

IFRS Foundation
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, 28 March 2013

Dear Sir/Madam

Exposure Draft, ED/2012/4 Classification and Measurement: Limited amendment to IFRS 9

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Classification and Measurement: Limited amendment to IFRS 9*.

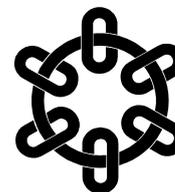
We generally do not support the proposed changes in the exposure draft.

At the inception of the IFRS 9 project, one of the main goals of the project was to reduce complexity. The NASB has been strongly supportive of and continues to support that ambition. To achieve the aim of reduced complexity a standard has to be principle based and clear in its application guidance. Principles and models applied must be clearly articulated, they should be faithful representations of actual phenomena and incidences where a specific model is to be applied should be clearly distinguishable from incidences where a specific model should not be applied.

On a general level we are concerned about the development towards a number of measurement and presentation option or solutions that are now being included in IFRS 9. We believe that the Board should reconsider the proposed changes and instead focus on the core principles underlying the classification and measurement regulation of IFRS 9 which are the characteristics of the cash flow of the instrument and the uniqueness of a held to collect business model. If a number of modifications to these to principles are necessary for the application of the model then this might indicate a basic flaw of the model.

The proposed amendments are labelled as limited amendments to IFRS 9. We find the proposed amendments to be clearly more significant than what is indicated by the title. As laid out in the appendix we do not find the arguments in favour of making the proposed new measurement category a mandatory category convincing. If the Board is to establish this third measurement category we would strongly argue that this category should be optional for all entities or entities that are not issuing insurance contracts.

We are concerned about the level of complexity that the Board is now loading into the new standard. We understand that the Board took out some of the complexity in IAS 39 when they decided not to allow bifurcation of embedded derivatives in financial assets. However this came at the cost of creating accounting arbitrage between different instruments that in fact have the same cash flows.

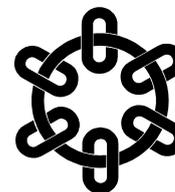


IFRS 9 is being issued section by section and becomes a very long standard that is difficult to read. The interaction between the different chapters, the solution with text split between the standard and appendix B and the partial overlap in appendix B of what is stated in the standard, make it hard to conclude, at the current stage in time, that all parts are, and will be, working together as intended. Given the magnitude of complexity, both of issues covered by the standard and of the standard itself, we have come to the conclusion that the close to final standard should be issued as an exposure draft to improve on structuring, wording and avoidance of any unintended fatal flaws.

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



Appendix

Classification and Measurement: Limited amendment to IFRS 9

Question 1

Do you agree that a financial asset with a modified economic relationship between principal and consideration for the time value of money and the credit risk could be considered, for the purposes of IFRS 9, to contain cash flows that are solely payments of principal and interest? Do you agree that this should be the case if, and only if, the contractual cash flows could not be more than insignificantly different from the benchmark cash flows? If not, why and what would you propose instead?

Before we answer this question we would like to draw to the attention of the Board that the cash flow characteristic of the financial instrument, where the terms interest and principal play the key parts, is a key consideration for the classification and measurement in IFRS 9. However neither interest nor principal are defined in the standard.

In 4.1.3 interest is described as consideration for the time value of money and the credit risk associated with the principle amount outstanding during a particular period of time. It is however not clear what constitutes the time value of money¹ and it is not clear whether normal components of interests such as consideration for illiquidity² and profit rest within the time value of money, the credit risk or neither.

It is not clear whether the principal amount outstanding is the nominal amount outstanding or the measured amortised cost amount outstanding. With the current ambiguity related to the principal it is not clear how a principal adjusting feature in a (zero coupon) debt instrument is to be analysed.

Lack of clear definitions makes the standard more difficult to read and apply. Clear definitions of key terms should be provided before the application of IFRS 9 is made mandatory.

