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International Financial Reporting Interpretations Committee
First Floor, 30 Cannon Street
London EC4M 6XH
United Kingdom

Oslo, 29 June 2007

Dear Sir/Madam

Response to tentative agenda decision: Scope of IAS 39.11A

We appreciate the opportunity to comment on your tentative agenda decision made in your meeting on May 4th 2007. This letter expresses the views of Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board).

We disagree with the conclusion drawn and reasoning used in your tentative agenda decision on the scope of IAS 39.11A.

We base our comments on:

- a) The Information for Observers to the IFRIC May meeting (hereafter "IfO")
- b) The information in IFRIC Update May 2007 (hereafter "Update")
- c) Interpretation of IFRS
- d) Experience from actual application of IAS 39.11A in Norway

We base our disagreement on four foundations:

- 1) We agree with the arguments put forward in view A of IfO, but do not believe that all relevant arguments supporting view A has been presented.
- 2) We believe that there is an inconsistency in view B of IfO that might not have been considered by the IFRIC.
- 3) We are aware of practice in Norway that contradicts the expectation of no diversity in practise.
- 4) The agenda decision limits the application of IFRS in a direction that goes opposite to the direction of further IFRS development as indicated in IASB discussions on the next phase for financial instruments and by the ED on IFRS SME.

We agree with and support the arguments put forward in view A of IfO

We disagree with the premise in IfO paragraph 7 that "IAS 39 does not provide specify whether a hybrid (combined) contract includes a contract that contains a financial or non-financial host outside the scope of IAS 39." It is stated in IAS 39.11 that "If an embedded derivative is separated, the host contract shall be accounted for under this Standard if it is a financial instrument, and in accordance with other appropriate Standards if it is not a financial instrument." (our emphasis). Based on this text it must be clear that a hybrid (combined) contract includes a contract that contains a non-financial host contract outside the scope of IAS 39.

We believe that the content of the word "contract" in IAS 39.11A must be equal to the content of the word "contract" in IAS 39.11. It is clear from plain English that the content of the word contract includes both financial contracts (financial instruments) and non-financial contracts. When there is no clear and direct wording to the contrary of a plain English understanding a plain English understanding of the wording in an IFRS standard must be applied.

Thus we believe it is clear that IAS 39.11A applies to all contracts containing one or more embedded derivatives not covered by the limitations in either IAS 39.11A(a) or (b).

We believe that there is an inconsistency in view B of IfO

We understand that the driving principle in view B (expressed in IfO paragraph 13) is that "the scope of a subset of IAS 39 should not be broader than the overall scope of IAS 39". Thus the scope of IAS

39.11-13 and IAS 39.AG27-AG33B should not be broader than the scope expressed in IAS 39.2-7 and IAS 39.AG1-AG4A.

We understand the conclusions driven by such a principle, but we do not accept that such a principle, not explicitly expressed in IAS 39 or IFRS, should override the actual written content of IAS 39. It is clear from IAS 39.11 and IAS 39.AG33(d) that the scope of the section on embedded derivatives includes host contracts outside the scope of IAS 39. Thus the driving principle in view B is flawed.

It is put forward in IFO paragraph 17 that IAS 39.11A is just a condition to qualify for the fair value option. The position is repeated in IFO paragraph 19 where an "and" is connecting the three bullet points. But this clearly in contrast to the text in IAS 39.9(b) that reads "Upon initial recognition it is designated by the entity as at fair value through profit or loss. An entity may use this designation only when permitted by paragraph 11A, or when doing so results in more relevant information,..." (our emphasis). Thus the cumulative requirements for use of the fair value option presented in view B is incorrect.

We believe that it is fair to point out the significant implications of view B on the scope of embedded derivatives. It would significantly reduce the population of contracts from which embedded derivatives is to be separated.

Examples are:

- Contracts to buy or sell non-financial items that can be net settled, but that are entered into to meet an entity's expected usage requirements.
- Contracts to buy or sell non-financial items not capable of being net settled.
- Contracts for the purchase or sale of a non-financial item where the price is denominated in a foreign currency

In the third bullet point of paragraph 15 of the IFO it is indicated that only non-financial contracts that can be settled as if the contract were financial instruments are candidates to be within the scope of IAS 39. We believe that the list in IAS 39.6 of examples on when a non-financial contract can be net settled contradicts such a line of thought.

We rest assured that view B can not be a correct interpretation of IAS 39.

We are aware of practice in Norway of use of IAS 39.11A and IAS 39.11 on non-financial contracts otherwise outside the scope of IAS 39

Based on our knowledge on the applied scope of IAS 39.11 and IAS 39.11A we disagree with the expectation expressed in Update that there will be no significant diversity in practice.

The agenda decision limits the application of IFRS in a direction that goes opposite to the direction of further IFRS development as indicated in IASB discussions on the next phase for financial instruments and by the ED on IFRS SME

IFRS does not include material issued by IASB or IFRIC not in the form of a final standard or interpretation. However we urge the IFRIC to be careful in issuing negative interpretations that inhibits the entities from making interpretations within current IFRS that aligns the accounting policies of the entities to the direction of accounting development as expressed by IASB.

Conclusion

We agree with the conclusion expressed by view A and disagree with the premise and conclusion in view B.

Yours faithfully
Norsk RegnskapsStiftelse

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Chairman