Norsk RegnskapsStiftelse

10 May 2021

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Request for Information – Post-implementation Review IFRS 10, 11 and 12

Norsk Regnskapsstiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to submit our answers to *Request for Information – Post-implementation Review IFRS 10, 11 and 12.*

In our view these standards in general result in financial reporting that provide useful information to the users, however we think there are issues to consider regarding IFRS 10, 11 and 12 where the standards could be improved, or more guidance be provided.

Our comments are enclosed in the appendix to this letter. NASB has used its scarce resources to focus on frequent issues arising from typical Norwegian industries and Norwegian companies when applying IFRS 10, 11 and 12. For issues that we have not had the capacity to comment on, we provide no opinion, and trust these are dealt with by other respondents.

We are available to further discuss our comments. Please do not hesitate to contact the undersigned.

Yours faithfully,

Bjørn E Strandberg

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Appendix

Question reference	2(b) Rights that give an investor power
Paragraph in standard	IFRS 10.B22-B24 and B26-B33
Industries or country conditions of particular relevance to the issue	All
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The guidance in B22-24 is helpful to determine whether a right is substantive or not. Nevertheless, it is a complex analysis when rights in general first need to be analysed using the preceding text in B14-B21 and for example weighting B18 against B19-20 and then in the next stage assess if each right is substantive or not. We regard B26-B33 on franchises as akin to 'application guidance' for this particular business model. The guidance has the effect that we have not observed any franchisor consolidating its franchisees. We do not see this as a major problem, as the practice is not diverse, and the effect of any consolidation might not be material on net profit or other key figures. A larger problem is that entities that are not franchisors apply this guidance to argue that substantive rights are merely protective. We find the rationale provided in B33 to be particularly difficult as legal form and funding for a typical franchisee in the retail business would only marginally affect the returns, whereas the franchisor's power to decide opening hours, prices, campaigns, menu etc. likely affect much more. To use this guidance as an 'authorised' example of how substantive rights have to be weighted against each other may lead to the wrong conclusion. Moreover, the fact that legal form and funding structure are labelled 'fundamental decisions' in B33, which is also used as a criterion in B26 to identify protective rights, are similarly unhelpful.
Assessment of the matter's pervasiveness	This matter causes challenges for situations with two major stakeholders, which happens quite often.
Example(s)	See text above.
Possible way to solve the issue	We would encourage to provide additional guidance or rephrasing the standard so it limits the franchise guidance to those particular facts and circumstances and remove ambiguous wording that may be misused by other entities.

Question reference	2(c) Control without a majority of voting rights
Industries or country conditions of particular relevance to the issue	All
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	IFRS 10 B43-46 is not providing neither rebuttable assumptions, expressing level of certainty of control or offering relevant examples on how to assess de facto control situations as example 4 and 6 are too obvious be of actual help. Hence, we do experience a lot of inconsistency and uncertainty when de facto control situations are assessed, and accounting solutions are concluded. We also refer to our comment to your question 10, where we suggest that the Board assess to introduce a means of stickiness, to avoid frequent changes in accounting, as this is burdensome to the prepares and do not represent useful information to the users.
Assessment of the matter's pervasiveness	This issue is generally pervasive across companies, industries and situations.
Possible way to solve the issue	Prepare a more sophisticated example in addition to Example 4 and 6, which discuss in more detail how to assess a situation where the facts and circumstances are between these two fact patterns. A suggestion is to introduce a rebuttable assumption regarding when to assume de facto control or not? Should the level of certainty be indicated? In the current IFRS 10 no level of certainty to conclude on de facto is expressed. For de facto control there is a default option when it is not clear, namely to not consolidate. Some would hold the view that it would be more prudent to consolidate than not. This is based on the rationale that internal gains are fully eliminated, gross liabilities are shown clearly with full IFRS 7 disclosures and in general more transparent reporting with the extensive disclosures for large NCI-items. On balance we support such a view, and a consequence would be to remove "not" in B46: *(... the investor does ~~not~~ control the investee").*

