

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

Cc: EFRAG

Oslo, November 29, 2011

Dear Sir/Madam

## Agenda Consultation 2011

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) is pleased to respond to the International Accounting Standards Board's Request for Views on its Agenda Consultation 2011.

In preparing this comment letter, consideration has been given to the feedback received in the European outreach meeting on the agenda consultation held in Oslo on 1<sup>st</sup> of November 2011, in cooperation with EFRAG and with participation from the IASB<sup>1</sup>.

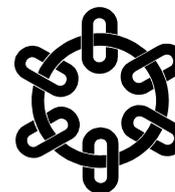
We agree that developing financial reporting and maintaining existing IFRSs should be the two principal components of the Board's work and support the primary components of each identified in the Agenda Consultation. However, we would like to emphasise the following high level points to the Board's strategic direction in the coming years.

- We believe that the purpose and priority of the IASB in the foreseeable future should be to ensure the overall quality of financial reporting, and that the resource allocation of the IASB should reflect a strict focus on issues that directly fit into the objective of general purpose financial reporting. We do not believe that integrated reporting, country-by-country reporting, and electronic reporting and the extended use of XBRL fit this purpose.
- We continue to support principle based financial reporting standards and think the hurdle for when to issue narrowly scoped or industry specific IFRSs should be high. Standards based on fundamentally robust principles will hopefully reduce the need for narrowly scoped standards or interpretations.

The *Conceptual Framework* is critical to provide a clear set of principles to underpin the individual standards, which is crucial to the acceptance of IFRS as a set of high-quality financial reporting standards. Hence, we urge the IASB to increase the progress on the

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<sup>1</sup> <http://www.efrag.org/Front/p233-1-272/European-outreach-meetings-on-the-IASB-agenda-consultation.aspx>



development and refinement of the *Conceptual Framework*, including developing a presentation and disclosure framework.

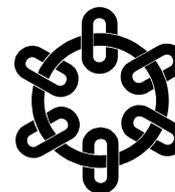
We have identified and would especially like to draw the attention of the IASB towards the following standard-level projects, which we experience to be of particular interest and importance in our economic environment.

- **Extractive industries** – We are not entirely convinced that the business activities, risks and uncertainties of extractive activities are sufficiently different from other activities to require a separate IFRS. Rather, we would suggest that the IASB as a first step consider extractive industries as part of a comprehensive project on intangible assets.
- **Rate-regulated activities** – We strongly believe that the IASB should approach this issue in a much broader and more comprehensive manner than what was proposed in ED/2009/8 *Rate-regulated Activities*. We propose that this issue is included in a comprehensive project on intangible assets.
- **Agriculture** – We believe this issue should be added to the agenda. However, we disagree with limiting the scope of the project to bearer biological assets. Rather, we believe it is time for a comprehensive review and a full public exposure of the fundamental principles of IAS 41.
- **Post-employment benefits (discount rate)** – We believe the requirement in IAS 19.78 to use the market yield on government bonds where there is no deep market for high quality corporate bonds is a rule based approach with little conceptual merit that has the effect of reducing comparability between entities and thus compromise the quality of financial reporting.

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



**Question 1 — What do you think should be the IASBs strategic priorities, and how should it balance them over the next three years?**

*Question 1(a)*

*Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?*

We agree that developing financial reporting and maintaining existing IFRSs should be the two principal components of the Boards work. We also support the basic components of the strategic areas that the IASB has identified as the drivers of its work.

*Question 1(b)*

*How would you balance the two categories and five strategic areas? If you have identified other areas for the IASBs agenda, please include these in your answer.*

*Strict focus on overall quality of financial reporting*

We believe the priority of the IASB in the foreseeable future should be to ensure the overall quality of financial reporting and that the resource allocation of the IASB should reflect this priority. Furthermore, the IASB should be very cautious not to extend their agenda to issues that do not directly fit to the objective of general purpose financial reporting, and which is not directly related to the overall quality of financial reporting. Thus, at this stage, we do not want the IASB to dedicate resources to areas such as integrated reporting, country-by-country reporting (which we see as more of a regulatory than a financial reporting issue) or electronic reporting and the extended use of XBRL. Further, we also believe resources allocated to research on these topics should be limited.

