose key assumptions about the future, and other sources of measurement uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year?

We are generally in favour, but against the proposed text for the same reason as in our answer to Q 5.

Comments on other changes

<u>Paragraph 2</u>. The wording of the paragraph has been changed as compared to the wording in the existing IAS 1, without any explanatory comments. In particular we note that the last sentence of the paragraph has been deleted. The present text is: "This Standard applies equally to the financial statements of an individual enterprise and to consolidated financial statements for a

group of enterprises. However, it does nor preclude the presentation of consolidated financial statements complying with International Accounting Standards and financial statements of the parent company under national requirements within the same document, (…).” This text is replaced by: “When a group of entities exists, this Standard applies equally to the separate financial statement of a member of a group and to the consolidated financial statements for the group, (…).”

A reasonable interpretation of the new wording and the deletion is that for group accounts to comply with IFRS, adjacent separate accounts presented together with them must also comply with IFRS. If this were the intention, it would be a major step, which has to be introduced in a more transparent manner. We think that the amendments of paragraph 2 need clarification.

Paragraph 21. What is now stated in this paragraph is not a description of accrual accounting, but rather an ideological phrase. As it is, the content of paragraphs 20 and 21 is nil, because it is already clear that one shall follow recognition and measurement rules of the IFRS, with or without the name “accrual accounting” attached to it. We think that the present wording of this paragraph should be retained. If necessary, one might add to the paragraph that accrual accounting is the rule whenever a specific standard does not describe a specific solution (which, of course, may deviate from traditional accrual accounting).

Relationship to IAS 8. Generally, we think that the IASB has done a very good job in rearranging IAS 8. However, the “division of labour” between IAS 1 and IAS 8 is not quite clear. All rules, which govern accounting policies, have been grouped into IAS 8, while all rules, which govern the income statement, have been grouped into IAS 1. However, disclosure requirements on accounting policies are partly in IAS 1 (par. 103-109) and partly in IAS 8 (e.g. par. 23). In our opinion, IAS 8 could preferably have been integrated into IAS 1.

IAS 16 Property, plant and equipment

Comments to specific questions

Question 1
Do you agree that all exchanges of items of property, plant and equipment should be measured at fair value, except when the fair value of neither of the assets can be determined reliably?

and

Question 2
Do you agree that all exchanges of intangible assets should be measured at fair value, except when the fair value of neither of the assets exchanged can be determined reliably?

Present IAS rules for measuring exchanges of similar assets, i.e. IAS 16.22, are incorporated in existing N GAAP. In the Norwegian context, these rules have primarily been influential in the way they govern the accounting for creation of joint ventures. The NASB acknowledge that the application of these rules may sometimes be difficult, especially because the concept of ”similar assets” is somewhat equivocal. However, we are not convinced that there is good reason to throw them away at this occasion. It is our understanding that present IAS is mostly in harmony with US GAAP on this point, and that the proposed amendment will create a difference where there was almost none before. Therefore we would recommend that any amendment of the rules for transaction measurement await a joint FASB/IASB initiative.

If the IASB maintains its position to change the rules now, we will ask you to reconsider the wording of paragraph 21A. The first sentence is about exchange of similar assets, and so is presumably the second sentence. However, the problem of determining a reliable estimate of the fair value of an asset is not a problem, which is particular for exchanges of similar assets. Rather we would claim that there is a potential measurement problem in all non-monetary transaction. Therefore, 21A should not mention similar assets at all.

The NASB would recommend a redrafting of the chapter of initial measurement in IAS 16 such that non-monetary transactions are treated consequently under one heading. Non-monetary transactions would then encompass both the giving up of non-monetary assets (now mentioned under the heading of exchanges of assets) and the acceptance of non-monetary liabilities, e.g. costs to dismantle and remove an asset, mentioned in paragraph 20A and B. We will revert to this idea under ”other comments” below.

Question 3
Do you agree that depreciation of an item of property, plant and equipment should not cease when it becomes temporarily idle or is retired from active use and held for disposal (see paragraph 59)?

The content of your proposal is in line with existing N GAAP. The NASB would think that it follows from the wording in paragraph 41: ”The depreciation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity.” The amended paragraph 59 therefore may be superfluous. As a practical reminder it may still have a function, but then it should not be placed in the chapter on retirements and disposals but rather in the chapter on depreciation. For accuracy we will also suggest an exception in paragraph 59 when the unit of production method (sum-of-the-units) is used.

Comments on other changes

The NASB considers the proposed changes in the chapter of initial measurement of PPE to be the most important amendment of IAS 16. We have comments both to the structure of the chapter and the content of particular paragraphs.

The chapter should in our view deal with two issues: the components of cost and cost measurement. To the issue of <u>components of cost</u> we have the following objections to the proposed text. In paragraph 15 b) costs of testing are included in the cost of PPE, but the proceeds of sale of test products are deducted. We do not agree with the latter treatment. We think that sale of test products should be recognised as income, and that costs of those sales (at least variable costs) should be expensed. This position also seems consistent with the requirement in the new paragraph 17B that proceeds from incidental operations shall be recognised as income.

The NASB agrees that costs to dismantle and remove an asset are a component of cost of PPE, but we do not agree with proposed text in paragraph 20A and 20B. We would prefer these costs to be mentioned as an example of directly attributable costs, as in the existing paragraph 15. The fact that this text in the proposal has been separated from the other components of costs, seem to indicate that such liability is subject to a different accounting treatment than other liabilities.

Also the wording of the new 20A indicates special treatment: “Those costs may be incurred when the asset is initially acquired or in subsequent periods (…)”. Our understanding is that the obligation to remove, say an oil platform, is created when the platform is installed, and therefore is a component of cost for the platform. The initial estimate is likely to be uncertain. Changes in the estimate in subsequent periods should be recognised as income or expense, and should not be treated as part of cost for the platform. The effect of subsequent events, like new legislation or accidents, which increase clean up costs, also should be treated as income and expense. We are uncertain about the intended meaning of the second phrase, but it can be understood to signify an entirely new accounting for such costs. If that is the intention, it represents a major breakaway from conventional accounting, and that would require a solid background discussion about the proposed change in the basis for conclusion.

The content of 20B is not about initial measurement, and should be moved to the chapter about subsequent measurement.

We would prefer cost measurement to be discussed separately. Whenever the consideration is money, the measurement gives itself. Whenever the consideration is non-monetary, the measurement may be complex. Non-monetary considerations, in our view, encompass both the exchange of non-monetary assets (which are not necessarily similar), and the assumption of non-monetary liabilities. For non-monetary liabilities, such as uncertain liabilities (provisions) and pension liabilities, measurement rules can be linked up with the relevant standards (in this case IAS 19 and 37). This solution, however, is not necessarily the best. One could argue that in the case of PPE acquisition, any uncertain liability should be measured at expected value, irrespective of the level of probability of “the outflow of resources”. We have noted that the application of IAS 37 measurement rules is being considered in the Business Combination Project, and we would think that same arguments could apply to PPE acquisition.

We would be pleased to discuss with you any aspect of this letter you may wish to raise with us.

The Norwegian Accounting Standards Board

Idar Eikrem

Chairman