Question reference	5(a) Loss of control and translation difference
Paragraph in standard	IFRS 10.B98-B99
Industries or country conditions of particular relevance to the issue	All, but smaller territories with their own currencies more than other.
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Under the control model in IFRS 10, loss of control is the trigger for reclassification of all of the accumulated translation differences. We understand that the general principle of recognising any non-controlling interest after loss of control at fair value is not up for discussion. The rationale being that losing control is a fundamental change that warrants or allows for remeasurement. However, we question whether this applies with the same logic for accumulated translation differences. The underlying accounting rationale for deferring these, and not recognising translation differences in profit or loss as they are incurred are obscure and based on conventions. The currency risk involved when investing in a foreign operation is somewhat discussed in IFRIC 16, which focus on the real economic risk inherent between parent's functional currency and that of subsidiaries. This currency exposure is real until the investment is returned to the parent's functional currency. In a situation where control is lost by way of dilution only, and the investor has the same currency exposure as the invested amount in the same foreign operation is unchanged, it is difficult to understand why this warrants a gain/loss recognition. In a similar pattern, a sale to an NCI for 49% with control retained, which in fact represents a realisation of the currency exposure for the parent, is deferred until control is lost. In this situation the NCI number that includes a portion of historical accumulated translation differences has no economic meaning. We are critical to reclassification to profit or loss upon a change of control if this does not arise from a transaction that represents a realisation or a change in the underlying currency risk for the parent. Further there is a perceived inconsistency in the guidance for accumulated translation reserve that is attributed to NCI upon loss of control. B99 requires amounts previously

	recognised in OCI to be reclassified as if the net assets had been directly disposed of. B98a also requires derecognition of NCI (including its portion of OCI) when measuring the gain or loss. IAS 21.48B prohibits reclassification of currency translation attributable to NCI. The interaction between these rules may be refined to avoid inconsistent interpretation and practice.
Assessment of the matter's pervasiveness	Infrequent, but regularly.
Example(s)	Loss of control by dilution only, or by contract with the same amount invested in the foreign currency. Change from control to joint control when establishing a joint venture with the same currency exposure before and after.
Possible way to solve the issue	We realise that the currency component of the gain or loss upon loss of control might be perceived as outside the scope of this RFI, but encourage IASB to assess if this should be addressed in this project nevertheless as it is closely related, and the rationale for gain/loss in general are less fitting for currency.

Question reference	6 Collaborative arrangements
Industries or country conditions of particular relevance to the issue	The use of collaborative arrangements that do not meet the IFRS 11 definition of "joint arrangement" is common in Norway across different industries. Typically, we observe such arrangements in • Oil and gas related activities • Hydroelectric power production • Mining activities • Industrial production such as metal production
	(a) How widespread are collaborative arrangements that do not meet the IFRS 11 definition of "joint arrangement" because the parties to the arrangement do not have joint control? Please provide a description of the features of these collaborative arrangements, including whether they are structure through a separate legal vehicle
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	These arrangements are considered outside the scope of IFRS 11, typically because unanimous consent is not required among all parties involved, or no single group of parties has joint control over the activity. An important feature in such arrangements is often distribution of the output (product) in kind to the owner, usually in quantities relative to their economic interest, and with the requirement for owners to cover their relative share of cost. Cost coverage comes in many different shapes and forms depending on whether the arrangements are unincorporated arrangements, incorporated tax transparent arrangements or incorporated taxable arrangements. Decision making arrangements may vary and may in some situation be complex. Such arrangements often have few participants, typically 3-6 entities, engaged in the same industry, or in complementary industries which might be the case when the production results in a main product and a by-product, utilized by different owners. Economic realities between the parties may be more influenced by other aspects of the arrangements than whether the arrangement is incorporated (and thus covered by IAS 28 and/or IFRS 11).

	(b) How do entities that apply IFRS standards account for such collaborative arrangements? Is the accounting a faithful representation of the arrangement and why
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Accounting for such arrangement gives rise to significant debate. We have observed the following accounting solutions: • Unincorporated arrangements are often accounted for similarly to joint operations under IFRS 11 • Incorporated arrangement may be accounted for as associates (equity method) or similarly to joint operations based on an interpretation that other agreements nullifies the corporate structure and establishes rights and obligations to the underlying assets and liabilities for the owners
Assessment of the matter's pervasiveness	
Example(s)	

Question reference	7 Classifying joint arrangements
Industries or country conditions of particular relevance to the issue	Typically, we observe this issue in relation to; • Oil and gas related activities • Hydroelectric power production • Mining activities • Industrial production such as metal production
	(a) How frequently does a party to a joint arrangement need to consider other facts and circumstances to determine the classification of the joint arrangement after having considered the legal form and the contractual arrangement?
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	IFRS 11.12 requires an entity to considering <u>all</u> facts and circumstances, so in principle the "other facts and circumstances" is always considered. In our experience there is often a need to assess the "other facts and circumstances" to classify a joint arrangement structured through a separate vehicle. To which degree the "other facts and circumstances" are helpful factors with regards to classification is more uncertain.