*Conceptual framework*

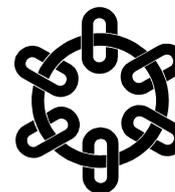
We believe it is important that the IASB prioritise and increase the progress on the development and refinement of the conceptual framework. The conceptual framework is critical to provide a clear set of principles to underpin the individual standards, which we find to be crucial to the acceptance of IFRSs as a set of high-quality financial reporting standards. Hence, we believe the IASB should dedicate a significant amount of resources to the *Conceptual Framework for Financial Reporting* as resources are released from the existing priorities (mainly the four on-going MoU-projects).

*Presentation and disclosure framework*

We agree that presentation and disclosure are significant issues and that a framework should be developed on these issues. However, even though these projects are somewhat related, we consider presentation and disclosure to be two distinct issues which could be initiated and addressed separately.

In our view, presentation cannot be addressed until the conceptual work on performance (in particular, the conceptual basis for presentation of items within profit or loss or other comprehensive income) has been completed. Thus, we believe the IASB should address the fundamental issue of performance before proceeding with the development of a framework on presentation.

We find a disclosure framework both to be critical and urgent. This framework will hopefully assist the IASB in developing consistent and appropriate disclosure requirements across



IFRSs, and provide additional guidance for preparers to consider in determining which disclosures to include in their financial statements. Hence, we believe that a disclosure framework is needed to ensure that financial statements are clear and concise while of high quality, contain more meaningful information and less irrelevant detail, and thereby serve better the needs of users. Existing disclosure requirements could also be assessed against this framework to identify disclosures which should be either amended or eliminated. We do not consider that consolidating all disclosure guidance into a single IFRS (as proposed in the Agenda Consultation) would in itself achieve the necessary improvements in that guidance.

Hopefully, addressing presentation and disclosures as separate projects will enable the IASB to achieve progress on the disclosure framework which would not be possible if these projects are to be carried out as one project.

#### *Standard-level projects*

We believe that the IASB should always have a blend of standard-level projects, narrow-scope amendments and research activities on its agenda. To achieve this, it is important that the number of projects on the IASBs agenda is limited and as a consequence, the Board has capacity to address new and emerging financial reporting issues.

### **Question 2 — What do you see as the most pressing financial reporting needs for the standard-setting action from the IASB?**

#### *Question 2(a)*

*Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?*

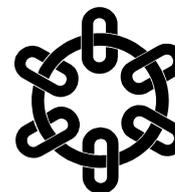
#### *Question 2(b)*

*Adding new projects to the IASBs agenda will require the balancing of agenda priorities within the resources available. Which of the projects previously added to the IASBs agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects and why? Which of the projects previously added to the IASBs agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).*

As stated in our response to Question 1, we believe that in planning its work on the development of financial reporting, the IASB should prioritise work on developing the *Conceptual Framework* and beyond that should maintain a balanced portfolio of research, standard-level and narrow-scope projects.

We have identified and would especially like to draw the attention of the IASB towards the following topics, which we experience to be of particular interest and importance in our economic environment. By this we do not express any opinion about the order of priority for the IASB, neither of the projects that we indicate nor of the other projects mentioned at page 14 in the consultation document.

#### *Extractive activities*



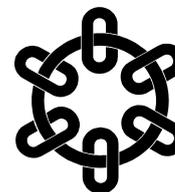
We reiterate the comments made in our comment letter to the DP/2010/1 *Extractive Activities* where we state that we are generally in favor of principle based financial reporting standards and think the hurdle for when to issue industry specific IFRSs, should be high. We are not entirely convinced that business activities, risks and uncertainties of extractive activities are sufficiently different from other activities to require a separate IFRS. Rather, we would guess that at least some of the issues that were raised in the DP/2010/1 *Extractive Activities* could be addressed based by a principle based standard on intangible assets. Hence, rather than adding a separate project on extractive industries, we would suggest that the IASB as a first step consider initiating a comprehensive project on intangible assets, enabling the IASB to reconsider the boundaries of which sources of value are recognised in financial statements and which are not. In reconsidering these boundaries, consideration should be given to significant areas in which it is sometimes argued that the value of a business is not faithfully represented by its financial statements, including extractive industries and rate regulated activities. Hence, we do not believe that the objective of a comprehensive project on intangible assets should be reduced to addressing the inconsistency between purchased and internally generated intangible assets. Rather, we believe that a thorough assessment of the fundamental principles of intangible assets should be carried out with an aim to develop a robust and principle based standard which could be used in general to the accounting for intangible assets. We acknowledge that separate standards or interpretations might still be needed on certain issues even after reconsidering the accounting for intangible assets. However, a fresh look at the fundamental principles on these issues will hopefully reduce the need for industry specific standards and interpretations on at least some of the issues related to subjects such as extractive industries, rate regulated activities and emission trading schemes.

