

28 May 2018

EFRAG
35 Square de Meeûs
B-1000 Brussels
Belgium

Dear Sir/Madam

EFRAG Discussion Paper: Equity Instruments – Impairment and Recycling

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the *Discussion Paper - Equity Instruments – Impairment and Recycling*.

General comment

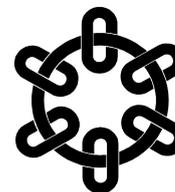
We state the fact that the discussion paper was initiated based on a request from the European Commission. However, IFRS 9 has been endorsed by the EU and is currently being implemented and applied for the first time in EU. Thus, the purpose with this discussion paper is somewhat unclear to us.

- Firstly, we want to be clear that we do not support a European IFRS 9 carve-in if that is the purpose of this process. Hence, we generally do not support this initiative if the purpose of the discussion paper is to initiate a process with the aim to make European only amendments to IFRS 9.
- Secondly, we question the timing if the purpose is to encourage the IASB to amend IFRS 9. We would support a fact gathering exercise with the aim to assess the appropriateness of the model for accounting for equity instruments scoped under IFRS 9. However, any suggestion to amend IFRS 9 should be based on facts (how investors actually act and not what they say they might do) and not assumptions or expectations. As the standard is currently being applied for the first time in the EU, we do not believe there is currently sufficient experience with IFRS 9 to consider changes to the model before the model has been applied in practise for some time. Further, we are surprised with the information provided in paragraph 1.14, indicating that some investors (especially within the insurance industry) might modify their asset allocation as a result of the new model. This is so surprising that we would urge EFRAG to investigate whether this is actually the case, and if so, the underlying reason for the change. For example, are there regulatory requirements affected by the reporting requirements in IFRS 9 that might explain these decisions?

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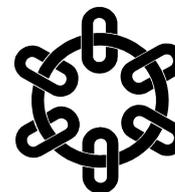
Thus, we generally do not support initiatives to amend the principles of IFRS 9 at this point in time. Rather, we believe that EFRAG and the European Commission should focus their effort on providing relevant and useful input for the IASB to consider in relation to the post implementation review of IFRS 9.

We have provided comments to some of the conceptual proposals and/or questions laid out in the discussion paper in the appendix to this letter. The reflect our general view on the appropriateness of recycling and impairments to equity instruments measured at fair value under IFRS 9.

You are welcome to contact us if you would like to discuss any specific issues addressed in our response further.

Yours faithfully,

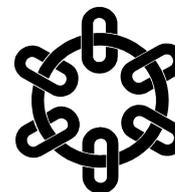
Karina Vasstveit Hestås
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



Appendix

Comments on some of the conceptual proposals and question

- *Recycling:* We are not convinced by the technical arguments put forward for re-introducing recycling in paragraph 2.3 to 2.10 and believe the IASB has provided valid arguments for their conclusion in IFRS 9 BC5.25b.
- *Dividends:* We acknowledge the issue raised in paragraph 2.5 and agree that this is a relevant question to raise. However, we are not particularly concerned with this issue in light of the transparency on where the dividend from these equity instruments are presented and the limited structuring possibilities related to such instruments (IFRS 9.BC5.25a).
- *Impairment:* We agree that some form of “impairment” model would be appropriate if recycling is to be reintroduced. However, we are concerned with the practical challenges involved in determining impairment losses related to such instruments and the usefulness of information obtained from such a model. It could be argued that an inherent part of a principles based impairment model will be a need to distinguish between fair value changes depending on whether a decline in value may be recovered or not (“temporary decline in value”?). That split can be a very challenging and highly subjective exercise to carry out in practise. We believe this challenge is an important reason why preparers often made use of some sort of generalised quantitative operationalisation of “significant or prolonged” under IAS 39. However, we do not believe this challenge should be solved by introducing rules based “bright lines” as suggested by the discussion paper, and particularly not generalised bright lines to be applied across equity instruments with different volatility. If it is not possible to draw this distinction in a way that provides meaningful and relevant information, or the conclusion becomes too arbitrary and judgemental to provide useful and comparable information, we would question whether this distinction is appropriate to equity instruments measured at fair value. Do investors really want preparers to carry out an assessment of whether a decline in the fair value of an equity instrument is likely to be temporary? How useful will this distinction be if it does not reflect what it purport to reflect?
- *Revaluation approach:* We tend to see some merits in the revaluation model if recycling is reintroduced by the IASB. Even though some argue that this is not an impairment model as such, it will at least provide information about unrealised loss on an equity instrument with fair value below cost (“lower of cost and market”). This could provide useful information, the model will increase comparability, reduce complexity (easily understandable), and provide information that is transparent and less subjective than an “incurred loss” approach.
- *Unit of account:* We do not support a portfolio approach and believe the unit of account of a potential impairment model should be the individual investment.



- *Reversal of impairment:* We believe that subsequent reversals of impairments should be reflected in profit or loss and presented as such, irrespective of potential impairment model.
- *Cost:* We believe the standard should prescribe the basis for determining cost to be the weighted average cost (fungible).