	An example is how to assess predetermined rights for the parties to the arrangement to receive/purchase the output and substantially all of the future economic benefits of the arrangement for the whole life versus only for a lesser defined period (e.g. a wind park may have predetermined right to output that cover a period of 15-20 years while the economic life of the park is 25-30 years). What can be perceived as a challenge with IFRS 11 is that minor changes in facts and circumstances (judgemental), may lead to a different conclusion with regards to classification. Under IFRS 16 an entity shall assess at inception of a contract, whether the contract is or contains a lease, and only reassess if the term and conditions of the contract are changed. As for IFRS 11, this is a dynamic process that could lead to several changes in classification throughout the ownership period. From a user perspective, an approach with an initial assessment and then a higher hurdle for subsequent changes in classification may be perceived as more useful for the users of the financial statements.

Question reference	**8 Accounting requirements for joint operations**
Industries or country conditions of particular relevance to the issue	Typically, we observe this issue in relation to; • Oil and gas related activities • Hydroelectric power production • Mining activities • Industrial production such as metal production
	(a) To what extent does applying the requirements in IFRS 11 enable a joint operator to report its assets, liabilities, revenues and expenses in a relevant and faithful manner?
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	In general, the principles for a joint operator in IFRS 11 are well understood and work satisfactorily. There is somewhat uncertainty regarding how a liability is incurred jointly, ref para 20 (b). The use of this principle is in our opinion a part of the judgement relevant for how to recognise lease liabilities. A common point of view is that some contracts entered into by the lead operator, on behalf of the arrangement, for the sole purpose of serving a specific joint operation, should be

	accounted for similarly by all joint operators to that joint operation, because this reflects the economic and commercial substance of the activity. See below for lease contracts. We also consider IFRS 11 as well as other standards lacking in helping to clarify how assets are owned jointly when control is used as a main criterion for recognising assets. Some assets in farm-out arrangements are combined by various parties into one cash generating unit (e.g. an oil field). The use of control vs. working interest in the combined asset may lead to quite different accounting. It would be helpful to provide some guidance on how economic interest in an asset vs. legal and operational control has to be assessed.
	(b) Are there situations in which a joint operator cannot so report? If so, please describe these situations and explain why the report fails to constitute a relevant and faithful representation of the joint operator's assets, liabilities, revenues and expenses?
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The use of unincorporated joint operations in the oil and gas industry has a long practice as the method for sharing risks in joint exploration, development and production activities. From an economic point of view, the substance of this set-up reflects a common understanding that all joint operators in practice shares the same economic risks and benefits regardless of which party has the primary responsibility for an obligation, when this obligation relates to the lease of an identified asset specifically entered into for the use in the joint operation. Following the March 2019 IFRIC agenda decision on "liabilities in relation to a joint operator's interest in a joint operation (IFRS 11 Joint Arrangements)" many leases entered into by the lead operator on behalf of an unincorporated joint operation can no longer be accounted for according to the economic substance of the arrangement. This has resulted in uncertainty on the wider application of IFRS 11 in respect of accounting for liabilities in joint operations. We have heard from issuers that believe the accounting instead should reflect that all parties to the joint operation in substance carries the same economic risks relating to the contract, also considering any guarantees towards third parties and joint and several responsibilities between the joint operators. In accordance with that view, the operator only acts as an agent in these situations, and the accounting should reflect that the substance of these arrangements, namely that the customer is the joint arrangement as such (thereby