We generally support initiatives which promote greater transparency of payments to governments. We would, however, question using IFRSs as entry-points for addressing country-by-country reporting issues. We are very concerned about potentially mixing objectives of financial statements with any other valid and commendable objectives (e.g. those of various special interest organizations). As such, we seriously question whether such information fits to the objective of general purpose financial statements. We believe IFRSs should continue to be developed on the basis of the objectives in the Conceptual Framework, and believe that country-by-country reporting is more of a regulatory issue than a financial reporting one. Hence, we do not support the IASB adding the country-by-country reporting issue to its agenda.

#### *Rate regulated activities*

Rate regulated activities is a controversial and hot topic within certain industries (such as for power distribution entities) in Norway. Even though this is an industry specific issue in Norway, the issue is pervasive internationally, and an area where many find that financial statements currently do not faithfully reflect the economic substance of the business. Hence, we do not consider this an issue of whether the IASB should add the issue to its agenda, but how it should be done.

We would not support the IASB proceeding with the narrowly and, in our view, artificially scoped standard proposed in the ED/2009/8 *Rate-regulated Activities*. Although regulatory methodologies and calculation methods may be different in different jurisdictions and different industries; they pursue the same objectives; to guarantee the distribution companies an adequate return, and to provide the distribution network users



with a reliable service at a reasonable fee. Hence, we strongly believe the IASB should approach this issue in a broader and more comprehensive manner than what was proposed in the 2009 exposure draft.

Furthermore, as mentioned above (see extractive industries), and repeatedly in our comment letters to various projects such as ED/2009/8 *Rate-regulated Activities* and DP/2010/1 *Extractive Activities*), we generally favor principles based financial reporting standards and think that the hurdle for when to issue narrowly scoped standards or industry specific standards should be high. Hence, we propose that the IASB include rate regulated activities as part of a comprehensive project on intangible assets.

### *Agriculture*

We agree with those who believe that the IASB should add a project on IAS 41 to its agenda. However, we disagree with limiting the scope of the project to bearer biological assets.

The fundamental principles of the standard are controversial in Norway, and have particularly been criticised strongly from the fish farming industry. The standard was prepared at a time when due process was not as thorough as it is now, and when IAS was still concentrated on only a few regions internationally. Hence, we believe it is time for a comprehensive review and a full public exposure of the fundamental principles of IAS 41.

### *Post-employment benefits – discount rate*

The amendment proposed in ED/2009/10 *Discount Rate for Employee Benefits* is of particular importance to Norwegian entities, as there is no deep market for high quality (AA – rated or similar) corporate bonds in Norway. The availability of AA-rated corporate bonds nominated in NOK is also very limited. Hence, Norwegian entities are forced by IAS 19.78 to use the market yield on government bonds to discount the pension obligation. The market yield of Norwegian government bonds is low relative to most other corporate or government bonds, due to the strong central government financing in Norway (net asset position). Thus, the requirement in IAS 19.78 means that Norwegian entities typically will report different amount of pension obligations in their financial statements, compared to similar foreign entities (in a country with a deep market for high quality corporate bonds) with exactly the same pension obligation.

We believe that the lack of such a bond market in itself cannot justify a different present value of the pension obligation ceteris paribus. Hence, we find IAS 19.78 to be a rule based approach with little conceptual merit, that has the effect of reducing comparability between entities and thus compromise the quality of financial reporting. Therefore, we urge the IASB to reconsider this issue either as a narrow scope amendment or through a more comprehensive revision of parts of IAS 19 (if the IASB believe that will be necessary).