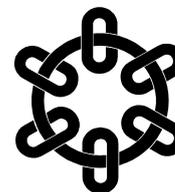
Our position is that a proper principle based standard should not deviate from its stated principles. Cost benefit considerations should be made by the preparers in the application of the standard, however it should not be the basis for rule based exceptions embedded within the standard.

We do not agree that assets with a modified economic relationship between principal and consideration for the time value of money and the credit risk contain payments that are solely payments of principal and interests.

The introduction of the concept of a more than insignificant leverage is creating a number of well funded questions of what is the meaning of this expression and is casting doubt to the basic soundness of the original principle. We do not support the inclusion of the modifying term "more than insignificant".

¹ IFRS 9 does not define the term, but implies in B5.4.11(a) that it is interest at the basic or risk-free rate usually to be derived from observable government bond prices or an observable general rate. B4.1.13 implies that it might be a nominal or a real (inflation adjusted) interest rate.

² BC4.22 clearly indicates that liquidity risk is included in credit risk by stating that "For the purpose of this condition [the solely payment of principal and interest (SPPI) condition], interest is consideration for the time value of money and the credit risk associated with the principal amount outstanding during a particular period of time, which may include a premium for liquidity risk". However in B5.7.12 and BC 5.62 it is made a clear that in regards of liabilities it is a clear distinction between changes in fair value caused by liquidity risk and changes in fair value caused by credit risk.



Question 2

Do you believe that this Exposure Draft proposes sufficient, operational application guidance on assessing a modified economic relationship? If not, why? What additional guidance would you propose and why?

We do not support the proposed introduction of the text related to “more than insignificant leverage”, “interest rate reset feature” and “modified economic relationship”. Introduction of this text makes the SPPI principle a principle of “almost” SPPI and thus much more hard to rationalise.

We find the text hard to read, hard to apply for the preparers, highly subjective to audit and at best difficult to comprehend for the user.

It is conceptual hard to understand as implicitly claimed in B4.1.9 that “more than insignificant leverage increases variability” while less than insignificant would not.

With the introduction of the term modified economic relationship (a term so far not known to be commonly used in accounting or finance), defined as leverage or an interest rate reset feature, and the tests in B4.1.9B and C, there is no reason to include the words “more than insignificant” in B4.1.9.

The wording of B4.1.8A is fully redundant (follows directly from 4.1.1-4.) and should not be included in the standard. If included the first “payments” in the first sentence should be amended to amounts. It is highly unlikely to see payments that are unrelated to principal and interests; however amounts within payments might be observed.

We find the proposed text in B4.1.9D to be close to redundant and, with a possible exception for the last sentence, could be eliminated all together by amending the first sentence in B4.1.9C to read “If for reasonably possible scenarios the modification...”. We expect that the notion of “reasonably possible scenarios” will be a notion that will be hard to apply and that it will most probably create divergence in practice.

In B4.1.9C the text includes an example which includes a highly technical tailor made terminology³. We question whether it is a need to include this example at all.

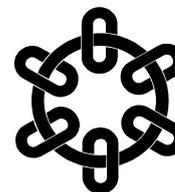
We find the text in B4.1.9E fully redundant and indicating that the analysis related to the modified economic relationship is generally to be performed as a much more detailed assessment than what can reasonably be the intention of the Board. It should go without saying that the level of detailed assessment should be adapted to the closeness of the judgement call.

Question 3

Do you believe that this proposed amendment to IFRS 9 will achieve the IASB’s objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features? Will it result in more appropriate identification of financial assets with contractual cash flows that should be considered solely payments of principal and interest? If not, why and what would you propose instead?

We do not believe that the proposed amendments to IFRS 9 will fully achieve the IASB’s objective of clarifying the application of the contractual cash flow characteristics assessment to financial assets that contain interest rate mismatch features. We believe that the proposed solution will clarify the concept of an interest rate reset feature, however as stated in our response to question 2 we believe that the practical difficulties introduced in the testing of modified economic relationship (more than insignificant different in a reasonably possible

³ The terminology we have in mind is “bespoke structured product”.



scenario) outweigh the benefits introduced by the new wording regarding interest rate reset feature.