	reflected proportionally by the parties to that joint arrangement). The solution from the March 2019 IFRIC agenda decision would gross up costs and revenue in the lead operator's accounts, as well as cash flows from operations. We heard concern related to the appropriateness of a gross presentation of these transactions, as the lead operator recharges these costs on a no gain/no loss basis, with reference also to IAS 1.34, which requires net presentation of costs and revenues which are incidental to its revenue-generating activities, and where the substance of the transactions requires a net presentation. For operators within the oil and gas industry, there is also a concern that by grossing up revenue, cost and capex within 'non-green' activities within the new EU Taxonomy. A lower compliant share of 'green' activities could potentially result in higher financing costs for these companies as they may be perceived less attractive by investors. *Perceived conflict between IFRS 11 and IFRS 16* Based on the aforementioned March 2019 IFRIC Agenda decision, we believe there may be a conflict between IFRS 11 par 20 (b) and IFRS 16 par B11 that should be addressed by the IASB in this post implementation review of IFRS 11. IFRS 16 states that a joint arrangement can be a customer in a contract for the purpose of determining the existence of a lease (IFRS 16.B11), without restricting this to joint ventures. In the agenda decision joint operations seem to not be recognised as a customer, as the lead operator is to account for the lease contract as a whole. It is further not helpful that the agenda decision does not provide help in recognising the asset side of the contract. Questions arise as to whether the debit is a right-of use asset or a financial lease or something else towards the other participants.

Question reference	9 IFRS 12
Industries or country conditions of particular relevance to the issue	
	(b) Do the IFRS 12 disclosure requirements help an entity determine the level of detail necessary to satisfy the objective of IFRS 12 so that useful information is not obscured by either the inclusion of a large amount of detail or the aggregation of items that have different characteristics
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	We hear situations where companies have investments in joint ventures or associated that is not considered material to the reporting entity (high threshold), but also not so insignificant that they would follow all the disclosure requirement for those considered material. The reporting entity then apply judgment and itself considers what is useful information and disclose this and hence can be a source for inconsistent reporting between entities. When such voluntary information is given it is often on a prorate basis, and not on a 100% basis as required in IFRS 12.B14. Any disclosure requirements for such investments not considered material for the entity should be based on prorate information in accordance with how the income statement and balance sheet exposure for the reporting entity-
	(d) Does the IFRS 12 require information to be provided that is not useful to meet the objective of IFRS 12? If yes, please specify the information that you consider unnecessary, why it is unnecessary and what requirements in IFRS 12 give rise I the provision of this information
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Many find the requirements in IFRS 12.B14 to include summarized financial information about investments in joint ventures or associates based on 100% entity numbers basis, and not in accordance with the reporting entities ownership share in these entities, not meaningful or relevant. In a situation where the reporting entity has acquired the share in the joint venture or associate in an acquisition where the guidance in IFRS 3 where applied, and the purchase price where higher than the share of net book value of the acquiree, the share of assets and liabilities taken from the investees financial statements (100%) will not reflect the financial

	exposure, or relevant balance sheet information, by the reporting entity. We believe the IASB should change the disclosure requirements to a disclosure focusing on the pro rata share and based on balance sheet and income statement impact for the entity (i.e. include excess/less value impact from IFRS 3 acquisitions, difference in accounting principles etc)

Question reference	**10 Sale of a subsidiary to a customer**
Paragraph in standard	IFRS 10.25 / IFRS 15.5(c)
Industries or country conditions of particular relevance to the issue	Real estate, Yards
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The issue *“Sale of a subsidiary to a customer*” has been discussed by both the IASB IC (June 2019) and the Board (June 2020) with no solution to the issue. To apply IFRS 15 in certain situations seems to be generally acknowledged to provide the most useful information in many situations. The unsolved question is how to set the boundaries of an exception from IFRS 10.25.
Assessment of the matter’s pervasiveness	Both these issues are of relevance for Norwegian companies and industries.
Example(s)	Some construction companies have a business model where they perform most or all of their activities through sale of single purpose companies. With the current accounting regulation, they end up without recognising revenue and are forced to account for their sales through subsidiaries net. This is not aligned with how they communicate to the market through management presentations, APMs, segment information etc.
Possible way to solve the issue	In acquisition of subsidiaries a line is drawn between the acquisition of a business and a single asset (or a group of assets). Would it make sense to draw the same line with sale of a subsidiary, i.e. apply IFRS 10.25 when a business is sold and apply a (new) IFRS 15 exemption when assets are sold?