Question 4

Do you agree that financial assets that are held within a business model in which assets are managed both in order to collect contractual cash flows and for sale should be required to be measured at fair value through OCI (subject to the contractual cash flow characteristics assessment) such that:

- (a) interest revenue, credit impairment and any gain or loss on derecognition are recognised in profit or loss in the same manner as for financial assets measured at amortised cost; and*
- (b) all other gains and losses are recognised in OCI?*

If not, why? What do you propose instead and why?

We do not agree with the idea that there should be introduced a category for measurement and presentation of financial assets that fulfil the SPPI criteria. Our overarching concern is that this new category will increase rather than reduce complexity in reporting for financial instruments.

We are not convinced that the motivation laid out for introducing the third category, that is the interaction with the Insurance Contract project and the reduction of differences with the US GAAP, is sufficient to introduce a mandatory third category for all entities. We believe that the first motivation would be solved by making the third category an option or as in US GAAP to make the fair value option unconditional.

We further do not support increased use of OCI items before the Board has properly defined the conceptual rationale for OCI items.

We do not agree with the premise in the exposure draft that a business model in which assets are managed both in order to collect contractual cash flows and for sale is a clearly separable and distinct business model. Apart from a business model in which assets are held in order to collect contractual cash flows any asset management business model will include an objective of collecting contractual cash flows and or selling when deemed more beneficial. We do not agree with the notion that there are distinct models within the spectrum of collecting more or less and selling later rather than sooner.

The rationale for separate disclosure of other gains or losses in OCI applies to all assets not held to maturity. However we do not suggest amending the measurement criteria for SPPI instruments held in a held to collect business model.

It is an inconsistency within the proposed text that it focuses on business models as evaluated by key management personnel on the one hand and on quite specific and detailed portfolio analysis on the other hand. It should be clear that for most large group key management personnel are not evaluating detailed portfolios as indicated by the text and examples in B4.1.4 and B4.1.4A-B.

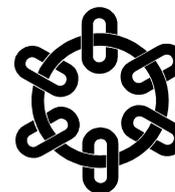
Question 5

Do you believe that the Exposure Draft proposes sufficient, operational application guidance on how to distinguish between the three business models, including determining whether the business model is to manage assets both to collect contractual cash flows and to sell? Do you agree with the guidance provided to describe those business models? If not, why? What additional guidance would you propose and why?

Please see our answer to question 4.

Question 6

Do you agree that the existing fair value option in IFRS 9 should be extended to financial assets that would otherwise be mandatorily measured at fair value through OCI? If not, why and what would you propose instead?



We agree that the fair value option in IFRS 9 should apply to all assets that are not measured at fair value through profit or loss. We believe that an extended fair value option would potentially ease some of the difficulties that might be caused by introducing a third mandatory measurement and presentation category. We notice that the FASB proposes an extended fair value option in line with the fair value option that was first pursued by the IASB and will ask the Board if it is now appropriate to reintroduce an extended fair value option in IFRS 9.

Question 7

Do you agree that an entity that chooses to early apply IFRS 9 after the completed version of IFRS 9 is issued should be required to apply the completed version of IFRS 9 (ie including all chapters)? If not, why? Do you believe that the proposed six-month period between the issuance of the completed version of IFRS 9 and when the prohibition on newly applying previous versions of IFRS 9 becomes effective is sufficient? If not, what would be an appropriate period and why?

As we do not expect any Norwegian entities to be able to early adopt any incomplete version of IFRS 9 we have no comments.

Question 8

Do you agree that entities should be permitted to choose to early apply only the 'own credit' provisions in IFRS 9 once the completed version of IFRS 9 is issued? If not, why and what do you propose instead?

We have no comments.

Question 9

Do you believe there are considerations unique to first-time adopters that the IASB should consider for the transition to IFRS 9? If so, what are those considerations?

We have not identified any such issues.