Question reference	10 Sale and Leaseback of an asset in a single-Asset Entity
Paragraph in standard	IFRS 10.25 IFRS 16.99-102
Industries or country conditions of particular relevance to the issue	Real estate, Oil Service, Yards
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	The issue *"Sale and Leaseback of an Asset in a Single-Asset Entity"* was discussed by the IASB IC in February 2021. No Agenda Decision was issued, but instead IFRIC passed on the issue to the IASB Board for potential standard setting.
Assessment of the matter's pervasiveness	Many of the same entities are affected by both the issue regarding the sale of subsidiary in a corporate wrapper discussed above and the issue described in this section regarding the sale and leaseback and the issues should probably be assessed together, as they relate to the interaction between IFRS 10 and other standards

Question reference	10 Stickiness of the control assessment
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	We have experienced that there is a preference by preparers, auditors, and users of financial statement to apply some "stickiness" in the assessment of whether an investor has control over an entity, and hence controls it. Likewise, we experience the same stickiness when there are other "change in relationship" between the investor and investee (ref Question 5(a). We experience inconsistency in practice regarding whether, and if applied, to what extent, such "stickiness" is applied. Further, we hear from users of financial statement that it is disturbing and often not useful to account for frequent changes in relationship, as these changes have substantial effects on the financial reporting which also makes it more challenging to analyse financial performance over time.
Assessment of the matter's pervasiveness	This issue is generally very pervasive across companies, industries and situations
Possible way to solve the issue	After first assessment, there could be introduces a "stickiness paragraph", e.g. inspired by IFRS 16.20 which requires a "significant event" or a "significant change in circumstances" to reassess whether it is reasonably certain to exercise an option to extend a lease, and hence change the lease term.

Question reference	10 Consolidation - “How to” and fundamental building blocks
Paragraph in standard	IFRS 10.Appendix A
Industries or country conditions of particular relevance to the issue	All
Description of the effects of the requirements on relevance, faithful representation, comparability and costs;	Despite the label “Consolidated Financial Statements”, the standard itself is somewhat meagre in the “how to” of consolidation and some of the fundamental building blocks and conceptual thinking behind those with only paragraph 19, B86-B93 and the definition in Appendix A of consolidated statements covering this. The definition in Appendix A states that it is the financial statements of a group in which assets, liabilities, income, expenses and cash flows of the parent and its subsidiaries are <u>presented </u>as those of a single economic entity. We point to the fact that the word ‘presented’ in modern standards is restricted to the presentation and not recognition and measurement. By applying such a narrow understanding in the definition and use of this basic concept different interpretations in practice has evolved for common issues. The concept of the group as *one economic entity* where all legal boundaries are perceived as non-existent for recognition and measurement purposes may be useful as an interpretative tool for arriving at sensible solutions. An example illustrates this: An asset is transferred between two subsidiaries, both with different levels of NCI and in different functional currencies. The elimination of the gain poses questions that is not easy to solve based on the current limited guidance: - Should the elimination follow the asset, or the selling entity? - If it follows the asset, it would be logical that NCI of the buyer is reduced with its portion of the elimination. - If it follows the asset, the elimination will be kept in the records in the functional currency of the buyer. - If it follows the selling entity, the NCI of the seller will pick up their portion of the gain, and the gain elimination will be kept in the functional currency of the seller.

	- If it follows the selling entity, should the gain be recognised when the selling entity is disposed of, as there is no elimination anymore? In general, we would support the 'asset approach' but recognise that this may be due to our background from local GAAP in Norway. We have observed other jurisdictions where the 'seller approach' is deemed appropriate. The accounting manuals have provided some guidance in these areas, but we believe it would be better to clarify the definition of the consolidated statements. We have also noted that a loan from the parent to a subsidiary that are eliminated until deconsolidation of the subsidiary are interpreted somewhat different as to whether the loan in fact has a history under IFRS 9 after deconsolidation or whether it is a pristine loan just being recognised for the first time upon deconsolidation. It is a question of whether the elimination entry is merely a presentation issue, or whether the loan actually existed in the eyes of the group prior to deconsolidation.
Assessment of the matter's pervasiveness	Very frequent
Possible way to solve the issue	We believe that expanding the definition of consolidated statements to include text that also covers recognition and measurement would be helpful. This will ensure that assets and liabilities are initially recognised only once, upon entrance to the perimeter of the group, and measured consistently throughout the end of its life, as it would be if it was one legal entity.